

## David Vandewater Discusses How Partnerships are Improving Health Care for Americans – Hospitals In Focus Transcript

Chip Kahn: [00:11] Today we're in Nashville, Tennessee, at the headquarters of Ardent Health Services, to learn more about the innovative way this company uses partnerships and joint ventures, to bring healthcare, to communities across the country. Our guest, Ardent's President and CEO, David Vandewater, has 30 years of healthcare management expertise, to bring to our conversation today. He's been at Ardent since 2001, and has even served as Chair of the Federation of American Hospitals twice, in 1996 and in 2004. I want to thank David for joining us today, and start off by asking David to talk about Ardent's footprint, across many states of the country, and the benefits that the company brings to the healthcare, of those who live in those communities.

David V.: [01:04] First of all, Chip, thanks for having me today, and thanks for all the things that the Federation does. We appreciate all the hard work.

To answer your question, we are a company of 31 hospitals. We are located in seven states. We have about 25,000 employees. We have about four and a half billion dollars in revenues today. We're pretty expansive in regards to that. We have been growing most recently, to kind of to your point in regards to a joint venture model, that we'll be discussing today, and to answer the question in regards to what do we do, and what do we see throughout. There are common themes that we see around the United States today, and that common theme happens to be, that being independent and small in the industry that we're in today, is very, very difficult and complicated.

If you're a small regional organization, that complicates it from the standpoint of your ability to provide all the services, that the individuals in your community are seeking. They're looking for different things, as it relates to how to do better, how to provide better quality, how to have access to better systems, and all that is difficult, if you're by yourself out there.

Chip Kahn: [02:33] Yes, David. I think with your 30 years, you've really seen this evolution over time. Can you give me some specifics? What are the kinds of things, that make it difficult to be a standalone, and then, what impact do you have when you bring to a community, the economies of scale, and the other managerial and clinical aspects, of what your company does?

David V.: [02:59] Let's just take where the industry is today. One of the interesting things is, and Chip, you and I have been in this industry a long time, so we're a little different than the average person out there, but today what we're seeing are the number of hospitals that are closing in our industry. It is an all-time high, and for you and I, we've seen it. I've never seen anything like it before, and generally speaking, these are smaller regional hospitals, that exist out there.

That kind of sets the table in regards to that, because I think that today most people don't realize the kind of stress that hospitals in our industry are under. They think because the Affordable Care Act was passed, all those things made it easier for hospitals, and the fact of it is, not every state went through the process of expanding

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their Medicaid, so all those things put stress on the various states, where our hospitals in those states, that did not expand, so that's first and foremost.

When we come into a community, generally speaking, we look at the community from the standpoint, what does that community need, in relationship to what we can provide? In the seven states that we're in, we have a variety of different numbers of hospitals in those states, so we do different things, but it's very market-specific. So we're looking to that market, to give us an idea of what does the market need?

Most recently... Or I'll give you an example that happened to us in November of 2017, where we, quite frankly, went to Topeka, Kansas. In this particular marketplace, several people got involved. The governor of the state got involved. The mayor of the city got involved. The county commissioners all got involved, and the Chamber of Commerce got involved. That just kind of tells you the sense of urgency everybody had, in regards to a potential hospital, that had 1,600 employees, that was going to shut down. It was announced it was going to shut down, and so the governor said, "Before you shut down, let me see if I can't find somebody to come help us."

It just so happened, that we already had looked at the facility sometime previously, and we were looking for a partner to go in to it, and at the time, the individuals that we talked to, the organizations that we talked to, happened to be doing something else, but when the governor made the call, we were able to put together a group, that quite frankly, saved this hospital. We saved those 1,600 jobs, and the way we did it is through the partnership that you mentioned in the introduction, but we figured out how to put something together, that was a way that the operations of the organization were not changed materially, from what they were doing before, but some philosophical changes did take place, in regards to what we had to do.

We wanted everybody to be on our group purchasing organization. We were taking them to our IT system. We put some different ways that we do things. The corporate overhead that we have here, we don't spread much of that down to that facility. So, we figured out how to reduce the cost associated with what was going on in that facility, before we got there to where we are today, and the hospital is prospering today.

Chip Kahn: [06:35] It really is all about, and ultimately, access for patients to hospital care, because everybody expects that there's going to be a hospital, when the emergency happens, or when the baby's coming, or whatever. I don't think people understand, that the finances of hospitals don't necessarily mean that's going to happen.

David V.: [06:56] That's correct, and interestingly, and probably more importantly in that, this was a hospital that was seeing 2,500 emergency room visits a month, and so, where are all those people going to go? Obviously, quite frankly in this situation, there was another hospital, and there is another hospital in town, but to tax that hospital with all of this, would have been a very complicated process, and the consumer out of that, the potential patients out of that, they would have suffered in that process.

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Chip Kahn: [07:26] It's so important to maintain something. Can you describe the various kinds of partnerships you get in to, and what you're trying to achieve? In a sense, you said it was market-by-market. Give us some other examples. In some ways I guess, he old saw is that all politics is local, and I guess it's really true with healthcare in America too.

David V.: [07:47] All healthcare is definitely local at whatever community you go into. Generally speaking, the hospitals in that community, if it's a larger community, you're going to see numerous hospitals. If that's the case, many of the hospitals would be on the top 10 employers in those markets. The smaller the community gets, the higher up on that list the hospital becomes. Generally speaking, they become number one to five probably, in regards to what's going on, but we have several joint ventures out there.

The one that I mentioned in regards to Topeka, that is a joint venture with the University of Kansas health system out of Kansas City, so they are our partner in that location. Additionally, we have a partnership in Albuquerque, New Mexico, with the University of New Mexico. We are co-owners of a rehab hospital together. We own 51%. They own 49%. Interestingly, this was created, based on the university coming to us and saying, they wanted to create a physical medicine program, and they didn't have the capacity or the space to do it within their facility, and when they brought the idea to us, we said, "That's a great idea. Let's figure out how to make that work." For them, what it will be is a location, where they can educate those individuals, that want to go into physical medicine, and that will be the location for the program, will be established within our hospitals. So, that's number one. We have several obviously.

The joint venture we have down in Tyler, Texas with the University of Texas health system, and the University of Texas is an expansive organization. It includes facilities and locations in Tyler, Texas, San Antonio, Dallas, Houston, all about, in Austin as well. In our particular situation in Tyler, they contacted us when a system in Tyler was in trouble, and they wanted to find a partner, that could be used to consolidate with their system. They had a very small hospital in Tyler, Texas today. We were successful of going in acquiring the nine facilities that this East Texas organization had, and we combined it with their one facility. Now we have the UT Health East Texas System, that we currently operate.

Now, under that circumstance, we and they together, are operating these facilities in a way, that we believe will provide additional care to the community, additional access to community, so the community did not lose any access out of the transaction, but what the University of Texas is looking for, is another place to educate students, find ways that they can do what they need to do, and quite frankly, that is having access to patients that they can get educated from, so putting this together, that's one of the goals that they have, and we're early into the process.

We closed that transaction March of last year, so we're coming up to our one year anniversary, but they're looking for additional ways that they can expand their access to those individuals, and at the same time, ensure that the consumers, and those individuals that are looking for healthcare in the Tyler and surrounding area, have a

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place to come and seek services. In addition to that, and I don't want to forget about this, MD Anderson is also a part of the University of Texas, and MD Anderson likewise, has a location in Tyler, so they reap the benefits of all that knowledge and capability, located in the MD Andersons in Houston. All the protocols that are done, all that information is accessible through what we have, there in Tyler. So, what we've created here is a much bigger and better opportunity, for those people in East Texas to access healthcare.

Chip Kahn: [12:04] Yeah, that's so important. I think one thing that people don't always understand, when they're dealing primarily with their doctor's office or a pharmacy, they sort of go, single file to each of those. When they come to the hospital, the hospital is very complex, because in a sense, it's the aggregation of all those things. Can you talk a little bit about, what it takes to put all that together? You're in the business of not just doing that, but making sure it can be maintained and sustained.

David V.: [12:29] You bring up a good point. I was just talking to somebody earlier today, and we were talking about the fact when people think about hospitals, they think about that hospital bed, in general, but if you look at the average hospital today, 50% of the revenues in a hospital are inpatient, and the other 50% are outpatient. I think that gets lost in the translation of, what do we do every day? Admittedly, the patients that are coming in for surgery and those kinds of treatments, obviously are going to be staying overnight, generally speaking, but in today's world, outpatient activity is continuing to grow, and will continue to grow, not only inside our hospital, but in facilities outside of our hospital as well.

The hospital itself, whether it's inpatient or outpatient, is just, if you think of it as an organism that's out there, and continuing to grow, we're always seeking ways that we can attach ourselves to other organizations, that are dependent upon us, medical staff for example. We have large medical staffs, and that medical staff are individuals that the positions associated with our medical staffs, are individuals that are looking for a place that they can utilize, to the extent that they need to have their patients come to a hospital to have inpatient care, but likewise, to my point earlier, they're also looking for putting their patients in there, for an outpatient treatment, to find out, to do some diagnostic tests.

For us, putting all that together is to build the system, and it's not just one part. Generally, if you look at what we have, we have regional networks in every location that we exist today, so we're very urban in nature, quite frankly, but we have far reaching capabilities with the physicians, in putting those networks together. It's a compiling, of not just one large hospital setting in Tulsa, Oklahoma, for example. It's all the other services that surround that. Sometimes people will call it a hub. That would be what we would have in Tulsa, in the spokes out there, whether that's physician offices, whether it's regional facilities that we have out there. It's putting all that together, to make the system work.

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Chip Kahn: [15:02] I guess, from what you say, it really is all about access to care, and hopefully taking care of the patient over a continuum of time, not just when they interact with one part of the system. You hear a lot of complaining from health plans, about hospitals joining together, hospitals aligning. At the same time, the health plans have the responsibility to make sure that their members, are assured healthcare. How do you react to the health plan critique of the kind of joining together, that your company is about in these various communities?

David V.: [15:40] That's really a good question, and I wish it wasn't complicated, but unfortunately it is a little bit complicated, but to oversimplify organizations coming together, and simply say, well, consolidations must be bad. That's just an unfair characterization, that what happens within the organizations. That's number one, and number two is, if everything was going so well, why are so many hospitals closing today? I think that is the more telling fact of what's going on in our industry. Out of that, I think what people are doing, and what many of these not for profit hospitals are doing, they're looking at a way to secure something to the community. As I mentioned a little bit earlier, some of these regional hospitals out there, they're in the top three of the largest employers in the community. So, if they're gone, if they leave, if they stop providing services, that impacts that community on a number of ways. For us, we see the opportunity to bring people in to our systems, when we look at it.

Recently, we acquired a facility in Pryor, Oklahoma, which is about 45 miles outside of Tulsa, and that hospital could have very easily closed, if we hadn't been there, but we saw it as one more step in increasing the regionalization of our system, and putting us in a position that to the extent, we already had positions in that community anyway, and so we looked at it as a way to make sure that the community had what it needed in regards to the hospitals, and we had what we needed, in regards to an access point for the physicians that we have in that local community, as well as, being able to put it under the guise of a much larger system, previously. For us, the reason that hospital wasn't successful, was because it didn't have a closer relationship to an organization, such as we have built in and around Oklahoma.

Chip Kahn: [17:49] Patient expectations, obviously are high about the care they're going to receive, to make sure that it is the state of the art. Is it more expensive to operate hospitals today? I mean, digitization, electronic health records, robotics. It's not just imaging anymore. It's so many different things, that now impact the care. What do you see evolving there, and how is that affecting the need for the kinds of alignments that you're talking about?

David V.: [18:18] Well, is it more costly to operate that? Obviously, it is. The numbers are not the same, as they were when you and I got in to this industry. So, we know the cost is up, but the sophistication is up as well, and I think that as we look at what our physician population is seeking, as we look at what the insurance companies are seeking from a quality standpoint, and the most important, is we see what our patients are seeking.

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They're looking for ways to extend their life, as long as they possibly can, and some of that's going to come through, obviously, the hospital's provisions of taking care of these individuals, whether that is a comfort of life, and if that means they need a new knee, or a new hip, or a new heart valve. Some of those things are going to be necessary for the individuals to live a little bit longer. Everybody's looking for a way, to get the best possible care that they can get, and some of that can be provided in a smaller setting, but more and more, the more sophisticated the setting, certainly the more sophisticated the services.

Chip Kahn: [19:37] Sort of following up on my last question, David, on digitalization, and robotics, and technology, and looking in to the future, and also frankly, all of the pressures that I spend a lot of time worrying about in Washington, in terms of public payment through Medicare, Medicaid, and the other ways, that the federal government helps fund healthcare services for patients. What do you see as the needs into the future, to actually make the hospital sustainable for the patients that expect it to be there, when we know it's going to become more and more expensive?

David V.: [20:18] Yeah Chip, that's a great question, and I think first of all, you need to look at the identity of every organization out there. One of the things that we've done within Ardent Health Services, is really define what our purpose is, because it all starts with that, and our purpose is simple. We're taking care of people, and the people were taking care of, the patients, the patients' families, internally, we want to take care of one another. Now that said, we look at five pillars, that we measure our self, and we operate under every day, and those five pillars are people, quality, service, growth and finance, and each one of those impact what we do in our hospitals every day, as we establish our goals for our hospitals. Our goals are established under each one of those five pillars, that we have for one another.

As we go forward, we continually look for ways that we can take each one of our pillars, and improve upon it, in any location that we go in to, whether it's a new facility that we acquire, or it's an existing facility, we have expectations that we improve in all of those every day. Whether that's on the people side, and the people side would be, as simple as making sure that we hire the right people, and we retain the right people. If we can just do that, all of our managers would be super happy. Then on the quality side, that's the industry and the business that we're in. Quality is the best business model out there, and if you provide the best quality, you're going to reap the most benefits from it.

It goes without saying, and it's an expectation that the consumer has, in regards to what they expect when they come to your facility. I'll date myself a little bit and say, I can remember being a hospital administrator, and I really only had to worry about a couple of things. Was the food hot, and did the TV work? That's how they defined quality in the old days. We've got a very well informed base of patients today, that they understand mortality, they understand morbidity, and to the extent that they understand those things, you better be up on your game a little bit, and more than a little bit. You better up your game a lot, in regards to making sure that you're doing the right thing every day, as it relates to quality.

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Then, to kind of go to the creature comforts that they're looking for from a service standpoint, of whether that's valet parking, whether that is a flat screen TV, or just somebody coming in, and saying hello, and checking on them. That extra service, that extra part of that, that goes a long way, in regards to what's going on. Then on the growth and the finance, they kind of go together. On the growth standpoint, making sure that you have every service line that you possibly can do.

It kind of goes back to the strategy of our company, and the strategy that we have as a company is, we want to be the most comprehensive, cost effective provider, of quality medical services, in a defined market. Sometimes, I'm not going to be able to do everything. The most sophisticated heart surgery, I may not be able to do that, but the things that we can do within the confines of our hospital, and within the area that we're supplying services, that's what we want to be able to do, and we want to be able to do it very well. We want to be very competitive.

We will make sure our quality is intact, and we do it where the individual making decision, about should they come to our facility, they don't have to think twice about it. Then the finance side, we got to stay competitive. Whether that's because the insurance companies are telling us what they're telling us, or the consumer is just saying, "Hey, I've got a copay here, that I'm going to participate in, and I would appreciate you keeping the costs down as low as you can." We've got to be sensitive to those things, and that's kind of where we are, in regards to what's going on in the industry.

Chip Kahn: [24:22] Thank you, David. This was really informative, and before we finish, is there anything else, that you would say in conclusion, about maybe what you've learned from the partnerships you've developed, in various places across the country, where you have joined with universities or nonprofit hospitals, or others, to keep that access there for patients?

David V.: [24:50] Yep. So Chip, the interesting thing about being in business with academic medical centers, non for profit organizations, large teaching hospitals, we all really do have the same purpose. Every one of us are trying to take care of these patients, and tax status aside, the common denominator is sitting in a bed, or laying in a bed, or seeking an outpatient service. That's the common denominator. Our employees, they know what they're doing. The non for profit organizations, the academic medical centers, they clearly know what they're doing, and I just think it proves, that we have more things in common than we have differences, regardless of our tax status, and if we could just continue to remember that, and always try to focus on making sure that patient gets a good outcome, all of us will be in a good spot. I think that one thing I'm learning is that, that commonality, we're getting closer together today, just because of what's going on in the industry today.

Chip Kahn: [26:01] Well, thank you, David. This is very helpful, and good luck across the country, in all of the markets where you've got new institutions, and those you've been running for a while.

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David V.: [26:10] Thanks, Chip. Thanks to you, and your team.

Chip Kahn: [26:12] Thanks for listening to, Hospitals in Focus. Please be sure to subscribe to us on Apple podcast, Google podcast, your favorite podcast platform, or by visiting us at our website, fah.org. We hope you will share your reviews, and tell a friend about us. Thanks so much for listening.