Hospital Council
of Northern & Central California

COUNCIL CONNECT

Excellence Through Leadership & Collaboration

August 31, 2008

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It's our ambition to be your "go-to" staff.

Got a tough problem? Call us!

ART'S ANNOTATIONS
Top 10 Negotiation Points for Medical Providers

In today's economy the finding of new revenue sources is being strategized across every conference table in corporate American. Davis Wright Tremaine, LLP, a leader in health care financing law, was successful in finding an untapped source.

While working in the Pacific Northwest earlier this year assisting a large hospital system to negotiate agreements with credit card payment processors, their research led them to discover a great deal of money is being left on the table by not fully utilizing all potential negotiating tactics. I asked Davis Wright to refine the information into a list of useful negotiation tactics that I could share with our membership. Davis Wright did just that.

You can obtain a copy of the "Top Ten Negotiation Points for Medical Providers" at the end of this newsletter. I'd be interested to hear your feedback.

For additional information, contact Art Sponseller, President/CEO, (916) 552-7608, asponseller@hospitalcouncil.net.

REGIONAL COLLABORATION DEBUTS IN MODESTO

While California's hospitals strive every day to make care as safe and free from harm as possible for patients through the use of sophisticated systems and care protocols, human error can and does occur.

To that end, 42 nurse and quality leaders, representing eight of the10 hospitals between Merced and Stanislaus counties, convened at Doctors Medical Center in Modesto on July 28 to learn, share, and discuss quality and patient safety. This is the first of many quarterly convenings, planned to support collaborative learning and networking while focusing on best practices to improve care in our hospitals. Linda Levenson, Chief Nursing Officer, and Paula Moore, Chief Quality Officer, hosted the event.

The goal is to transform our care processes so they become highly reliable through the use of various strategies, including:

- Review of best practices.
- Share current hospitals team's improvement strategies for peer-to-peer learning and sharing.
- Stimulate ideas and creativity to further create small tests of change.
- Establish a regional commitment to improvement.
- Communicate to ensure that everyone teaches, everyone learns, everyone shares!

To develop the first session, planners reviewed the occurrences of adverse event reporting throughout the state since SB 1301 went into effect (July 1, 2007). The No. 1 reported adverse event is the hospital-acquired pressure ulcer (HAPU), a stage 3 or 4 ulcer acquired after admission to the hospital: There were 607 separate reported events between July 1, 2007 and June 30, 2008. The nursing profession, under its scope of practice, is accountable for nurse-sensitive outcomes and HAPU falls into the arena of nursing influence.

Additional reasons to focus on improving care and preventing HAPU include:

- The mean costs of care for HAPU—driven by extended length of stay (LOS), additional nursing time, treatment products, and related medical complications—are estimated to be $37,288 per HAPU, reported by Allman in 1998, to $40,381 reported by Medicare in 2006.
- Starting Oct. 1, 2008 CMS will not reimburse for costs associated with a stage 3 or 4 HAPU that was not present on admission.
- The annual physical and economic costs of medical intervention include 115,000 deaths nationally with a cost of $55 billion for care in the U.S.
- Consumers may now view a hospital's data related to outcomes on the Internet, www.calhospitalcompare.org.
- An increased transparency of data has led to the alignment of reimbursement and "perfect care." In other words, both the government and health plans will not pay for care that results in certain adverse events and/or specified complications. This list will grow each year.
- It's the right thing to do.

The California Node of the Institute of Healthcare Improvement brought Sarah Medrano, RN, BSN, from one of its mentor hospitals, Yuma Regional Medical Center, to share that hospital's journey to reduce HAPU. Sarah discussed her hospital's strategies, tools and learning experiences that are making it a key leader in preventing HAPU. Additionally, each participant shared his or her own experiences, challenges, barriers to change, and strategies for improvement with their regional colleagues. They asked for input with the goals that they would each leave with and new ideas they would implement at their home facility. The networking itself was a significant outcome from this day. As several said, "We need to get outside the walls of our own hospitals to learn what is possible" and "We have to quit accepting that complications are inevitable--it was a great session."

For additional information, contact Mary Lopez, Vice President, Quality Initiatives, (559) 650-5692, mlopez@hospitalcouncil.net.

PSYCHIATRIC URGENT CARE CENTER OPENS IN SAN FRANCISCO

With a contribution of $700,000 from San Francisco hospitals that covered half the start-up costs, a new psychiatric urgent care center opened last week in San Francisco. This center will serve as an alternative to emergency rooms that, until now, were the only places for mental health clients to receive help. More than 95% of these clients are homeless.

Not only can clients be transferred to this psych urgent care center from both public and private hospital emergency rooms, but it is also a place where the police can deliver those who need help in a caring environment. Attached to the center is a 14 bed, 24/7 acute diversion unit (ADU). San Francisco's private hospital emergency rooms have already had clients moved to the center. This is the first time there has been real integration of mental health services for county, university, VA, and private hospitals.

The Hospital Council has also established, along with the San Francisco Department of Public Health, the clinics, and the San Francisco Medical Society, a "Mental Health Taskforce" to recommend practical

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changes in the delivery of mental health services to San Franciscans. With the public and private agencies working together, we hope to improve access to services and to ensure that those services are available to all San Franciscans whether they are being treated in a private or county hospital.

For more information, please contact Ron Smith, Regional Vice President, (415) 616-9990, rlsmith@hospitalcouncil.net.

NEW TJC STANDARDS WORKSHOP ON EMPLOYEE CONDUCT
November 3, 2008 - Save the date!

Hospital Council will offer a special workshop on November 3, 2008, focusing on The Joint Commission's (TJC) new standard on disruptive behaviors of employees.

On January 1, 2009, this new leadership standard (LD.03.01.01) requires hospitals to

- have a code of conduct defining unacceptable, disruptive and inappropriate behaviors, and to
- create and implement a process for managing disruptive and inappropriate behaviors.

Confirmed as special guest speaker is Grena Porto, principal, QRS Healthcare Consulting, LLC, who also serves as a member of TJC's Sentinel Event Advisory Group, a panel of experienced physicians, nurses, pharmacists and other patient safety experts who advise TJC in the development of national patient safety goals. Porto wrote The Joint Commission's "Sentinel Event Alert 40: Behaviors that undermine a culture of safety."

Patient care executives, risk managers, medical staff officers, and human resources personnel will benefit from The Joint Commission's perspective on employee releases. This program is provider approved by the California Board of Registered Nursing (provider #CEP 14560 for 6 [six] contact hours).

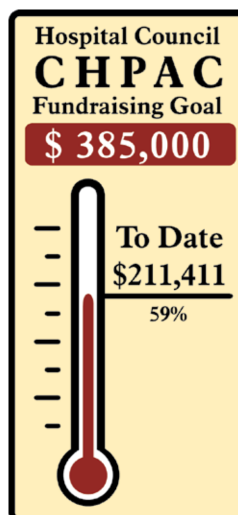
Mark your calendars now and save the date – November 3, 2008. Complete workshop details and registration information will be forthcoming in mid-September.

For more information, please contact, Petrina Aiello, Manager, Member Services, (925) 746-5106, paiello@hospitalcouncil.net.

CHPAC UPDATE

Congratulations to the following hospitals that have met or exceeded their CHPAC goal.

- Community Hospital of the Monterey Peninsula
- John Muir Medical Center, Walnut Creek Campus
- Santa Rosa Memorial Hospital
- Sutter Lakeside Hospital
- Sutter Solano Medical Center



Appointing a CHPAC campaign coordinator for your facility is a great way to initiate staff campaigns and reach your hospital's CHPAC fund-raising goal. Another way is to promote the benefits of CHPAC Presidents' Club membership to hospital vendors and invite them to join. Hospital campaign coordinators should contact Justin Matheson, CHPAC, Executive Director, for a campaign coordinator's kit. Justin can be reached at (916) 552-7533.

The CHPAC is the only organization that gives financial support to responsible pro-health care candidates running for office throughout the state.

Make your CHPAC contribution today at one of the following levels:

- Presidents' Club member at $1,250
- Leadership Board member at $750
- Golden State Club member at $500

For more information, contact Justin Matheson, CHPAC, Executive Director, (916) 552-7533 jmatheson@calhospital.org.

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CEO UPDATES

Jeff Eller has been named president and CEO of Sonora Regional Medical Center, effective October 1, 2008. Mr. Eller will replace Lary Davis, who announced his resignation earlier this summer, which will be effective September 30.

EDUCATIONAL PROGRAMS AND SPECIAL EVENTS

October 5, 2008   Noon – 1:30 pm
CHPAC/Hospital Council Luncheon
Niello Concours, El Dorado Hills, CA
Contact Justin Matheson (916) 552-7533

October 8, 2008   8:00 am – 4:30 pm
Hospital Council
Practical Skills for Quality Improvement
Location TBD
Contact Teresa Roebuck (925) 746-0728

October 9, 2008   10:00 am - 3:30 pm
Hospital Council
Beacon Compass Series - North
San Francisco location - TBD
Contact Teresa Roebuck (925) 746-0728

October 28, 2008   8:30 am – 4:00 pm
Hospital Council
Beacon Collaborative Quarterly Meeting
Washington Hospital Healthcare System, Fremont
Contact Teresa Roebuck (925) 746-0728

November 3, 2008   8:30 am- 4:00pm
Hospital Council
New Joint Commission Standard Workshop
Behaviors that Undermine a Culture of Safety Workshop
Sacramento Convention Center, Sacramento
Contact Petrina Aiello (925) 746-5106

OCTOBER SECTION MEETINGS

October 3, 2008   Noon – 2:00 pm
Monterey Bay Section
Dominican Hospital, Santa Cruz
Contact Marsha Yaranon (925) 746-5108

October 14, 2008   2:00 – 4:00 pm
Central Coast Section
Sierra Vista Regional Medical Center, San Luis Obispo
Contact Loretta Manning (559) 221-6154

October 16, 2008   Noon – 2:00 pm
San Joaquin-Mother Lode & Stanislaus-Merced Sections
Doctors Medical Center, Modesto
Contact Kathy Sowers (916) 552-7565

October 17, 2008   1:00 – 3:00 pm
Fresno Madera Section
Veterans Affairs Medical Center, Fresno
Contact Loretta Manning (559) 221-6154

October 21, 2008   1:00 – 3:00 pm
Tulare/Kings Section
Sierra View District Hospital, Porterville
Contact Loretta Manning (559) 221-6154

October 23, 2008   8:00 – 10:00 am
Santa Clara Section
Santa Clara County Medical Association, San Jose
Contact Marsha Yaranon (925) 746-5108

October 24, 2008,   9:00 – 11:00 am
East Bay Section
Kaiser Permanente Corporate Offices, Oakland
Contact Marsha Yaranon (925) 746-5108

October 24, 2008,   Noon – 2:00 pm
Sacramento-Sierra Section
Kaiser Permanente Point West Medical Offices, Sacramento
Contact Kathy Sowers (916) 552-7565

August 21, 2008

TO: Hospital Council Members

FROM: Art Sponseller, President/CEO

SUBJECT: Top Ten Negotiation Points for Medical Providers

Davis Wright Tremaine LLP recently worked with a large hospital group in the Pacific Northwest earlier this year to help them negotiate processing agreements with credit card payment processors. Their detailed work disclosed that "there was a ton of money being left on the table" according to Claude Goetz from Davis Wright's New York office.

Out- of-pocket medical expenses in the United States are quickly climbing — in 2007 $250 billion was paid in out-of-pocket expenses, with $242 billion paid by cash, checks, and/or credit and debit cards. In addition, electronic payments are expected to grow from the current rate of 46 percent up to 60 percent by 2009, making this topic all the more relevant for hospitals.

Hospitals will pay more in credit card fees than necessary unless they understand and employ an understanding of the credit card processing industry when negotiating with payment processors.

After reviewing these findings and statistics, I asked Davis Wright to further refine their suggestions for successful negotiations by creating the following "top 10" points. I hope you find this list helpful and look forward to your feedback.

Top 10 Negotiation points

1. ***Negotiating Leverage*** – Credit/debit charge card payment processors are experiencing pressure on rates from retailers with increasing negotiating leverage due to size (Target, Wal-Mart, etc.) accordingly, processors are actively seeking higher margin industries, especially health care, that will yield both higher revenue per transaction and scale. Use of cards for medical payments is projected to grow by 10 - 15 percent in the coming year.

2. ***High Profit Margin*** – Providers currently remit to processors between 2 percent and 4 percent of amounts paid using credit/debit/charge cards. A substantial portion of this percentage is profit margin for the processor. Traditionally, healthcare providers have not pushed back on processors' pricing or non financial dealt terms.

3. ***Pricing Structures*** – Bundled fees are a common way in which processors build in margin. Many processors will accept "a la carte" fees, which can be much more cost effective. Diligence about ancillary aspects of processing, such as reporting required by the provider, is essential here in order to compare bundled services to "a la carte."

4. ***Transaction Volume*** – Processors care a lot about transaction volume. The principal path for a processor to increase profit is by leveraging hard costs over more transactions. Accordingly, even low margins per transaction can be attractive to a processor if significant volume is present.

5. ***Cap on Cost Escalation*** – Processing agreements generally contain provisions that permit the processor to pass-through increases in the cost of providing services. There is generally no cap on cost pass-through and no termination right linked to increases in costs.

6. ***Floor on Cost Reduction*** – Interchange, the principal, fixed portion of the processor's costs in providing acquiring/processing service, is expected to drop significantly in the next few years upon conclusion of pending multi-district litigation. This cost saving should be passed on to, or at least shared with, the provider. Processing agreements generally contain no allowance for pass-through of cost reductions.

7. ***Reserve Account Protections*** – Almost all processing agreements authorize the processor to establish a reserve account using the provider's funds in case the processor becomes insecure about the provider's financial status. Limiting the processor's discretion to establish a reserve account, and the obligations of the provider to which the processor can apply the funds in the reserve account are important protections to be negotiated for the provider. Failure to limit these elements can result in provider insolvency at the hands of the processor.

8. ***Service Level Agreements*** – Processing agreements proffered to the healthcare industry are often silent about service levels and related penalties for failures in system up-time, call center/help desk response times, etc. Many processors will take the position that default and termination are sufficient remedies for providers, but changing processors can be so burdensome that those remedies are not practical.

9. ***Data Protection/Data Ownership*** – Healthcare providers are accustomed to HIPAA compliance but, in the context of payment systems, they may also have Gramm-Leach-Bliley Act obligations with respect to personally identifiable information of cardholders. Providers and processors must reconcile these obligations and ensure that both are observed. Despite the statutory overlay, data mining still represents an income source and patient/customer data can be a valuable asset. Ownership and use rights to data can provide negotiating leverage and or contention.

10. ***Termination Provisions*** – Right around termination including limits on early termination fees should be reconciled with providers' rights to terminate for breach, post-termination conversion assistance should be assured at standard rates, and parameters should be established for rate increases at expiration of term.

For more information: Contact Davis Wright Tremaine, (415) 276-6500, www.dwt.com