GOOD GOVERNANCE CASE STUDY

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Methodist Fremont Health:

A New Partnership from a Position of Strength

MAY 2019

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Methodist Fremont Health:

A New Partnership from a Position of Strength

Organization Profiled:

Methodist Fremont Health, Fremont, NE
(formerly Fremont Health)

The following people participated in interviews and reviewing drafts for this publication:

Patrick Booth, former President & CEO
Brett Richmond, current President & CEO; former Senior Vice President/COO
Dr. Monty Sellon, Board Chair
Dr. F. Thomas Waring, former Vice Chair/current Board Member
Stephen L. Goeser, FACHE, CEO, Nebraska Methodist Health System
Dr. Michael Hein, former CEO, Enhance Health Network

Statement of Interest

Fremont Health was a small, independent health system based in Fremont, Nebraska with a quasi-rural primary service area of 45,000 people. The original Dodge County Hospital opened in 1940, and over the course of the next seven decades, the organization grew and changed its mix of services to reflect the needs of the community. A large nursing home was added to the campus in the 1960s, followed by home care and hospice services, a surgical center, and numerous physician clinics, but the Fremont Health Medical Center (FHMC) remained the core business. Led by its board of trustees, Fremont Health patiently saved its operating margins and reinvested in its facility, technology, and a wide range of services including a cardiac catheterization lab, a community cancer center, six modern LDRP suites and a level-two nursery, a total joint program, and an imaging center.

Despite many signs of success, senior leaders and the board could see financial storm clouds on the horizon. Patrick Booth, former Fremont Health CEO, felt it was his job to look 10 to 20 years into the future. After assuming the CEO position early in 2008, Booth's concerns first emerged during strategic planning sessions with the board in 2010. "I was worried that we were facing five financial threats, and four of them were beyond our control," said Booth. These five threats were:

1. A change in demographics (payer mix moving away from private commercial insurance and towards Medicare/Medicaid)
2. Declining inpatient utilization
3. Falling market share (partially due to Fremont's proximity to Omaha)
4. Cost pressures
5. Projected weakening Medicare/Medicaid reimbursement as a result of the Affordable Care Act (Nebraska did not expand Medicaid)

The resulting strategic plan set goals focused on establishing new programs and services and on improving the quality, service, and efficiency for all of Fremont Health's programs. Fremont Health would need to grow and compete to recover lost market share and to become more cost-effective.

For several years afterwards, Fremont Health enjoyed great success in physician recruiting and new program development. A new "Fremont Health" brand was adopted as a unifying element for all inpatient, outpatient, and clinic services. A new 20-bed behavioral health inpatient program was initiated to meet community needs. Fremont Health continued to make investments in medical and information technology, and its "Building a Healthy Future Project" substantially renovated its nursing units and patient suites, which helped to improve patient experience.

In 2015, the board and leadership team began to update and complete a new strategic plan. That plan would build upon the previous plan with a vision to 2020. But the marketplace had changed dramatically in that five-year period; financial pressures beginning in 2010 continued to intensify. Dodge County admission rates had fallen from 145 per 1,000 to 105 per 1,000. Fremont Health's market share had fallen from 65 percent to 50 percent due to increased competition in nearby Omaha. Worsening Medicare reimbursement under the ACA was resulting in annual operating losses of more than $4 million on Medicare business. At the same it was becoming increasingly difficult to shift unreimbursed Medicare and Medicaid costs to the private commercial insurance market in the form of higher prices. As a rural independent hospital system, the board and leadership team began to worry that aggressive cost-cutting might include the elimination of key mission-driven programs.

The strategic planning process in 2015 was challenging. Fremont Health would need to continue to achieve success in clinical quality, patient experience, and employee engagement. It would need to redouble its efforts to reduce expenses through its labor management program. But it would need to increasingly rely on its partners to preserve and grow business and to substantially reduce non-labor costs.

In 2015, Fremont Health had three primary partners:

1. Fremont Health Partners (a PHO including 80 providers on the Fremont Health medical staff)
2. Enhance Health Network
3. Nebraska Health Network

All three partners were committed to transforming care and improving quality, service, and health while lowering costs. The Enhance Health Network was also positioned to provide economies of scale in purchasing and numerous cost-sharing initiatives.

The Fremont Health team completed the 2015–2020 strategic plan, and board and senior leaders understood that if plans were not successful, or if a financial hardship occurred, it would "trigger" an exploration of a *different* kind of partnership.

A Profile of Methodist Fremont Health

Now part of the Nebraska Methodist Health System (which, despite its name, does not have a formal affiliation with the Methodist Church), Methodist Fremont Health has 800 employees, more than 100 physicians on the active medical staff, including nearly 30 employed physicians. They deliver comprehensive care to Dodge County, NE (about 40 miles west of Omaha) in behavioral health, cardiology, oncology, orthopedics, rehabilitation and physical therapy, surgical services, sports medicine, urology, women's health, and wound care.

The Methodist Fremont Health Medical Center includes 75 inpatient beds (55 acute care beds and a 20-bed inpatient behavioral health unit).

Fremont Health and Methodist Fremont Health have earned the Joint Commission's Gold Seal of Approval as well as these certifications and recognition:

- Accreditation with commendation from the Commission on Cancer of the American College of Surgeons
- Women's Choice® Award for Emergency Care and Patient Safety
- Named one of the 100 Great Community Hospitals by *Becker's Hospital Review*
- Named as a Top Community Hospital by iVantage
- Blue Distinction Center® for Maternity Care by Blue Cross and Blue Shield of Nebraska.
- Named a Best Nursing Home by *U.S. News and World Report*

Mission statement: Methodist Health System is committed to improving the health of our communities by the way we care, educate, and innovate.

Vision statement: Methodist Health System will be the preferred integrated health system in the region.

Structure: Fremont Health was a health system with $125 million in net revenue. It was governed by the Nebraska County Hospital Statute as a "political subdivision." Fremont Health owned the hospital property, operated numerous non-profit healthcare programs, employed hundreds of staff members, and owned a pension plan. Dodge County supervisors appointed the Fremont Health board of trustees and approved annual capital and operating budgets.

Effective October 1, 2018, Fremont Health became Fremont Community Health Resources. It continues to own the hospital property and the pension plan, it remains a political subdivision, and its board will continue to be appointed by the Dodge County supervisors.

At the same time, the new organization Methodist Fremont Health was created as a subsidiary of the Nebraska Methodist Health System. Methodist Fremont Health leases the hospital property from Fremont Community Health Resources. It now employs more than 800 former Fremont Health staff members, and it operates all of the former Fremont Health programs and services. For the first 20 years of the lease, Methodist Fremont Health pays Fremont Community Health Resources $3.3 million per year, and those funds are contributed to the pension plan.

From Success to Facing Hurdles

When Booth joined Fremont in 2008, the organization was enjoying a healthy 7 percent operating margin. The Fremont regional community was also fortunate that more than 200 providers were members of the medical staff, and roughly 100 of them were active and regularly present in Fremont. Fremont Health established an Organizational Excellence Initiative in 2010, with the four pillars of success being clinical quality, service excellence, employee engagement, and stewardship. These pillars included numerous goals and measures for the organization and each department. They made steady progress.

The board committed to a $40 million "Building a Healthy Future Project" in 2012. It was designed to upgrade facilities in a way that improved patient experience and employee engagement. The overall number of licensed medical and surgical beds was reduced from 90 to 55, and a beautiful new 20-bed inpatient behavioral health unit was created. Private patient suites were doubled in size, and nursing units were modernized and redesigned for staffing efficiency. The nursing home was completely renovated. "We were preparing to serve the next generation of patients, and we wanted our facilities to be as comfortable and attractive as possible in our increasingly competitive market," said Booth. Most of the funding for the project came from retained earnings and savings, and from generous community donors.

Fremont Health became a founding member of the Enhance Health Network in early 2013 to bring economies of scale in group purchasing and other cost-sharing opportunities. The network's primary goal was to work together to transform care delivery, and Enhance was working quickly toward becoming an ACO. Booth and Dr. Monty Sellon, Fremont Health board chair, served on the Enhance Health Network board of trustees from 2013 until the organization began to unwind in 2016. "Initially, we had high hopes for Enhance," said Dr. Sellon. "There were three large health systems and six independent health systems all across the state working together. We had a charismatic leader in Dr. Michael Hein, who had a bold vision for transforming the way we could provide healthcare in the future." Booth viewed Enhance like a "lifeline, allowing us to reach out for help to one or more of the member organizations." But like many alliances and networks, it became difficult to forge agreement on key initiatives, especially when it came to spending money or making changes as a group that might not go over very well back home. The Enhance board voted to cease operations by summer 2016. (See sidebar, "Merger Alternative? ..." for more information on Enhance.)

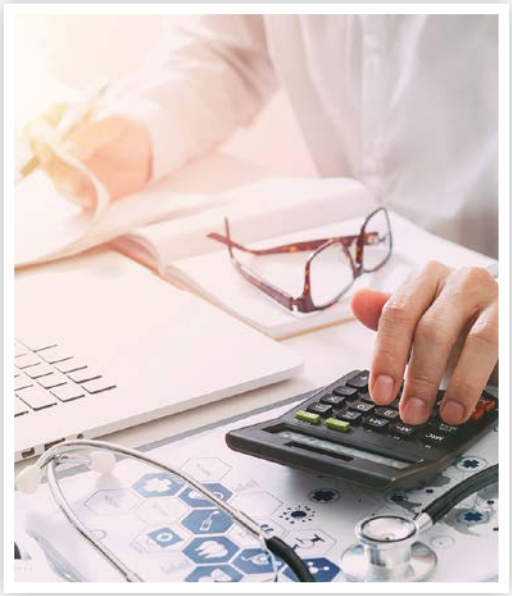
Then Came the Audit

When FY 2016 ended in June, the CFO closed Fremont's books with a small positive margin. However, when the external audit was conducted, the auditors recommended to management and the board that they accelerate the depreciation schedule for the recently completed major construction project. This would increase the organization's cost basis in the event Medicare rebased its cost-formula (as a Sole Community Hospital, Fremont's reimbursement is calculated to be in-between a full Prospective Hospital DRG rate and its full costs).

The auditors also recommended an additional contribution to Fremont's pension program. These two accounting changes were approved by the board in September 2016, and they drove Fremont into the red by more than $3 million. This represented

the first time this organization had lost money since 1973. "We remained calm, at least on the outside, and we explained our loss by citing various financial headwinds, but I realized it was time to begin exploring the benefits of aligning with or joining a larger health system," Booth said.

Booth called, visited, and researched how other independent hospitals and health systems in similar circumstances had responded over the years. Rural hospitals have concerns related to their size, payer mix, and location. "It is more difficult for small hospitals to be efficient, and those within 30–45 minutes of a metropolitan market have greatly reduced market share," Booth explained. Fremont Health serves a rural market, and roughly half of its patients are covered by Medicare, but it was too large to receive the kind of cost-based reimbursement that critical access hospitals receive. At the same time, Fremont Health was semi-urban, operating in a town of 30,000 on Omaha's western doorstep, a city of 750,000 people, three health systems, and 15 hospitals. Booth surveyed six states in the upper Midwest and learned that there were very few independent community hospitals within 30 minutes of a major metropolitan market. "I was pleased that Fremont Health made it on our own longer than most in similar situations, but it was very clear to me that it was simply a matter of time."



At that point, Booth started researching firms that specialized in M&A transactions for healthcare. The board formed a planning committee to select and work with a consulting organization that would conduct an assessment, and if necessary, to begin the process of exploring partnerships. Following several interviews and reference checks, Juniper Advisory was selected in early 2017.

What Made Fremont Different?

Why was Fremont able to stay strong and independent longer than many other U.S. hospitals? "Being close to Omaha was actually positive for us for a long time," explained Brett Richmond, Fremont Health COO prior to the merger. "It allowed us to bring in many specialists you might not see in other hospitals of our size because they were able to live in West Omaha and practice in Fremont."

Fremont leaders recognized the importance of engaging and educating their physician leaders. "We took several groups of physicians and board members to Governance Institute conferences over the years, exposing them to these and other educational experiences to what is going on in healthcare—the trends, challenges, and what other organizations are doing to meet them," said Richmond. At these sessions, the board and physicians were hearing about hospital consolidations happening in the industry. "It was helpful for them to hear what things are like elsewhere, to interact with peers from other communities, and to understand that part of this is just where the industry is going," Richmond added.

> "We did a lot of research on hospitals our size and found out that many of them were getting into trouble, but by the time the board acted they weren't in a good situation. So, it turned into a bail-out. We didn't want to go down that way."
>
> *—Dr. Monty Sellon, Board Chair & Family Practitioner*

"It's very difficult for a small rural hospital with a majority of Medicare and Medicaid patients to continue on such poor reimbursement," said Dr. Thomas Waring, board member and retired ENT surgeon. "But we felt that we were in a position of strength, and negotiating from that position rather than letting things slide into a deficit situation was very important."

In addition to researching other hospitals similar to Fremont, members of the board and management looked at the business world, particularly corporations that became obsolete, noting that they often were not looking far enough ahead to see how the environment was changing. Booth, Dr. Sellon, the CFO, and other members of the management team created 10-year financial models to evaluate how an independent Fremont Health might look under best-case, average-case, and worst-case scenarios. "The best-case scenario would be wonderful, but the worst case was that in 10 years we wouldn't be viable, and because our role was to preserve our mission of healthcare for the community, we couldn't take that risk," said Dr. Sellon. "We all concluded that it would be a good idea to look into the possibility of partnering."

"I had an unusually progressive board as far as thinking about the future," Booth recalled. "They took their responsibilities very seriously—they were keenly aware that Fremont Health was vital to the health and prosperity of our region. The same can be said for the Dodge County supervisors, who were not as involved in the details of these discussions but very supportive of Fremont Health's efforts to preserve and strengthen its mission."

Partnership Models Considered

With the help of Juniper Advisory, the planning committee spent a great deal of time establishing partnership objectives. Dr. Waring emphasized that there were certain critical concerns of the board they felt were important to maintain for the sake of the community. "Maintaining local control was very important. We wanted to maintain jobs and continue to provide the best quality medical care that we could. We have a beautiful physical facility and capable physicians and staff. Also, we wanted to maintain the pension plan, especially for staff that would become eligible but were not yet."

With the help of Juniper, the planning committee made a list of nine objectives for selecting a partner:

1. Continue the mission of improving the health and wellness of the community.
2. Retain significant local governance.
3. Maintain and expand key programs and services.
4. Attract and retain physicians in a wide range of specialties.
5. Preserve jobs in Fremont and provide competitive wages and benefits, including preserving the pension plan.
6. Demonstrably improve quality, safety, and high-reliability.
7. Provide fair financial consideration.
8. Provide capital sufficient to support quality and growth, including enterprise-wide electronic health record.
9. Continue to provide adequate charity care in Dodge County.

> "It was essential to establish these objectives up front, and taken together, they served as our destination. We wanted to provide the organizations that were interested in partnering with Fremont Health the creativity and flexibility of laying out their preferred road map, but we needed these guideposts to focus our discussions and to compare the various proposals."
>
> *—Patrick Booth, former President & CEO*

The Process

Step	Timeline
Juniper assessed FH's market and financial position	April–June 2017
Board reviewed assessment	June 2017
Contacted potential partners, received initial proposals	July–August 2017
Initial meetings with potential partners	September 2017
Received second proposals	October 2017
Developed pension plan solution	November–December 2017
Board selected Methodist as preferred Partner	January 2018
Letter of Intent signed	February 2018
Due Diligence and Definitive Agreements	March–June 2018
Definitive Agreements approved and executed	June–July 2018
Pre-Closing work	August–September 2018
Target Closing	September 30, 2018

Methodist Fremont Health Case Brief: Key Board Takeaways

The Issue: The Fremont Health board wanted Fremont Health to remain independent, but knew that the organization's ability to do so given the future direction of the healthcare industry might be challenged in the near future. In 2010, Fremont was facing five threats:

1. A change in demographics (payer mix moving away from private commercial insurance and towards Medicare/Medicaid)
2. Declining inpatient utilization
3. Falling market share (partially due to Fremont's proximity to Omaha)
4. Cost pressures
5. Declining Medicare/Medicaid reimbursement as a result of the Affordable Care Act (Nebraska did not expand Medicaid)

These threats continued and increased through 2015, at which time admission rates had fallen in addition to shorter lengths of stay. Fremont Health's market share had fallen from 65 percent to 50 percent due to increased competition in nearby Omaha, and the declining Medicare reimbursement had resulted in operating losses of $4–5 million per year.

Steps taken: In 2016, the board put in place a task force to research merger options, signed on M&A transaction firm Juniper Advisory, and conducted research to determine objectives for selecting a partner, and potential partnership structures. From three finalists, the ultimate choice as partner was Nebraska Methodist Health System.

The primary reasons behind selecting Nebraska Methodist as Fremont's partner were:

1. It made sense regionally/geographically (Fremont was only 20 miles away from the system's nearest hospital, and there was overlap on medical staffs; potential overlap in where patients could go for care).
2. There was a strong cultural alignment.
3. Nebraska Methodist was the only prospective partner to make a realistic offer to take over and preserve the county pension plan for Fremont Health employees.

The deal was signed on July 1st, 2018 and went into effect on October 1st, 2018. The new entity, Methodist Fremont Health, is a subsidiary of Nebraska Methodist Health System.

Results to date: Methodist Fremont Health will enjoy the following benefits of the merger:

1. Bringing the trusted and respected Methodist name to the Fremont community.
2. Integrating into the system-wide Cerner EHR
3. Integrating administrative operations and other IT systems such as cybersecurity.
4. Identifying and executing on cost-structure opportunities, including growing certain specialty service lines such as OB and orthopedics, and cost-savings in purchasing and elimination of duplicate systems/functions.
5. Integrate service lines where appropriate.
6. Access to new insurance networks and products.

Looking forward: The level of integration of Fremont Health into the system remains to be seen and will be taken slowly. Nebraska Methodist is a system that allows much control and leadership of its affiliates to remain local. The boards and leadership plan to spend 2019 having many open conversations about how the new organization will be shaped going forward, while maintaining a constant focus on what is best for the Fremont community.

Potential Partners

The next step was to "go out quietly," rather than making a big announcement, so Juniper made some initial exploratory calls to 16 health systems both nationally and locally, on behalf of Fremont. "Fremont [via Juniper] reached out to us and said they would be doing an RFP for a strategic partnership. They hoped we would respond favorably to that," said Steve Goeser, President & CEO of Nebraska Methodist Health System. "They were going to cast a pretty wide net to make sure they saw what opportunities were in the marketplace. And it wasn't something that we were looking to do at the time. We were surprised that they were doing this, quite frankly, because they had been a very independent organization for a long time."

> "Fremont was successful and well managed, with good physicians, so the fact that they were looking for a strategic partnership sent the message to us that they were serious."
>
> *—Stephen L. Goeser, FACHE, President & CEO, Nebraska Methodist Health System*

Seven of the 16 systems asked for more information, and then five made written proposals. At this time, Booth began sharing this process with county supervisors, employees, the medical staff, the community, and the local media. In their public announcement, they named the five health systems and included their list of nine objectives the board would use to select the right partner. "We decided that we didn't need a specialized communications firm and instead developed our own plan, which was to be as honest and transparent as possible. Our employees were very understanding; I think they could see our future the same way we did, and they appreciated our approach to keeping them informed along the way. The medical staff was also very supportive, and many of the leaders became involved in the process of interviewing and evaluating various proposals," said Booth.

Methodist wasn't looking to grow at the time, but had worked with Fremont for a number of years in cardiology and certain managed care initiatives. Geographically, Fremont was only about 20 minutes away from the Methodist Women's Hospital. Since they already had a working relationship in a service line, Goeser and the Methodist board decided to "put our hat in the ring."

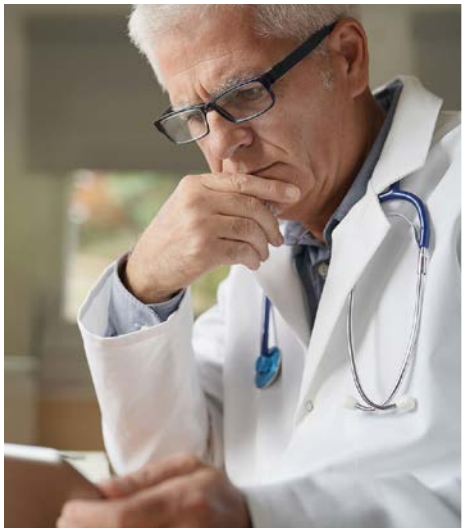
Fremont whittled it down to three finalists.

"Behavioral health was an aspect of Fremont that really attracted Methodist. Many of the facilities that provided this type of care in Omaha have closed. Staffing is a problem—it's a problem nationwide. The mental health problem continues to grow, especially in rural areas."

—Dr. Thomas Waring, Board Member

The Courting Stage

Once Methodist was identified as a finalist, Goeser and the system board brought physicians, board members, and other clinical leaders from various Methodist affiliates to Fremont to show the Fremont board "what kind of a system we were and how we treat affiliate organizations," Goeser explained. "We are based in local leadership and local governance. It's not a centralized system except for very few reserve powers that center around large projects and access to capital, or things that can be done more readily at the system level such as audit, compliance, and compensation." Fremont liked the working relationship Methodist had with its physicians, including 85th percentile scores for physician engagement (including employed, private, and contracted physicians) and employee satisfaction.



The Deal

The letter of intent with Methodist was signed in February 2018. Then came three to four months of due diligence. The deal was signed in July and Methodist Fremont Health began operations on October 1, 2018.

The process of putting a deal in place involved a steep learning curve for both Fremont and Methodist. As a political subdivision, the Dodge County board of supervisors would have to ratify the agreement. "The nuances of the governmental portion of it were all managed very well," Goeser said. "Everything had complete support of both the county board of supervisors and the Fremont Health board, as well as their medical staff and employees."

Merger Alternative? Addressing Regional Competition with a Provider Network

Enhance Health Network was put in place in 2013 as a for-profit, regional provider network to respond to consolidation in the Nebraska market. Enhance was created and owned by nine equal partners in hopes of positioning themselves competitively in the marketplace in order to truly transform care delivery, and gain the benefits of being part of a larger group without a change of ownership: University of Nebraska Medical Center, Nebraska Methodist Health System, Bryan Health, Fremont Health, Faith Regional Health Services (Norfolk, NE), Columbus Community Hospital (Columbus, NE), Mary Lanning Health Care (Hastings, NE), Great Plains Health (North Platte, NE), and Regional West Medical Center (Scotts Bluff, NE). The network eventually expanded to include 66 independent hospitals and health systems in Iowa, Missouri, and Nebraska.

Dr. Michael Hein was hired as the CEO of the network. Goals included:

- Build economies of scale
- Increase clinical integration
- Improve contracting and payer relationships
- Aid in the transition to value-based care

Initially, the vision of its leaders was clear and compelling, with a high sense of urgency to make it work. One early success was a population health contract with Blue Cross Blue Shield. But Nebraska Medicine and Nebraska Methodist Health System had already created their own regional provider network, set up to be an ACO. "We had to figure out how to manage the two networks in one way. It made sense in the beginning to keep them separate for political reasons," said Dr. Hein. "But as we started pursuing population health aims, there were duplications of expensive work in clinical and IT integration."

An additional challenge in keeping the network together and maintaining a clear vision was a high turnover rate of the CEOs from the member hospitals and health systems. "From the initial concept, it unraveled in about five years," recalled Dr. Hein. "The larger organizations had already invested quite a bit in their own pursuit of clinical integration and value-based care competencies, and the smaller facilities just didn't have those capabilities. The members had different needs."

From Dr. Hein's perspective, Enhance needed to be a key part of every member's strategic plan in order for the venture to be successful. But the network structure relied on CEO relationships, not boards. When new CEOs came in, support from many boards waned. "It was really up to the CEOs to pull their boards in the direction of Enhance," said Dr. Hein. "We had members who simply no longer saw Enhance as a key part of their strategic direction. And the CEOs had responsibility to their boards, not to the network. The boards had no accountability for ensuring that Enhance was successful."

Dr. Hein strongly believes that if the network had been structured differently and every board embraced its vision and purpose, that it would have succeeded, both on its own and as a model that could eventually lead to a merger between network partners. "I absolutely believe that it's a model that can work, if people have clarity

about the difference between cooperation and collaboration. Cooperation is participating if it makes sense for our strategic direction. Collaboration is linking our strategic vision to the network and co-creating that vision together."

Creating a regional provider network "is not an easier path" than merging, according to Dr. Hein. "It takes years to fully develop. People were impatient and wanted to see a quick ROI. That just doesn't exist in these types of arrangements. So, be patient, and be all in, and recognize that it's hard work."

Immediate Benefits and Opportunities

Why did Fremont Health select Methodist? Beyond the strongly competitive financial offer and a viable solution to fund the pension plan, "it really came down to culture," explained Richmond, who became CEO of the new Methodist Fremont Health. "Many Fremont employees had worked at Methodist or were currently working there, and they repeatedly told us that the organizations were very similar from a cultural perspective. And we share a number of physicians on our medical staff." Methodist is a very employee- and physician-friendly organization, and Fremont leadership felt like "we knew those folks." Methodist also had a hospital in Council Bluffs that is similar to Fremont in size and structured similarly from a governance perspective. Fremont was able to view that as a pilot example, essentially, to envision their experience as being part of Methodist.

The benefits for Methodist to partner with Fremont include the ability to add a hospital, nursing home, and behavioral health (most of the system's recent growth had been in physician practices). One of the largest areas to benefit both sides is in IT. Fremont and Methodist both use Cerner; Methodist can extend its version of Cerner to Fremont incrementally and with relative ease. Also, Fremont didn't have access to cybersecurity expertise, software, and vendors, which Methodist can expand to Fremont relatively inexpensively. Other economies of scale include HR and accounting. Methodist is estimating a 10 percent increase in referrals from Fremont, and their bottom line went up at the end of 2018 just as a result of the merger.

Methodist Fremont Health's top priorities upon becoming a part of a health system include:

1. Properly market and brand the trusted and respected Methodist name to the Fremont community.
2. Integrate into the Methodist Cerner EHR and implement organizational wide, including clinics and finance.
3. Integrate administrative operations and other IT systems such as cybersecurity.
4. Identify and execute on cost-structure opportunities, including growing certain specialty service lines such as OB and orthopedics, and cost-savings in purchasing and elimination of duplicate systems/functions.
5. Integrate service lines where appropriate.
6. Access new insurance networks and products.
7. Build a full-time hospitalist program (the current one is part time).
8. Determine reporting relationships for a handful of departments that will become integrated such as IT, facilities, and HR.
9. Refine the operational/structural details of being part of a system.
10. Have open and honest discussions with Methodist leadership about how the new organization will be shaped going forward.

The medical staff at Fremont will remain independent from the health system. Methodist has an Omaha-based medical staff for its two hospitals there, and a separate medical staff for its hospital in Council Bluffs. Over the next year, Richmond anticipates that there will be some physicians on the Omaha-based staff that will join Fremont's staff. The rest remains to be seen.

"I've asked numerous nurses and hospital employees what the difference is, now that we are with Methodist," said Dr. Sellon. "They have said there really isn't a difference. They have signed up for a new health insurance plan and a new retirement plan, which is actually better than what we had before, but other than that they don't notice any difference."

Methodist leadership has their "hands off" for the first year. The system is allowing Richmond to use his discretion on how to use $3 million per year for capital funding—"Just do what is best for your hospital." Richmond can approve anything up to $400,000 without obtaining permission from the system or the board. The board can approve up to $1 million without obtaining system permission. But anything above that does require system approval.

Succession Planning and Governance Transition

"One of the more courageous things hospital executives have to do when they go down the merger road is to grapple with the possibility of losing their jobs," Booth said. "We had four executives on our senior leadership team at that point. We were entering into a partnership with a new owner and would face the possibility that we could all be replaced. Even with severance clauses, that process was daunting. At the same time, we had the confidence of knowing that we were putting the organization first, and the board and Methodist had taken note."

> "It wasn't hard to see the storm clouds coming. We learned about a number of hospitals that simply waited too long. I credit our board and our county supervisors for the commitment they made to preserve and strengthen healthcare services in our region over the long term. It was truly a mission-driven achievement."
>
> *—Patrick Booth*

Booth had a succession plan in place since 2016 detailing that his COO Richmond would assume the CEO role when Booth left Fremont or retired by October 2020. Richmond and Booth had a strong working relationship as CEO and COO for nine years, and the board did have concerns that Richmond might not wait forever for a promotion opportunity. The upcoming merger with Methodist turned out to be the right time to start a conversation.

In May and June 2018, the executive team participated in "interviews" with Goeser. Booth interviewed first and told him about the succession plan involving Richmond as his successor. Booth felt that the CEO transition should occur on October 1st, 2018, provided that Goeser and the board were comfortable with that plan. Goeser then talked with the Fremont board and next interviewed Richmond in order to make his own assessment. Shortly after these conversations, the transition was announced, which allowed Richmond and Goeser to begin discussing other potential members of the leadership team and to establish early priorities.

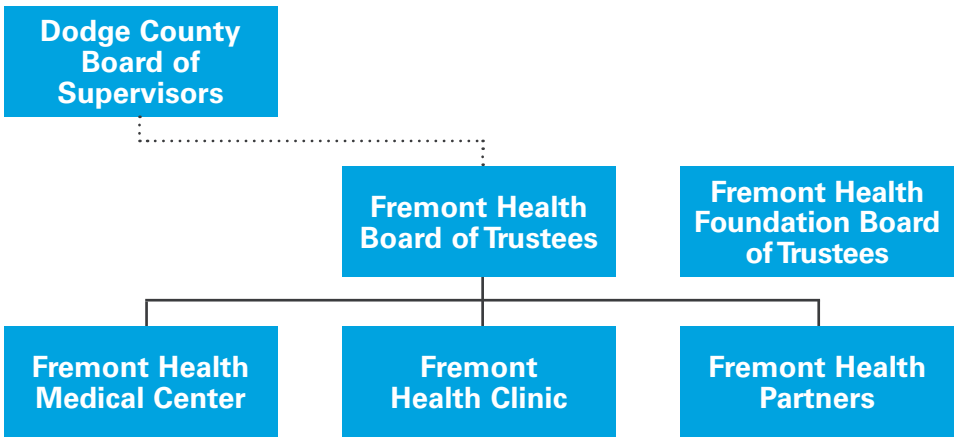
The prior Fremont Health board had seven "highly engaged" board members, and Booth wanted them to have every opportunity to continue serving the community and its healthcare interests after the merger. The new Methodist Fremont Health board includes four board members from prior to the merger, three new local members, and two seats reserved for directors appointed by Methodist (whether these are from the system board or one of the other subsidiaries is optional). Two of the Methodist Fremont Health board members sit on the system board, and the system ratifies all appointees to the Methodist Fremont Health board. The new board has a total of nine members now, including seven Dodge County residents, two of whom are from the Methodist Fremont medical staff. Going forward, the board will not exceed 12 members.

The fact that two of Fremont's board members also sit on the Methodist system board is very important to Fremont's board and leadership. "They were the only system we talked with that would give us a place on their health system board," Dr. Sellon recalled.

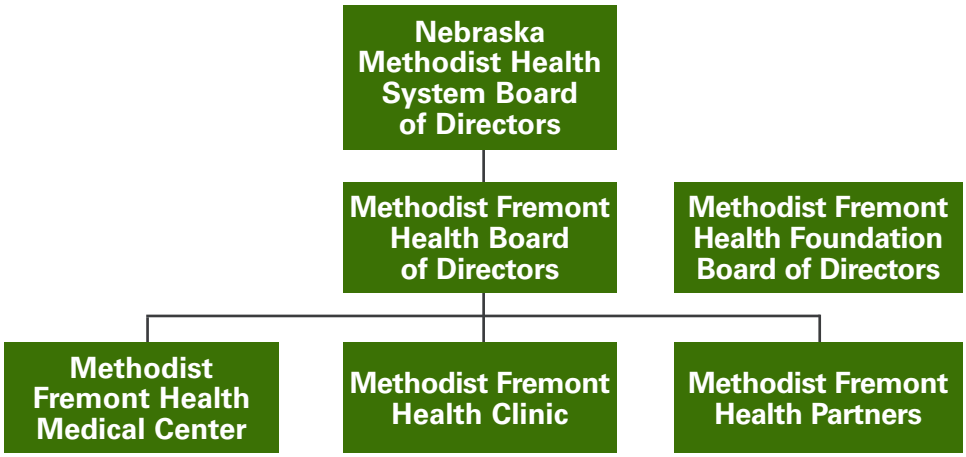
"The board is settling in very well," said Dr. Waring. "They're very experienced, and the two members from the system have been received with respect and friendly cooperation."

The remaining three prior Fremont board members agreed to be reappointed to the Fremont Community Health Resources board. Their remaining duties are to manage the property lease, to oversee the pension plan, and to ensure that Methodist Fremont Health adheres to the terms of the agreements. Consequently, there is no overlapping board membership or leadership between these two separate organizations.

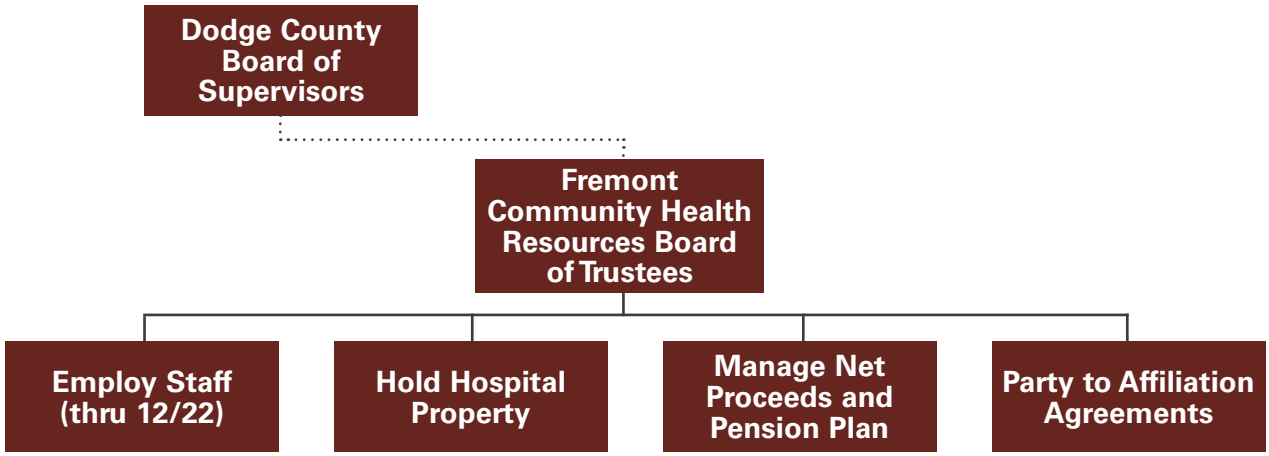
Fremont Health Structure Before Merger



Methodist Fremont Health Structure Today



Fremont Community Health Resources Board Structure Today



Lessons Learned and Looking Forward

Both Booth and Richmond emphasized that the most important thing they learned through this process is that it needs to be board-driven. It requires many hours of work on the part of the board to do the research and consider the options.

Secondly, while the clinical and financial considerations of a merger are important, it has to be a good cultural fit or it won't be successful. "Having the courage to look at things the way we did is essential," said Dr. Sellon. "You don't want to be the one who sold your hospital down the river, so to speak. But that isn't what this is. We are securing our hospital with a partner who will also be a partner to the community, with a like philosophy."

> "I don't know how you do this without getting outside counsel—an advisor like Juniper and good attorneys who have done this work before. I think you don't know what you don't know. It is well worth the cost to engage those resources and ensure that your community gets the best deal."
>
> *—Brett Richmond, President & CEO, Methodist Fremont Health*

Strong leadership—before, during, and after—is another critical component. "When Pat began to see the cracks form in Enhance, he had the wherewithal to see two years ahead that things were in trouble and prepare his board for that," said Dr. Hein. "I thought his leadership through the transitions really stood out."

After going through this experience, Goeser remains open to bringing other partners into Methodist if they are a strong cultural and financial fit. "We were very fortunate that this particular opportunity came forward. If there are others in the market that follow, we feel like we have a kind of blueprint now."

"The transition from inpatient to outpatient continues," Dr. Waring added. "Technology and pharmaceutical advances have greatly reduced the need for certain surgeries and other treatments that used to require hospitals. We have to be able to adapt to that as a hospital-based system going forward."