



The Honorable Mayor Mim McConnell and Assembly Members  
City and Borough of Sitka  
100 Lincoln Street  
Sitka, Alaska 99835

September XX, 2016

Dear Mayor McConnell and Assembly Members,

The Sitka Community Hospital (SCH) and SouthEast Alaska Regional Health Consortium (SEARHC) steering committee had its final meeting on August 25 with ECG Management Consultants (ECG) to review options for collaboration between SCH and SEARHC and identify the most promising strategy to secure and improve the quality of healthcare in Sitka. **We are writing to solicit your perspective regarding our findings, regarding recommendations to pursue integration of services.**

Key findings from ECG's internal and external assessment served as a foundation for the discussion:

- the impact of Medicare and Medicaid rate freezes, which when combined with Alaska's state budget crisis, could result in a decrease of up to 30 percent in Medicaid funding for SCH, increasing the need for City support while other demands on local funds are rising;
- steady increase in Sitka's senior population, which is creating higher demand for services while other age segments experience minimal growth;
- demand for more specialty providers; and
- excess capacity of costly inpatient space in Sitka.

ECG identified three options for collaboration between SCH and SEARHC: continuing the **status quo** of two separate organizations with minimal collaboration; collaborating through **selective and coordinated consolidation** of clinical and administrative services; and **comprehensive and integrated collaboration** with substantial consolidation and expansion of services.

In light of the information provided by ECG, it is clear that the **status quo** option of SCH and SEARHC continuing to compete for patients by offering duplicative clinical services represents a waste of resources in the short term, and a risk to Sitka's residents and health care workforce in the medium to long term. Pursuing business as usual will prevent both hospitals from investing in services and facilities that residents want and need. While each organization has overcome financial challenges in the past, financial pressures continue to present a real risk in the coming years.

**Selective and coordinated collaboration** would require a joint operating agreement (JOA) between SCH and SEARHC to consolidate clinical and administrative services, while combining efforts on high-priority expensive programs such as geriatric services and obstetrics. This option would require a shared workforce structure to consolidate providers into a single entity and recruit select specialty providers. Capital investments would be limited to the programs operated through the JOA and would require a framework to govern the SCH and SEARHC relationship. This option would expand certain specialty services, create some economic value and realize economies of scale in select services. SCH and SEARHC would continue to compete in other services and maintain duplicate clinical infrastructures outside the JOA. The time needed

structure to consolidate providers into a single entity and recruit select specialty providers. Capital investments would be limited to the programs operated through the JOA and would require a framework to govern the SCH and SEARHC relationship. This option would expand certain specialty services, create some economic value and realize economies of scale in select services. SCH and SEARHC would continue to compete in other services and maintain duplicate clinical infrastructures outside the JOA. The time needed to recruit specialty providers and increase volume would defer the realization of revenue for several years. We believe that this option would move in the direction of our vision for improved health care in Sitka, but would require investment in a complex strategy to develop, administer and monitor the JOA.

Based on the findings of our six-month process, it is clear that **comprehensive and integrated collaboration** has the potential to result in substantial expansion of services and financial stability for healthcare services in Sitka. Under this option, all clinical and support services would be consolidated into a healthcare delivery enterprise. Providers would be combined into a single entity and recruitment of additional specialists would be facilitated. Benefits would include optimization of reimbursements, better control of expenses, reduction of duplicative equipment and infrastructure, expansion of services, equipment and facilities, and reduced need for City support. To be successful, it may require compromises from both organizations, with each needing to agree on multiple facets of a combined organization including but not limited to employment practices, preserving the workforce, and providing culturally sensitive healthcare to all community members.

After reviewing the options, we believe that **comprehensive integration and integrated collaboration** offers the best long-term option to achieve our vision of a financially stable healthcare enterprise that will promote health and wellness for all residents of our community. While there are still many unanswered questions, and pursuing this option would require more research, trust building, and a longer timeline for implementation, we hope you will agree that the potential benefits are worth considering and you will support expanding the conversation.

As a next step, ECG will be presenting the committee's work to both the SCH and SEARHC boards and to the Assembly in public meetings. If you and our governing entities agree that our findings and recommendations merit serious consideration, we would move forward with a process to develop a framework for comprehensive integration. We look forward to discussing our recommendation with you in the near future.

Sincerely,



Rob Allen, CEO  
Sitka Community Hospital



Charles Clement, President/CEO  
SEARHC