

Employing Foundations and Licensed Clinics as Tools for Physician Alignment

Jill H. Gordon & Gerry Hinkley
Davis Wright Tremain

Walter Kopp
Medical Management Services



Overview

- Understand the models
 - Hospital-sponsored foundation
 - Hospital-based clinic
 - Hospital sponsored community clinic
- Identify business considerations
- Legal analysis
- Negotiate, plan & implement

Why Develop a Clinic?

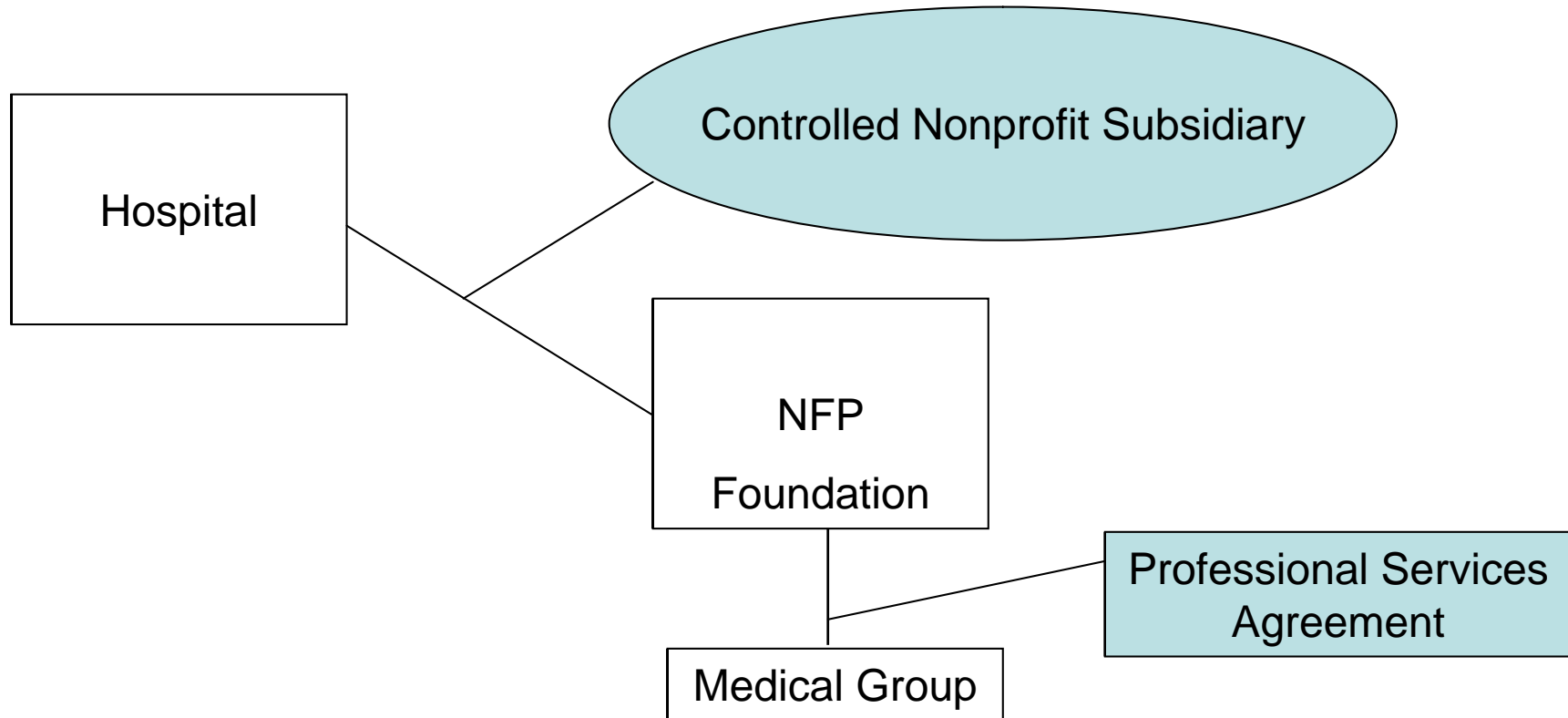
- Level the playing field with statewide and regional systems
- Provide a stable structure for physicians
- Provide a solution to meet community needs
- Help build a cohesive cohort of physicians that will provide a partner for the hospital
- Develop a physician brand associated with the hospital

Legal Structures

- Foundation – H&S Code 1206(I)
- Hospital based clinics – H&S Code 1206(d)
- Community Clinic – H&S Code 1204

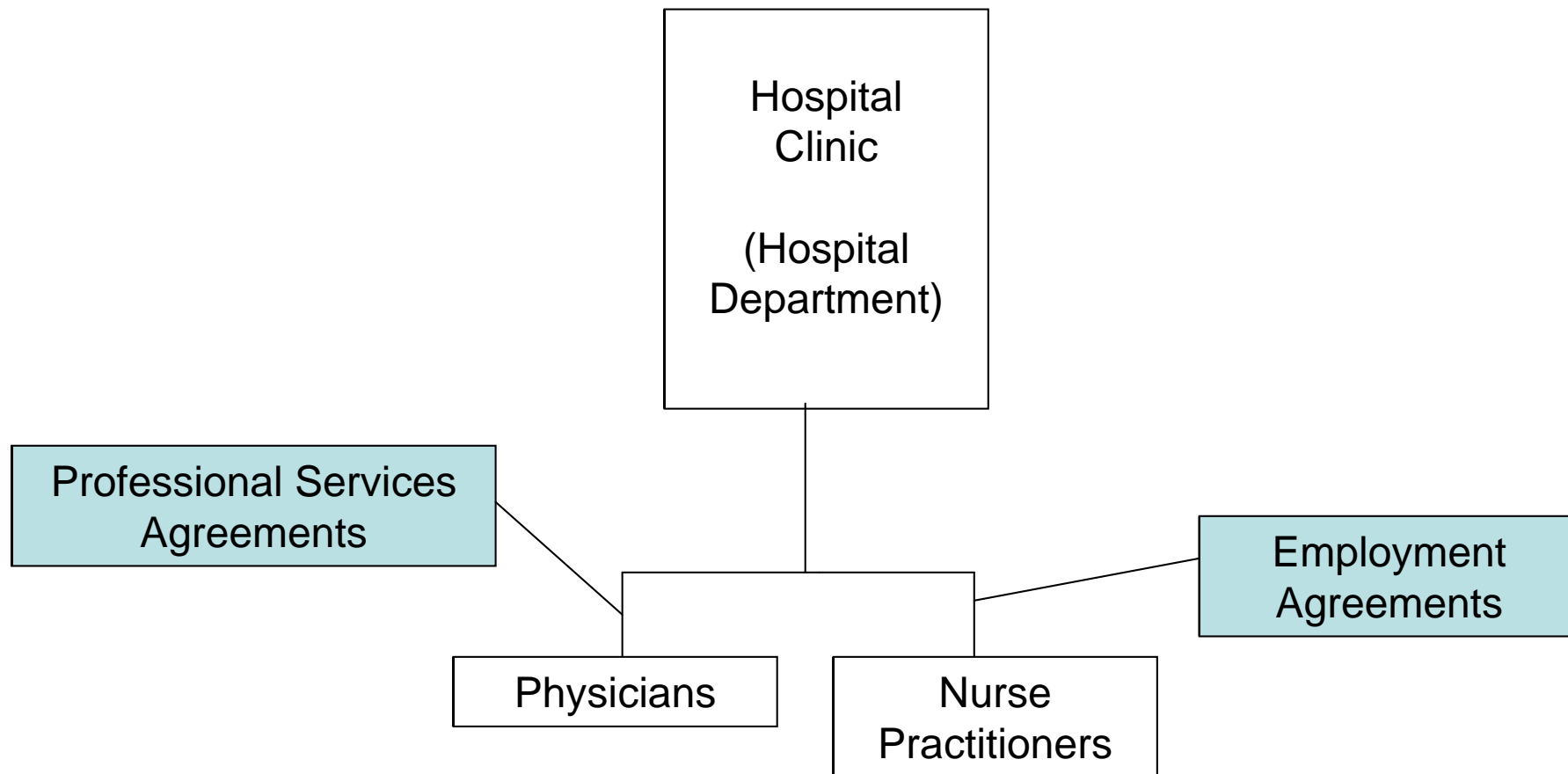
Foundation

Health & Safety Code Section 1206(I)



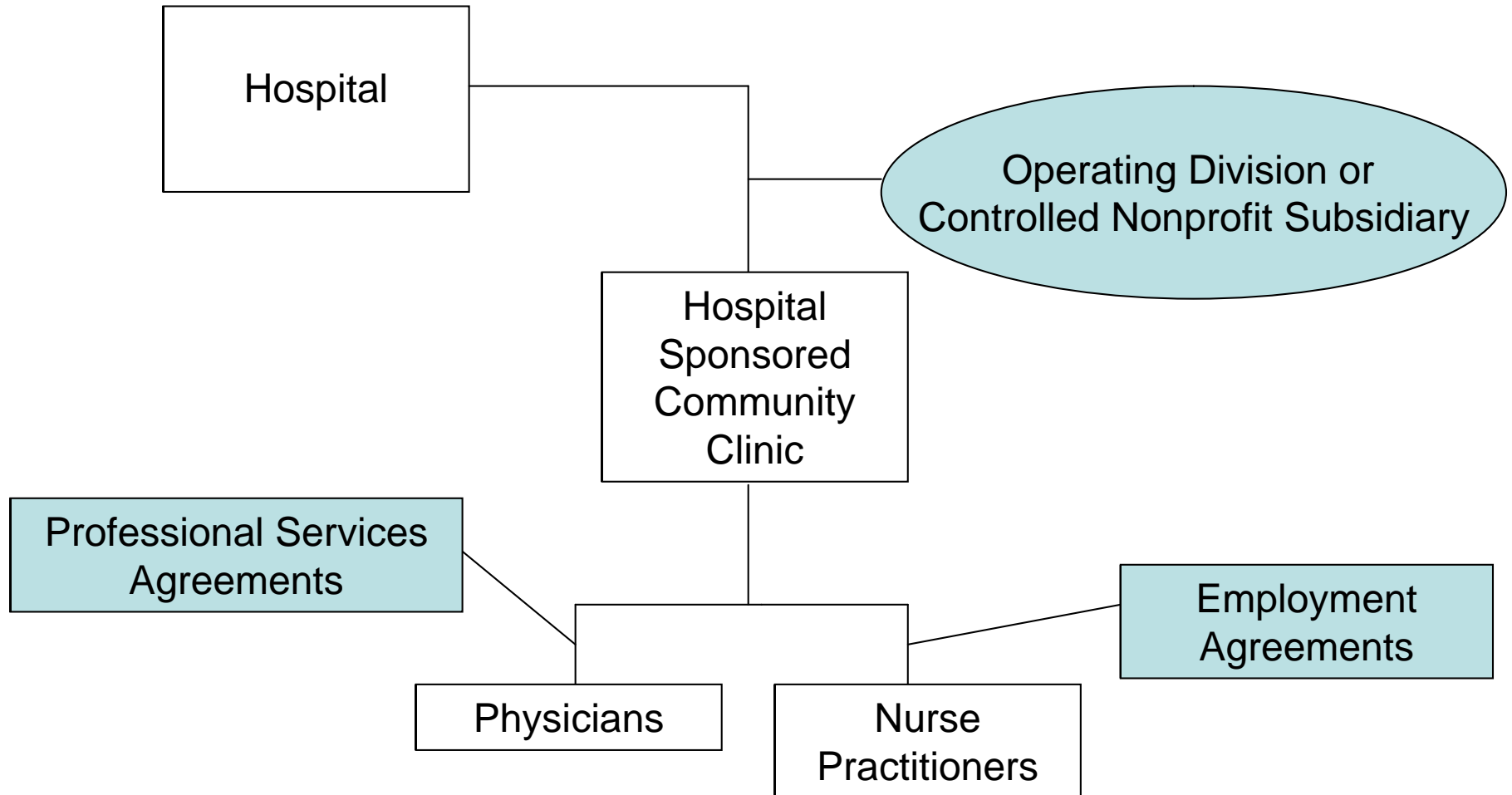
Hospital-Based Clinic

Health & Safety Code Section 1206(d)



Hospital Sponsored Community Clinic

Health & Safety Code Section 1204(a)



#1 Requirement of Success

- Clearly Articulated Business Goals
 - Drives the structure
 - Drives the regulatory underpinnings

Business/Regulatory Starting Point

- What are the “drivers” to do the deal?
- What are each party’s end goals?
- What is the value proposition?
- What structure is possible/desirable under our facts?
- Can this structure help better position the hospital with the physician community?

Business/Regulatory Starting Point

- Should the hospital support a separate structure to manage all outpatient services?
- How can the hospital best work with physicians to best serve the community?
- Are the support systems in place adequate?
- Is the IT structure adequate?
- What are the critical success factors?

Hospital Perspective

- Strong primary care/specialist base
- Physician recruitment
- Market growth/penetration
- Cost containment
- Increased quality/efficiency
- Market stabilization

Physician Perspective

- Income stability
- Decreased business risk
- More/less administrative involvement
- Ability to expand/recruit
- Access to improved management/systems
- Benefits
- More certain hours of work
- Exit strategy

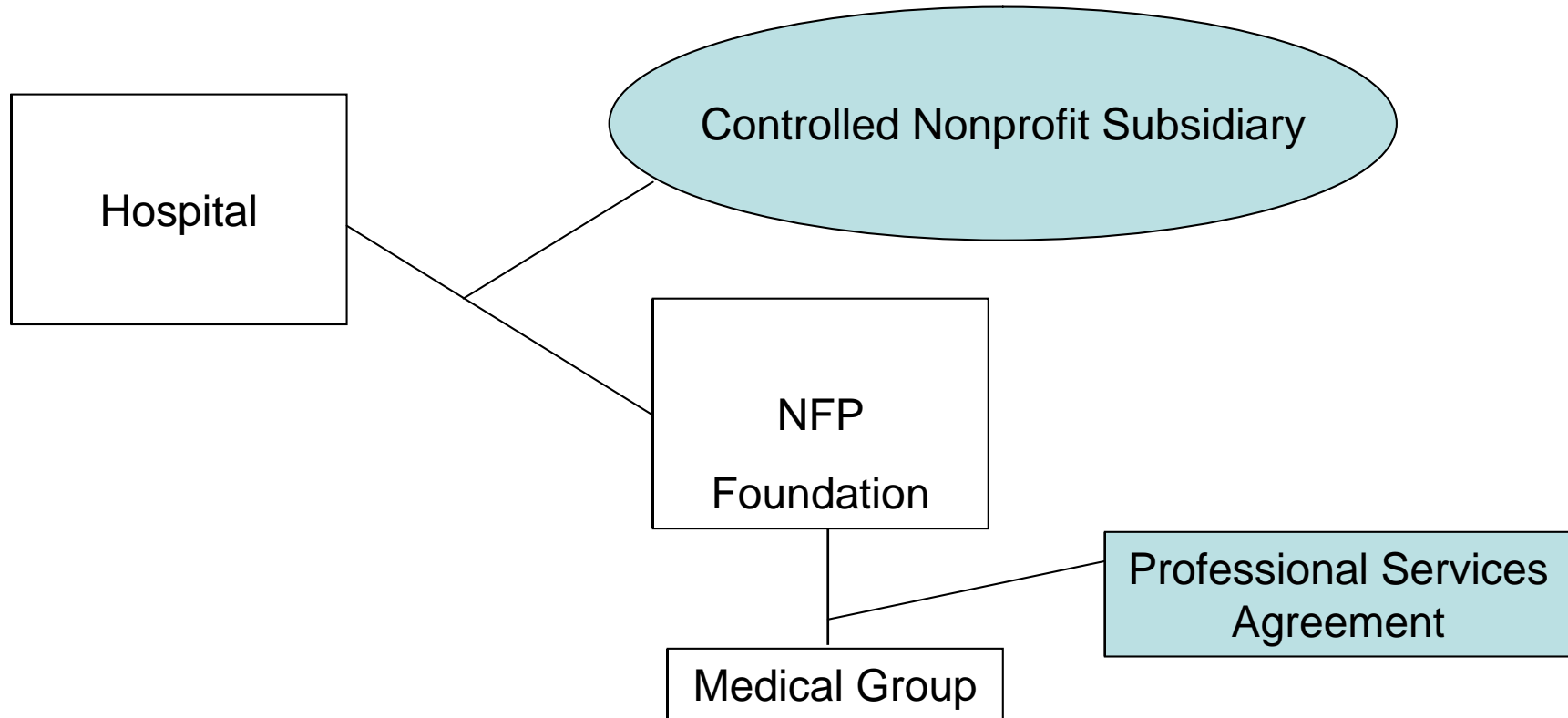
Legal Issues

- Antitrust
- Payment
- Tax Exemption
- Anti-kickback/Stark
- Employee Benefits
- Employment & Labor Laws
- Licensure & Accreditation/Records
- Corporate Practice of Medicine
- Medical Staff

Finding the Best Legal Structure

- Foundation
- Hospital-based clinic
- Community clinic

Foundation



Foundation –

Health & Safety Code Section 1206(I)

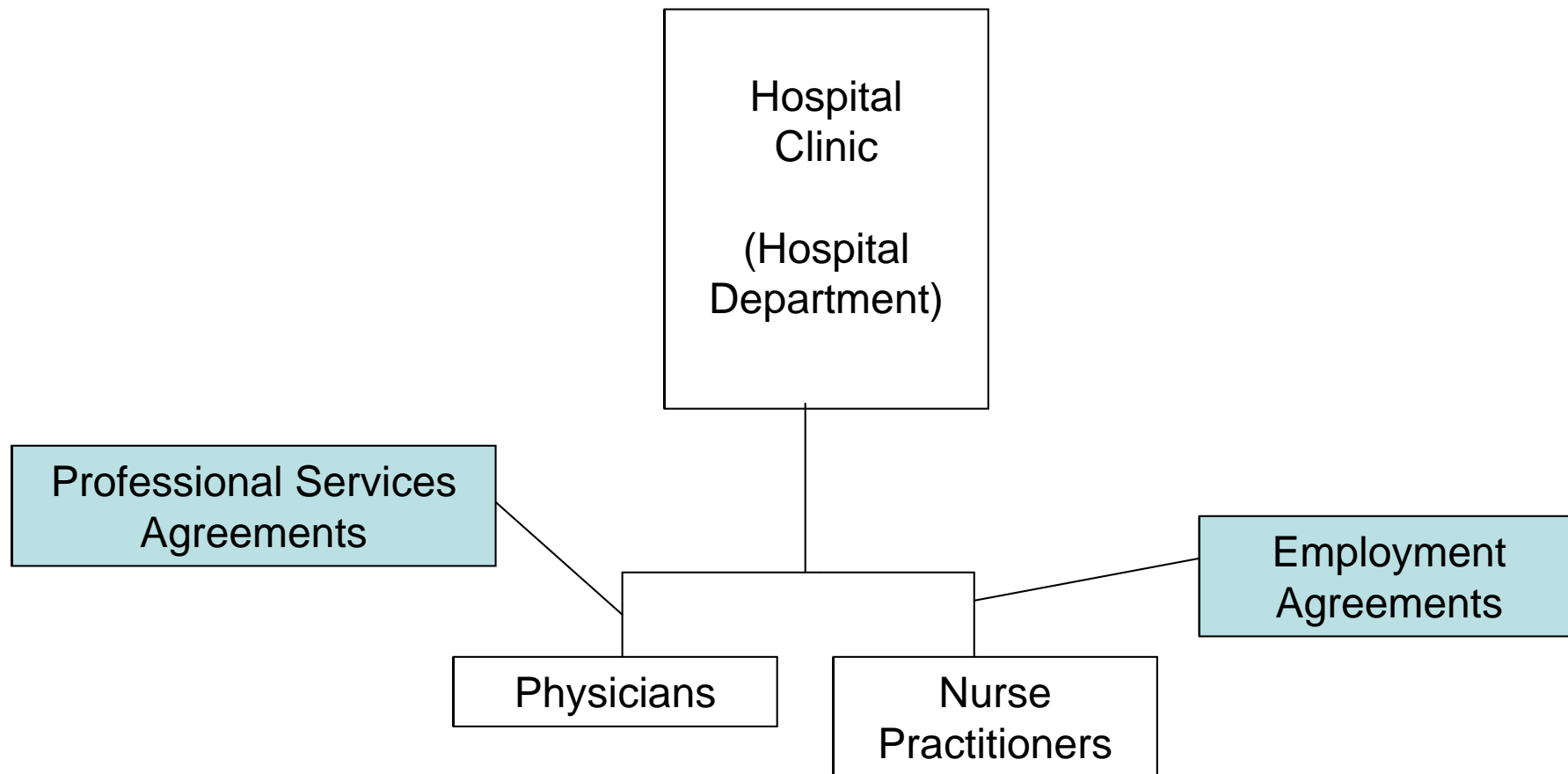
- Operated by nonprofit tax-exempt corporation (*i.e.*, IRC Section 501(c)(3))
- Provides health care services to patients through a group of 40 or more physicians and surgeons, who are independent contractors
- Such physicians must represent 10 or more board certified specialties
- At least 2/3 of such physicians practice on a full-time basis at the clinic
- Conducts medical research and health education

Foundation Pros and Cons

- Pros
 - Exempt from clinic licensure
 - Creates a physician focus/brand
 - Balance of control between hospital and physicians
- Cons
 - Physicians in a group
 - Numbers/specialties creates a high hurdle
 - Complex implementation
 - Threat to independent practitioners

Hospital-Based Clinic

Health & Safety Code Section 1206(d)



Hospital-Based Clinic –

Health & Safety Code Section 1206(d)

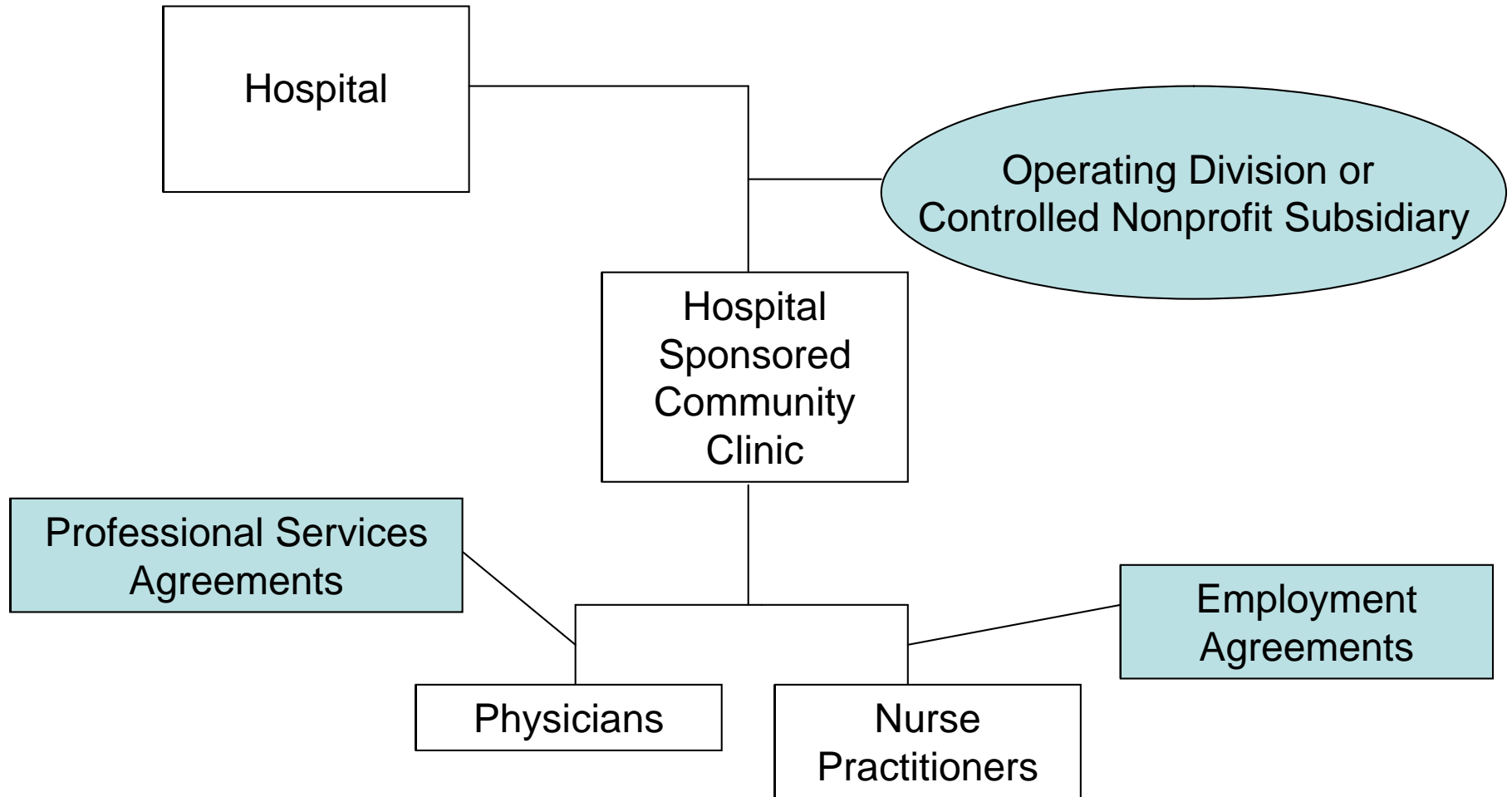
- Clinic conducted, operated or maintained as an *outpatient department* of a hospital
- Part of hospital license
- Joint Commission accreditation
- Must comply with “provider-based” rules

Hospital-Based Clinic Pros and Cons

- Pros
 - Individual physicians
 - Incremental approach
 - Ease of implementation
- Cons
 - Licensure
 - Facility requirements
 - Perception that the clinic is part of the hospital
 - No physician brand

Hospital Sponsored Community Clinic

Health & Safety Code Section 1204(a)



Hospital Sponsored Community Clinic

Health & Safety Code Section 1204(a)

- Operated by nonprofit, tax-exempt organization
 - Hospital
 - Separate entity affiliated with hospital
- Fees based on ability to pay
- Broad range of services not requiring specialty license (e.g. ASC, dialysis)
- Physicians may be W-2 provided professional services agreement comports with corporate practice prohibition
- Licensed by DPH
- Facility subject to OSHPD 3 – but can be achieved in 3 years

Community Clinic Pros and Cons

- Pros
 - Individual physicians
 - Incremental approach
 - Ease of implementation
 - Physician brand
- Cons
 - Licensure
 - Facility requirements

Implementation Work Plan

- Organizational Structure
- Physician Leadership
- Physician Service Contracts
- Payor Contracting
- Management Systems
- Space
- Marketing
- Staffing
- Policies and Procedures

Implementation Challenges - Legal

- Facility requirements – OSHPD 3
- Joint Commission vs AAHA
- Licensing
- Professional services agreements
 - Independent control of professional services
 - W- 2 vs independent contractor status for physicians
 - Compensation – base and bonus
 - Benefits
 - Exclusivity
 - Nose and tail insurance coverages
 - Rights/obligations in case of termination on clinic closure

Implementation Challenges - Business

- Readiness and capability of staff
- Medical practice management expertise
- Cash flow projections
- Billing transition
- Contracting
- Harmonizing divergent cultures
- Herding the lone of the lone cowboys
- Hospital requirements vs clinic needs

Questions and Comments

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Contact us

- Jill Gordon
Davis Wright Tremaine LLP
(213) 633-6875 ~ jillgordon@dwt.com
- Gerry Hinkley
Davis Wright Tremaine LLP
(415) 276-6530 ~ gerryhinkley@dwt.com
- Walter Kopp
Medical Management Services
(415) 457-5023 ~ walter@walterkopp.com