In the midst of today’s challenges, there are several physician organizations that have set their objective on being successful. Although this represents a significant challenge, the physician organizations profiled in this publication are committed to remaining viable health care provider models well into the future.

Profile:
Bay Valley Medical Group, Inc.
Hayward, California

Bay Valley Medical Group, Inc., founded in 1954, consists of an integrated group practice (30 physicians) and a “wrap-around” IPA of 325 physicians representing all medical specialties. The integrated group physicians are employed by Bay Valley Medical Group (“BVMG”). Affiliate physicians are part of the IPA provider network and are independent contractors with BVMG. Bay Valley Management, Inc. (“BVM”) is a management services organization (“MSO”) that implements policy and oversees the business operations for the medical group and the IPA.

BVMG holds nine capitated managed care contracts and numerous other agreements with PPOs, Medicare and private and commercial payers. The total patient base served is 26,000 capitated enrollees and 30,000 fee-for-service patients. Membership and revenues have been increasing at an average of 15 percent annually during the past several years.

BVMG upholds the philosophy that physicians working together can most effectively lead the delivery of health care. BVMG has maintained its independence while other organizations have merged or restructured. BVMG’s direction of financial and operational management is derived from stable governance, conservative fiscal management and prudent business planning.

What are the Critical Success Factors?

▲ Sound organizational infrastructure. The size and capabilities of the infrastructure must accommodate the volume of patients and the complexity of relationships with physicians and payers. Many groups grow too fast and too large, without a strong foundation upon which to support their business activities. The physician organization must engage leadership and staff who are committed to making the organization a success. This includes building an effective Board of Directors, a competent management team, and qualified, service-oriented staff.

▲ The needs of the group must take priority over the wants of the individual. Security and stability for individual physicians and employees is critical. However, individual benefit can only be attained through group success.
The Future of Independent Physician Associations

△ Prudent fiscal management. BVMG has a basic rule of not spending more than it earns. The organization retains earnings to fund planned and unexpected events. Financial solvency is critical to maintaining independence and to being able to weather a downturn in the industry. The annual budget process is necessary to anticipate financial needs and future performance. Along with the strategic business plan, this process serves as the guiding light for the organization.

△ Pay consistent and close attention to the core business (operations). The devil is in the details. Managing a medical group requires steadfast attention to front line service and business support functions. These activities cannot be ignored without resulting in a breakdown of care and service to patients or providers.

△ Physician leadership is critical. Physicians and other clinical staff must understand patient needs. Their perspective is valuable and their input should be incorporated into major strategic and business decisions.

What are the Key Indicators Used to Monitor Your Organization’s Performance?

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| Managed Care Contracts | Accuracy of payments                                                   |
|                       | Profitability by product line                                          |
|                       | Capitation yields                                                      |
|                       | Division of Financial Responsibility ("DOFR")                         |
|                       | Shared risk paid claims data                                           |

Emerging Trends and Focus for the Future

△ The delegated model appears vulnerable. Despite the managed care achievement of reducing health care costs, there is tremendous “push-back” from individual patients for more care and unrestricted access. Payers and regulators are reeling from recent provider group bankruptcies and closures. Employers see premiums escalating and yet both solo practice and group providers are finding it increasingly difficult to sustain a nominal profit margin.

△ Greater attention should be given to solidifying integration between providers and payers. Any failure to address this challenge will negatively impact the effectiveness of managed care in the market place. All of the time and attention devoted to negotiating contracts and battling over dollars diverts precious energy from improving the product of health care and service.

△ The next year will continue to be difficult as reimbursement remains tight and operating expenses rise. Compensation and benefits is the largest expense category for a medical group. With today’s labor market pressures, groups must remain competitive and creative to provide an attractive working environment and recruit and retain talented employees.

About The Camden Group

The Camden Group has been providing consulting and management services exclusively to the health care field since 1970. With more than 1,000 clients located in 38 states, we serve regional health care systems, national proprietary systems, community non-profit organizations, university medical centers, government-controlled organizations, IPAs, medical groups, health plans, and individual physicians.

The health care professionals on our consulting staff are adept at:
- Strategic and business planning
- Financial and operational improvement (including turnarounds and interim management) of hospitals, IPAs, and medical groups
- Medical group and health care business valuations
- Facility planning
- Community health needs assessments
- Health care organization mergers and network development

Our consultants can be reached at (310) 320-3990 • fax (310) 606-5811

For additional information about The Camden Group, check out our website at www.TheCamdenGroup.com, which is updated monthly.

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Strata Decision Technology
Profile:
Greater Newport Physicians IPA
Newport Beach, California

Greater Newport Physicians IPA (“GNP”) was founded in 1985 by a solo physician. This IPA is structured as a for-profit professional corporation. GNP has an agreement with Hoag Hospital to provide inpatient services to its IPA patients. This IPA model serves as a vehicle to allow more than 250 private practice physicians to participate in managed care contracts. Presently GNP is managing an estimated 132,000 capitated lives in the Orange County service area. During the past three years, GNP has experienced consistent growth in its market area. PacifiCare comprises about one third of GNP’s managed care enrollees. CIGNA, Blue Shield and Aetna are the other HMO contracts for GNP.

GNP embraces the philosophy that successful physician organizations engage physicians as partners. The success of GNP is rooted in prudent fiscal management with a focus on its core business purpose of providing quality patient care.

What are the Critical Success Factors?

▲ Engage physicians as partners, particularly in governance and significant financial operations. Physicians in a leadership role must understand the challenges of the organization and any issues confronting the organization. This is an ingredient for the organization’s success.

▲ Ensure that incentives are appropriately aligned with providers to produce the desired financial and operational performance.

▲ Take the necessary steps to make certain that the organization’s Incurred But Not Reported (“IBNR”) liability is fully funded.

▲ Exercise prudent management to ensure that the organization continues to operate within the established budget.

This will mean establishing systems to make sure that the organizations’ fiscal resources are managed appropriately.

▲ Maintain a commitment to providing quality patient care and demonstrate the organization’s quality through outcome data and other measurements.

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Emerging Trends and Focus for the Future

▲ The industry will continue to operate with capitation reimbursement as a payment model. Physician organizations should push to have health plans fund (reimburse) physician groups for changes in the benefits and new technologies being offered to patients.

▲ Hospitals will continue their migration back to fee-for-service reimbursement methods to ensure that they meet their internal cost structure.

▲ While direct contracting between health plans and providers may continue, providers must carefully review this option to ensure that it will be in their best interest. In fact, they should evaluate these contractual relationships with regard to their existing IPA relationships to assess the most beneficial option.

Diane Laird
Sr. Vice President
Greater Rochester IPA (“GRIPA”) was founded in 1995. GRIPA is a joint venture between 3 physician organizations (Rochester General PO, The Genesee PO and Wayne County PO) and ViaHealth Managed Care Services. GRIPA is structured as a for-profit entity and currently serves over 120,000 members: 40,000 HMO members and 60,000 PPO members. It has revenues of over $150 million. This regional integrated health care network and physician partnership is the premier provider of a continuum of health care services and physician services in the Finger Lake Region of New York. It consists of over 800 physicians and the ViaHealth affiliates including nationally recognized Rochester General Hospital.

GRIPA is contracted with several major health plans, including a joint venture between Blue Cross and Blue Shield, ViaHealth Plan, Preferred Care Commercial and Gold. GRIPA’s major PPO plans are Parker Hannifin, Statewide and HealthNow of New York.

GRIPA has developed a philosophy of exercising sound financial management in operating its business. GRIPA acknowledges that it must continue to demonstrate its value and worth to patients, providers and payers.

What are the Critical Success Factors?
▲ Establish and maintain effective physician and hospital relationships that enable the organization to work in a unified manner with health plans and providers.
▲ Gain a clear understanding of the community’s health needs so that our organization can be responsive to market changes.

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Critical Challenges
GRIPA has several unique challenges that it must address. Two significant challenges facing the organization are:
▲ Completing the establishment of an effective information technology data warehouse in order to maintain/improve access to information.
▲ Maintaining a competitive provider and hospital compensation program. An effective program must be able to provide high quality services while maintaining the appropriate incentives to influence behavior, as well as not jeopardize the financial well-being of the organization.

Emerging Trends and Focus for the Future
▲ Health care organizations must focus on proving their worth to owners, patients, payers as well as to external regulators.
▲ Capitation will continue to be a key form of reimbursement. However, providers will be seeking to assume less risk for patient care in the future.
▲ We will most likely see an increase in reimbursement rates being paid to providers, including IPAs and physicians. On average we expect this rate increase to be in the range of low double digits for several years.
Profile:

Bright Medical Associates

Whittier, California

Jennifer L. Jackman, Chief Executive Officer
David Wortham, MD, MBA, Medical Director

Bright Medical Associates (“BMA”) operates an IPA, which was established in 1985 and a multispecialty medical group, which was established in 1990. These entities are structured as for-profit professional corporations. BMA also owns Integrated Medical Management which operates as an MSO to provide administrative services to both the IPA and the medical group. BMA utilizes Presbyterian Intercommunity Hospital in Whittier, California.

BMA is contracted with several major health plans including PacifiCare, Aetna, Blue Cross, Blue Shield, HealthNet and Maxicare, with the majority of its lives with PacifiCare. Presently, BMA manages an estimated 64,000 capitated lives. Approximately 85 percent of the business is HMO patients and 90 percent of these lives are enrolled with BMA’s medical group. During the past three years, BMA has experienced moderate growth representing ten percent growth in 1998, 4.5 percent growth in 1999 and an estimated 3 percent in 2000.

BMA embraces the philosophy of prudent fiscal and operational management, cohesive partnerships between physician leaders and administration and clear focus on its core business objective – providing quality patient care.

What are the Critical Success Factors?

- Establish and maintain effective hospital relationships that enable the organization to work in a unified manner with health plans and providers.
- Gain a clear understanding of the community service area so that our organization can be responsive to market changes.
- Exercise prudent and diligent financial management.
- Remain focused on our core business functions. To embrace a successful future we continue to assess our strengths and weaknesses. We also analyze the cost-benefits of future business developments. Before we embrace new business ventures we determine the value to our patients and our organization. The outcome of that assessment becomes the basis for our decision.
- Physician organizations must engage physicians as partners. There must be a partnership between the administrative and the physician leadership. Together they both must understand what it will take to be successful. Both the physician leadership and administrative team must understand the value in making decisions that are best for the organization and not just for themselves as individuals.

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Emerging Trends and Focus for the Future

- Although market consolidation will continue in the coming year, the IPA and medical group models will survive. These models are an important health care delivery vehicle, since they offer a method to provide broader service area coverage that is attractive to both health plans and patients. Along with the IPA model we will also experience an increase in provider affiliations; that is, IPAs and medical groups forming unique affiliations with other health care organizations (e.g., hospitals and health plans).
- The HIPAA regulations will challenge physician organizations in the coming year to make the improvements in their operating systems.
- Physician organizations must become more involved and aware of new legislation being proposed to ensure that legislators are not enacting policies that would severely impact IPAs and medical groups both operationally and financially.
- Need for better/advanced information technology to improve communication with providers and patients.
Announcing Victor E. Schimmel Scholarships for Advanced Degrees in Nursing

Beginning in 2001, The Camden Group will begin offering two scholarships in memory of Victor Schimmel to ACNL members who are enrolled or accepted into programs for advanced degrees in nursing.

Interested individuals may contact Barbara Patton at BPatton@TheCamdenGroup.com or visit The Camden Group’s website at www.TheCamdenGroup.com

Watch for details to be announced at the ACNL 2001 Annual Program in Costa Mesa on February 11-14, 2001

In loving memory of our dear friend and colleague Victor Schimmel
1949 to 2000

The Camden Group is pleased to announce that Thomas S. Kumura has joined its Health Care Consulting Practice.
Mr. Kumura specializes in:
- Financial analysis
- E-Health business plans
- Financial restructuring and divestitures
- Joint venture development
- Fair market valuations and fairness opinions
- Mergers, acquisitions and capital formation

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