
The First Fourteen Months of Operation of MCP Hahnemann University by Drexel University

November 1998 - February 2000
A Review of Achievements

Executive Summary

I.

Introduction

Just over a year ago, Drexel University ("Drexel"), at considerable risk, undertook the sizable challenge of operating and restoring to viability a neighboring medical and health services school, Allegheny University of the Health Sciences ("AUHS"), which had been placed into bankruptcy by its former stewards. Drexel was acting at the behest of Tenet Healthcare Corporation ("Tenet"), which had acquired AUHS and eight affiliated hospitals out of bankruptcy, and needed a strong academic overseer as a partner to manage the educational enterprise. Notably, this includes a school of medicine with about 1,000 students, ranking it as the largest private medical school in the nation, and the fourth largest medical school overall.

In so doing, Drexel was also responding in a civic-minded way to a serious imperative driving both the City of Philadelphia and the Commonwealth of Pennsylvania: the preservation of some 15,000 jobs associated with the Tenet purchase. More than that, however, Drexel saw a unique opportunity in the AUHS relationship to set a standard for medical education in the 21st century: one combining its own business and technological expertise with the art and science of healing. It is this vision, first and foremost, which has propelled a remarkable set of achievements.

MCP Hahnemann University ("MCPHU" or "the University") was created in the wake of the highly publicized bankruptcy of the Allegheny Health Education Research Foundation ("AHERF"), a number of its subsidiaries which owned and operated hospitals, and AUHS. The voluntary filing occurred in July 1998. In September 1998, a \$335 million offer by Tenet was accepted by the bankruptcy court, which resulted in Tenet's November 11, 1998 acquisition of substantially all of the assets of these entities, which included the eight hospitals, and a university comprised of four schools, the largest of which is the medical school. The agreement governing the asset purchase provided for the creation of a new Pennsylvania nonprofit corporation, Philadelphia Health & Education Corporation ("PHEC") to receive the AUHS assets and operate the schools. The hospitals were converted to for-profit institutions.

From the beginning, it was clear to Tenet that it would need a strong academic institution as a partner in order to responsibly run and manage the University. Tenet approached Drexel University at the suggestion of Manuel Stamatakis, who is both a PHEC and a Drexel trustee. After intense negotiations, on October 26, 1998, the Drexel board unanimously approved an agreement whereby it would assume half of the governing seats on PHEC's board, and operational responsibility for the University. The length of Drexel's commitment was phased, and included a June 30, 1999 decision point allowing for either withdrawal or a two year extension.

An Academic Affiliation Agreement governs the relationship between Tenet Philadelphia and PHEC. Its most significant effect was financial, as it delineated initial capitalization for the University of \$125 million, plus a contribution of \$60 million in endowment funds, and detailed ongoing lease arrangements for academic space and certain equipment.

It is nearly impossible to overstate the degree of disarray within MCPHU which confronted the new leadership on November 11, 1998, their first day in charge. Enormous losses in the months prior to bankruptcy - estimated at \$1 million per day for the system as a whole, and as much as \$90 million for the year for the academic sector alone - had stripped the Schools of operating infrastructure, including managers, information systems, and endowment and grant money. Academic ranks thinned as faculty fled. Students were left in confusion.

II.

Drexel's Strategy in Approaching the Challenge

From the beginning, Drexel clearly appreciated the extent of the challenge at MCPHU. To avoid being overwhelmed by the magnitude of the detail, Drexel devised and invoked a straightforward but aggressive three-tiered strategy to manage the tasks ahead.

- Create a new management team - by 12/98; and phase out dependency on consultants by 9/99
- Build a new management information system - by 7/99
- Assess and adjust the School of Medicine faculty - by 12/99

Overarching these, of course, was an ongoing detailed financial and situational assessment aimed at stemming losses immediately. The idea was to move as quickly as possible to make high impact positive changes in a responsible way. The strategy built on Drexel's significant internal strengths in management and technology. It also was sufficiently flexible to permit nimble coping with the certainty of unforeseen difficulties bound to surface as the new team dug in.

Management Team With respect to management, when Drexel took over, the University was being run by a combination of remaining managerial employees - most of whom were in staff positions rather than line - and a cadre of outside consultants. President Constantine Papadakis's immediate step was to take his own top managers, and extend their Drexel University responsibilities to include parallel tasks at MCPHU. With no adjustment to their existing "Drexel alone" compensation, they replaced AHERF and AUHS executives who had been earning in total more than \$12 million.

The managerial levels at the University's School of Public Health, School of Health Professions, and School of Nursing staffs remained relatively stable, and were smoothly integrated into the Drexel structure. However, with respect to the School of Medicine, notably missing from the combined Drexel/MCPHU organization chart was anyone with credentials specific and essential to leadership in medical education. After months serving in a key clinical affairs consulting capacity, Warren Ross, MD was named interim Dean of the School of Medicine on February 19, 1999. Shortly thereafter, Michael Bradley, a prominent Philadelphia healthcare executive, was engaged by President Papadakis to serve in an advisory capacity, and he subsequently took on the added role of Senior Associate Dean of the School of Medicine. In the months following Drexel's arrival at MCPHU, these individuals worked closely together with Drexel's administrators and with the department chairs to identify and fill further staffing requirements, and to phase out the consultants as suitable permanent replacements could be hired.

Management Information System The information systems inherited from AUHS were in shambles. There had never been a carefully planned overall systems architecture. Rather, the systems had been cobbled together as the result of numerous mergers and acquisitions. As the entire Allegheny enterprise sank into financial difficulty, all the systems further suffered from inadequate maintenance, lack of upgrading, and insufficient staffing.

Drexel's response to this environment, under the leadership of John Bielec, CIO, was two-pronged. Immediately, they needed to stabilize and keep operative the systems which were in place, however inadequate, to be able to continue conducting business. They also developed a plan to rapidly migrate all mission critical information systems to the Drexel protocol in six months - a timetable so aggressive as to be virtually unheard of.

Drexel met the urgent requirements by copying the existing software and data files from the Pittsburgh-based mainframe, and installing them at the SMS data center in Malvern,. This provided support and proximity, which improved the immediate situation. The six month plan, however, was to transition all of MCPHU's data processing requirements to a new, independent client server (instead of the mainframe) structured as a separate "campus" under Drexel's systems umbrella. Remarkably, this was achieved.

Drexel's network achievements have also been impressive. Their goal was to provide a reliable, state-of-the-art data and video network with a single point of contact linking the University, Drexel, and the Tenet Philadelphia hospital network. This was accomplished by replacing all network equipment in the New College, Bellet, and Queen Lane buildings. Drexel also outfitted a number of MCPHU constituencies with new microcomputers (administration 130, faculty 75, and the clinical practices over 200), and provided hardware and software training.

Perhaps most reassuring to the MCPHU community has been the enormous commitment to technology support that Drexel has brought to the table. All systems are supported at the Korman Center, located on the Drexel. Drexel provides round the clock data center help, just-in-time resources as needed, and dedicated staff to MCPHU.

In light of the size and scope of what has been accomplished in technology at MCPHU, it is worth noting that the entire Drexel University Information Resources & Technology staff numbers 65, with an additional four or five contract workers.

Assess and Adjust School of Medicine Faculty Prior to the bankruptcy, there were nearly a thousand full-time faculty members in the School of Medicine's basic sciences and clinical departments. Given the size of the University and its teaching requirements, the number was higher than needed, particularly in light of the sizable base of a separate group of part-time and volunteer faculty. Beginning with the bankruptcy and its fallout, however, faculty members began departing for other opportunities. The full-time ranks now number about 550.

The University's ongoing challenge with respect to faculty is twofold: improving the productivity of the existing faculty (particularly those involved in clinical practice), and recruiting needed replacements. The former topic is handled in more detail below. With respect to the latter, however, since Drexel's arrival, there have been six open chairs in the clinical departments, and a seventh is pending. Two of these chairs have been replaced, a third is close to being finalized, and for the remainder, interviews are underway. In all of these endeavors, the University has been working closely with Tenet Philadelphia.

The Department of Pediatrics, because of its unusual structure, has presented the opposite problem. Over time, as financial analyses of the faculty expenses were completed, it became evident that the single largest problem area for the University from a financial perspective was pediatrics. This stems from an unusual provision in the Academic Affiliation Agreement whereby Tenet Philadelphia purchased St. Christopher's Hospital for Children from AHERF without the salaried physicians on staff there. The salaried pediatricians were housed in AUHS - about 110 in total. Thus, when the AUHS transfer to MCPHU occurred, the pediatricians went to MCPHU. This, in effect, separated a major expense from its related major source of revenue.

This information prompted serious negotiations between MCPHU and Tenet Philadelphia. It was decided that MCPHU would exercise its right to issue non-reappointment notices to the entire department for dismissals effective June 30th, 2000. In turn, Tenet Philadelphia has agreed to hire all but approximately twenty of the pediatricians. However, the

University has agreed to absorb approximately \$15 million in associated losses for fiscal year 2000. Thereafter, under a new affiliation agreement, the School of Medicine will provide Tenet Philadelphia's St. Christopher's Hospital for Children funding to compensate for pediatric teaching time, and has agreed to incur net costs of up to \$2 million annually for those services.

III. Addressing Urgencies

While Drexel was able to both articulate and immediately begin implementation of the strategic initiatives described above, other matters surfaced - some quickly and some over time - which required serious management focus. Attending to them served mainly to preserve the status quo, but failing to address them would have put the University at enormous downside risk.

The amount of "red tape" associated with the renaming and reorganization of the University proved to be staggering. Among the tasks the new management team faced were the creation of a new legal entity (PHEC); physician reregistration with payers; alien reregistration with the INS; retroactive employee expense reimbursements.

Preserving the medical school's accreditation was another significant challenge. In May of 1999, the Liaison Committee on Medical Education ("LCME") conducted a survey visit of the MCPHU School of Medicine, and continued its accreditation. Then, with no additional on site review (a breach of its own protocol), the LCME issued a letter on October 20, 1999, proposing to place the School of Medicine on probation. The letter expressed concerns about the adequacy of the patient base and clinical teaching facilities; what it termed "deficiencies" in faculty numbers; the Medical School's financial condition; and class size relative to facilities and support services. Dean Warren Ross responded to the letter with a detailed, point by point rebuttal in December. The result of the appeal by Dr. Ross was the determination by the LCME to rescind its decision to place the educational program of the School of Medicine on probation. However, it should also be noted that the LCME is closely monitoring the situation. It has planned a limited survey visit in May of 2000, and in the interim has requested both special one-time and regular monthly reporting to remain updated in the areas of focus.

The MCPHU schools apart from the School of Medicine have each been operating well under Drexel stewardship, although some changes are underway. The School of Health Professions, enrolling about 1,000 students in thirty different programs, will cease to exist as a separate entity as of June 30, 2000. Its viable departments are being rehoused in the School of Nursing, or merged directly into appropriate Drexel departments. The School of Public Health enrolled its first students in 1997, and is one of only two such schools in the Commonwealth - the only one with an urban public health focus. Constance Clayton is serving as Interim Dean while recruitment for a new Dean is underway. The School of Nursing has a 130 year history, and currently enrolls about 800 students. It is particularly well known for its rich and relevant continuing education program, which is expanding into a new, web-based delivery system, drawing on Drexel's technological support and expertise.

IV. Planning and Implementing Steps for Long Term Financial Viability and Growth

Once the broad opening strategy had been launched, and urgencies hurdled, the Drexel management group moved rapidly up the learning curve. As they became increasingly

familiar with the details of the MCPHU operation, certain other areas surfaced as representing either high opportunity or high risk. They include:

Management of the School of Medicine's Clinical Practice Groups The School of Medicine has eighteen clinical practice groups ("the CPGs"). These are the business units into which each clinical practice is organized for revenue and expense purposes. They also represent the University's most pressing challenge in the achievement of financial stability. Main revenue streams include reimbursement of professional fees for patient encounters; funding from research grants; and a share in tuition for teaching responsibilities. MCPHU's achievements at the CPG level have been impressive. They include the creation of an overarching management structure; the intensive management of cash flow; the reorientation of practice managers; and the development and inauguration of a comprehensive faculty incentive compensation plan.

The Marketing Plan for the Clinical Practice Groups Not content to focus solely on the shorter term turnaround strategy for MCPHU, Drexel has simultaneously drafted an initial marketing plan for the University. Developed in cooperation with Tenet Philadelphia, this plan identifies many of the steps which will be necessary to position MCPHU for competitive success over the long term. The plan highlights two essential outcomes: the creation of sustainable relationships with key consumers in clinical markets, and the growth in clinical revenue.

The University's Overall Long Term Capitalization Ultimately, as much as Drexel has been able to accomplish at MCPHU in so short a time, a major concern for the University remains: the ability to obtain adequate long term capitalization.

As previously enumerated, Tenet Philadelphia provided about \$125 million in capital, which includes a \$10 million endowment replenishment. The University's loss for the seven and a half months ended June 30, 1999 was about \$30 million. For the fiscal year ending June 30, 2000, the University's annual budget is approximately \$300 million, with a bottom line loss projected to be \$22 million.

Drexel's challenge in the meantime - along with Tenet - is to secure sufficient capital to bring the University not only through this period of turnaround, but to carry it firmly past it. Stakeholders include Tenet Philadelphia, whose interests are clear, but also many desirable others who are now considering a long term investment in MCPHU by way of faculty affiliation, medical studies, and research. These individuals want assurance that the University will be there not just two years from now, but five years from now, and beyond.

The City of Philadelphia and the Commonwealth of Pennsylvania also have interests in the long term survival and health of the University. MCPHU serves as an employer of thousands, and an educator of the next generation of physicians, researchers, nurses, public health officials, and other health care workers, from which all benefit. The University is an economic and intellectual anchor in Center City and East Falls with a rich, proud history, and the potential for an exciting future. It will behoove this larger community to recognize and support Drexel and Tenet in their joint mission to ensure the continued unfolding of this great promise.