ProForma Healthcare Solutions

Investing in Integrated Healthcare Models for a Pre-ACO Rural America

Innovative telecom consortiums provide a path for significant investor returns and rural health equity

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The Abstract	Less than 1% of the FCC's $8 Billion annual Universal Service Fund is currently going to provide connectivity to rural healthcare. To try to fix this problem, in September 2006, the Federal Communications Commission established a three-year pilot to examine ways to use the universal service rural health care funding mechanism to enhance public and non-profit health care providers' access to advanced broadband telecommunications[i]. Participants can receive funding for a three-year period, up to their maximum support amount, for up to **85 %** of the costs associated with: (1) the construction of state or regional broadband networks; (2) connecting to nationwide backbone Internet2 or National Lambda Rail (NLR) networks; and (3) connecting to the public Internet[ii]. Since 2006, $413MM has been allocated and less than $250MM has been spent. Many qualified participants have been unable to manage past the initial RFP stages of their projects or they have been unable to attract the necessary 15% matching funds. In October of 2010, the GAO published a review of the FCC's Rural Health Care Pilot Programs citing numerous shortcomings and inefficiencies but without any clear recommendations on how to improve its facilitation. Unfortunately, rural healthcare in America continues to lose ground in gaining access to vital broadband capacity. In March 2011, the Center for Medicaid and Medicare Services (CMS), under the auspices of the Patient Protection and Affordable Care Act (PPACA) of 2010, issued a proposal to define Accountable Care

Organizations (ACOs). In April 2011, ProForma issued its Comment Letter to CMS to address many of the problems that rural healthcare providers will have trying to form ACO's. The most significant oversight is CMS' assumption of ***ubiquitous broadband coverage in every provider's*** service area. As pointed out in our ProForma Provocative Perspective on Connectivity[iii] (April 2011), lack of connectivity may become a leading cause for the prevention of ACO formation and, ultimately, the failure of PPACA's implementation in rural America.

ProForma proposes a new type of pre-ACO organization, the Rural Trust, which can leverage FCC financial support to provide multiple rural healthcare providers with the technology roadmap, tools and partners to provide leading-edge integrated services that are enabled by robust broadband. Because this unique entity will own the 100Gbps fiber backhaul that connects it to leading researchers and universities throughout the nation, it will be able to attract the private investment required to meet the FCC matching fund requirements and provide the foundation for more extensive research in America's most chronically ill and poorest counties.

The Argument

Rural America is the focus of two large government initiatives designed to create growth and improve the quality of healthcare in every community but each has stalled before adoption by its stakeholders. To be successful, both need robust broadband connectivity. Agreed, the healthcare industry, on its own, has shown an incredible resistance to change. And, the telecommunications industry continues to focus on harvesting profits from its existing infrastructure rather than trying to reach America's last 10%. Is this the right time to converge the efforts of two incalcitrant industries to deliver the next catalyst for change?

Let's take a closer look at the stakeholders involved. First, we have the FCC:

- Under pressure to get effective Rural Health Care Programs that deliver broadband services to remote areas
- Would like to drive rural economic development
- Would prefer to have projects managed by experienced telecom personnel given results of the existing pilot program
- Needs national broadband network build-out for redundancy, security and capacity
- Provide White House Administration with telecommunications innovations and PPACA Case Studies
- Is willing to fund 85% on healthcare broadband infrastructure build but results to date not good

And, second, we have Health and Human Services CMS:

- Under pressure by WHA to get ACOs underway
- Would like to drive healthcare technology and delivery innovation and economic development
- Needs to reduce healthcare delivery costs, improve prevention modalities and integrate systems across providers

- Provide WHA with healthcare innovations and PPACA Case Studies
- Is willing to provide supplemental funding specific to meaningful measured healthcare improvements
- Is willing to set-aside Anti-Trust concerns (with DOJ, FTC and IRS) for ACO formation but few rural providers are applying

Third, we have the healthcare providers:

- Losing Disproportionate Share Payments ($3MM-$4MM annually for a 120 bed hospital) by 2014 under PPACA
- Need to integrate with other healthcare providers (not-for-profit and for-profit) to scale to reach savings targets
- Need expansion of Rural Exception Rule to address Anti-Trust and Stark1 reviews for ACO qualification
- Need connectivity infrastructure to leverage Electronic Medical Records and to provide data storage, hosting and processing
- Need for telemedicine applications to offset loss of retiring physician base
- Would like access to research grant work in addition to grant revenue/savings from technology and process improvements

Fourth, we have the telecommunications carriers point of view:

- Under pressure to grow in to new enterprise markets but cannot justify economics for 2-3Gbps rural expansion
- Need substantial improvements in the national infrastructure to support redundancy, security and peak traffic needs
- Need a market to develop heterogeneous network integration and technological innovations from defense sector
- Need to expand in to more profitable data and application hosting services
- Would like to access rural healthcare enterprise markets but they are highly fragmented, cost and resource constrained

The communities served will benefit from:

- Access to critical health care services
- Access to Electronic Medical Records
- Access to telemedicine applications to offset loss of physicians
- High speed services for First Responders
- Better healthcare services and appropriate care

Any rural organizational model designed to being these parties together must meet the majority of these needs and qualify for the FCC's 85% infrastructure funding. We have developed The Rural Trust as a real estate investment trust (REIT) that allows each of the partners to easily buy in to the entity and benefit from the pass-through dividend structure. As a pre-ACO support vehicle, the focus of The Rural Trust is to provide 100Gbps backhaul fiber between two major markets but strategically passing through qualified rural counties in need. When this connection is completed, the leasing of spectrum on this backhaul by InterLATA and cellular phone carriers will make this fiber a significant and appreciable asset.

Ultimately the goal of The Rural Trust model is to bring private investment in to the partnership with a local carrier and several healthcare providers. Private equity investors will have an opportunity to participate in ownership up to 30% of the pre-revenue valuation of the trust to leverage the 85% FCC infrastructure grant acquired by the rural healthcare providers. This cash infusion, along with the investment made by the selected carrier, is designed to provide the 15% matching funds needed by the FCC. Once operating, the trust can support rural healthcare providers in their efforts to become integrated before entering an ACO and after the ACO has been successfully formed. The most likely exit for private investors will be the buyout of the trust by a large telecommunications provider who is looking to add the backhaul asset and the new customer base to its portfolio.

The Implications

Traditionally, REITs have been formed by 100 or more shareholders to build, develop and/or operate real estate facilities. In November 2010, the IRS ruled that power transmission lines owned by Hunt Consolidated's REIT could be treated as a real estate asset. Given that precedent, the trust is looking for a similar treatment by the IRS for buried telecommunication lines. If successful, the trust could operate as a REIT and distribute 95% of its profits annually to its shareholders. This would provide one of the most efficient means to translate the fiber backhaul asset in to value for healthcare providers beyond access to some of the highest speed bandwidth in the nation.

Similarly, the FCC has approved Rural Health Care Pilot Program applications from rural for-profit and not-for-profit healthcare providers that can demonstrate that they service rural poor districts and require the broadband to improve delivery of services. The trust will be made up of a consortium of healthcare providers, a telecommunications carrier and private equity institutions that may or may not be for-profit. The up-front inclusion of the telecommunications carrier is critical to the success of the project and is based more on experience and capability than providing a low-cost model. Rural healthcare providers lack the resources necessary to tackle projects of this scale and level of technical capability. Further, the OSS/BSS required to track inter-carrier billing and traffic management are beyond the hospital and physicians' need to focus on patient centered care. In the role of a carrier's carrier, the telecommunications partner will ensure that the backhaul is leased to its maximum potential and off-net opportunities are leveraged.

The FCC is in the process of creating its new Rural Health Infrastructure program. We believe that any deliberation of this program without looking at the needs of healthcare providers under PPACA and the formation of ACOs would be remiss. Continued focus on providing cost parity with urban markets for low speed bandwidth to meet coverage minimums may absolve the FCC of political backlash but it does not remove the clear disparities in access to quality healthcare that exist in rural America. This should be the goal of any successful Rural Healthcare Infrastructure Program.

The Next Steps	In January 2012, ProForma will be presenting The Rural Trust solution to the FCC for discussion. That presentation will include a summary of our application for FCC funding for a 100Gbps fiber backhaul run between Little Rock, AR and St. Louis, MO connecting two Internet2 endpoints. The funding will also provide for several points of presence (POPs) along that line to supply 2-3Gbps broadband access to 11 rural counties including the 7th and 8th poorest Congressional Districts in the nation. In West Plains, MO, we plan to provide estimates for The Trust's NOC, Advanced Healthcare Data Center and Converged Technology Innovation Centers for telemedicine application development. In addition to providing region connectivity, the project will provide hundreds of immediate jobs and several high earning long-term positions within The Trust. Hopefully, the project will also attract opportunities for hardened business continuity centers and independent software developers who value access to high speed broadband and a re-tooled workforce. If successful, ProForma has identified six additional rural regions that could be served by models similar to The Rural Trust. Each lies between population centers that are not presently connected to the Internet2 or National Lambda Rail. Each region includes FCC designated poor and rural counties that will require connectivity and assistance to reach rural health equity. We need more providers to help influence the development of the Rural Health Infrastructure Program so that it has a sustainable impact on the communities you serve. Only by crossing the connectivity divide, can we hope to meet the boldest expectations of PPACA and the National Broadband Plan.
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[i] 47 U.S.C. § 254(h)(2)(A); Rural Health Care Support Mechanism, WC Docket No. 02-60, Order, 21 FCC Rcd 11111, para. 1 (2006) (2006 Pilot Program Order).
[ii] 2007 Pilot Program Selection Order, 22 FCC Rcd at 20361, para. 2.
[iii] Ellingson, John - Reaching Rural Health Equity – The Importance of Connectivity to the Possibility of Healthcare Reform in Rural America, April 2011