

**David L. McClenahan**  
**Testimony**  
**PA Senate Banking & Insurance Committee**  
**Tuesday, September 13, 2011**

Good afternoon and thank you Senator White and members of the Pennsylvania Senate Banking and Insurance Committee for inviting me to participate in this important community discussion about the future of healthcare delivery and access in the Pittsburgh region. I understand that you have invited Dr. Farah and me to address the proposed West Penn Allegheny Health System affiliation with Highmark. We are pleased to talk about this important initiative and will leave the issues of the UPMC-Highmark contract to their leaders.

I have been associated with the West Penn Allegheny Health System and its predecessor entities for more than 30 years. The challenges of the last decade have made my role and that of my fellow directors particularly challenging. Salvaging Allegheny General and the other hospitals and physician groups in this region that emerged from the ashes of the AHERF bankruptcy was absolutely critical for the community. All of these pieces were brought together under the banner of the West Penn Allegheny Health System, a name that has signified more than a hundred years of excellence in medicine and a tradition of personalized care that continues today.

I am gratified that the caregivers of our system have set the quality bar high and kept their focus on the purpose of the organization – to improve the health of the people of Western Pennsylvania – while the corporate leaders and directors have faced the financial and organizational challenges that have brought us to this new chapter in the history of West Penn Allegheny Health System.

The news coverage of West Penn Allegheny's financial travails has been constant and alarmist on many occasions. The truth is that in spite of many sound strategies and devoted individuals, we have not been able to achieve financial sustainability and, therefore, certainty that the non-profit mission of the organization would be carried on for the benefit of the community. More than a year ago, the board of directors concluded that we needed to identify a capital partner, an entity that would provide a significant financial infusion to address the programmatic and facility backlogs that we have been unable to tackle in meaningful ways.

Like most hospitals and healthcare systems in the country, West Penn Allegheny has been tested in meeting the demands for new equipment, the attraction and retention of medical professionals, physical plant upgrades and the adoption of information technology. In addition, West Penn Allegheny has been operating in a market that is skewed, at best, by a dominant competitor in the healthcare delivery sector and in the insurance

sector. I noted with great interest that Mr. Romoff of UPMC recently acknowledged at a similar forum that his organization is a monopoly.

Notwithstanding Mr. Romoff's statement, we believe that the Pittsburgh market, which is really a six county region, is unlike any other healthcare market in the country because of the market share that has been under the control of UPMC and Highmark. On the provider side, I will not recount all the facts that we have presented in similar forums over the years about the predatory actions of UPMC, which we believe were intended to put West Penn Allegheny out of business. We cannot ascribe all of our current financial travails to this dynamic, but it has been a dominant factor in our strategic decision to partner with Highmark.

I know that the members of this panel and many others are questioning why Highmark and why now. The answer is not complex. The financial profile of West Penn Allegheny is fragile and we were faced with continued downsizing of our system, including complete closure of West Penn Hospital in Bloomfield, in hopes that we would eventually be stable and able to rebuild services and rejuvenate remaining facilities. The reality is that organizations – governmental and private -- cannot cut their way to prosperity.

As a board, we re-committed ourselves to preserving the charitable mission of West Penn Allegheny by pursuing serious due diligence to identify a partner with a strong balance sheet that would share the mission. I want to

underscore this point. The West Penn Allegheny board members live and work in this community, and we take very seriously our fiduciary responsibility to preserve these community assets for the people who have built them, use them and come to work in them each day. We do not “own” West Penn Allegheny, the community does.

Rumors are still circulating that we have entertained acquisition offers from health systems outside this community. The fact is our physicians and other staff members are always looking for best practices and we frequently engage in meaningful discussions in hopes of bringing the best ideas back to our programs. These kinds of exchanges should continue but do not constitute a “sale” to another health system.

We have talked to private investors and for-profit healthcare providers to understand what the future of West Penn Allegheny would be if partnerships with any of them were formed. We concluded that while our financial challenges might be resolved with a stroke of a pen, the mission of this organization would not be preserved. In all likelihood, West Penn Allegheny would be taken apart, some assets would be preserved for their ability to generate revenue for the “owners” and many more programs and facilities that provide important care for our families and neighbors would be shuttered because they do not turn a profit. In the end, I am certain that the success of whatever pieces remained would be dependent on a contract with Highmark because of its position as the largest insurer.

Our board was not willing to preside over the demise of our charitable mission. It became clear that affiliating with another non-profit community asset was the best alternative for preserving the rich tradition and purpose of West Penn Allegheny. Highmark was the obvious partner.

It has been stated by uninformed parties whose interest lies only in disrupting this deal that Highmark will need to spend most if not all of its reserves to prop up the failing West Penn Allegheny. These same individuals go on to state that the investment will ultimately fail because the current West Penn Allegheny financials are so bleak. This rumor is further embellished with the suggestion that Highmark is saving West Penn Allegheny on the backs of subscribers. It is unfortunate that some have resorted to fear mongering to impact this initiative. Their statements are made with no regard for the nearly 12,000 employees of West Penn Allegheny or the Highmark subscribers who are confused and worried about future access to their current providers.

I am certain that you will ask Highmark about these rumors in subsequent hearings and I will not presume to answer on their behalf. I would like to share a perspective on why the expenditure of up to \$475 million is an appropriate action. I offer this view as both a health insurance subscriber and as a West Penn Allegheny board member. As a subscriber, and a patient from time-to-time, I believe that this community needs competition in healthcare delivery. Competition in healthcare is key to improving quality, expanding access and reducing costs. I was glad to hear Mr. Romoff

articulate, quite vigorously, his new found support for competition in healthcare delivery in this region. The reality is that to achieve this shared goal, investments must be made. Highmark is planning to invest locally generated resources in the preservation of local community assets that care for and educate local people. We welcome patients and professionals from across the globe, but it is not our mission to invest local dollars in other states or countries.

I know you and others in the community have wondered how we could have entered into discussions about affiliation with an organization that we had so roundly criticized in the media and legal filings. It is important to note that the legal action that we took against Highmark was part of a larger suit. The allegations about Highmark's behavior were directed at transactions that occurred prior to 2007. By the time the suit was filed, West Penn Allegheny and Highmark had negotiated a fair and equitable contract renewal. I would be disingenuous if I suggested that there were not lingering apprehensions in the early days of our discussions, but I want to be absolutely clear that both parties entered our lengthy dialogue with a unified goal of preserving the community assets and charitable mission of West Penn Allegheny.

It has also been suggested that Highmark will ultimately leave West Penn Allegheny "at the altar," by striking an eleventh hour deal with UPMC. I am satisfied that we addressed this potential scenario early in our exchanges with Highmark. I met with four Highmark board leaders, including their

chairman, Robert Baum, and pressed them on this specific issue. I want to assure you that I would not have stood with Dr. Melani and Dr. Baum on June 28 to announce that we had reached a term sheet agreement if I did not have absolute certainty that they are firmly committed to this partnership.

The boards of West Penn Allegheny and Highmark imposed upon ourselves an eight week deadline for reaching a definitive deal. That date has slipped a bit but not because of any major stumbling blocks, and I am confident that we will have news of our progress very shortly. As a team we will respond quickly and transparently to all questions from the regulators that are here with us today. It is imperative for the community that this affiliation is implemented as soon as possible.

I want to thank you for this opportunity to share the facts of our proposed affiliation with Highmark. The future of healthcare delivery for the Pittsburgh region is brighter because we are building a new model of financing and delivery focused on the needs of this community. We appreciate the support we have had through the years from the Commonwealth of Pennsylvania and we look forward to working closely with you to ensure continued quality and access for patients and providers.