WORKSITE CLINIC EVALUATION

CITY OF TACOMA — GPFC

August 17, 2016

MAKE TOMORROW, TODAY MERCER

INTRODUCTION

- City of Tacoma is investigating options for worksite health services and engaged Mercer to conduct a feasibility review
- Worksite health services would be an additional offering to employees and dependents enrolled in Regence
  - Group Health members would not be eligible
- The feasibility review estimated patient volume, office visits, staffing, scope of services, and facilities under various clinic models and participation assumptions in order to determine financial feasibility
- Mercer also sent a Request for Information (RFI) to Paladina and Vera Whole Health, two vendors that provide onsite clinic services to employers in the Pacific Northwest

BENEFITS AND DRAWBACKS FROM EMPLOYER-SPONSORED CLINICS

Benefits	Drawbacks
• Reduced lost work time and absenteeism • Hard dollar savings through lower medical trend and overall medical spend • Avoidance of higher cost and time consuming settings (e.g., reduced ER visits and referrals to and use of costly services from specialists) • When combined with an on-site pharmacy, improved medication compliance, generic and therapeutic substitution and formulary adherence • Improved population health and risk profile through greater utilization of screening and preventive services • Greater engagement in lifestyle/care management programs • Improved employee morale, retention, loyalty and productivity as well as a recruitment and retention inducement • Lower workers' compensation as well as non-occupational disability costs	• Requires ***strong*** employee participation in order to see clinic value, both in terms of financial savings and improved employee health • Require upfront capital commitment and ongoing operational investment, as well as space that might be in demand • Realizing potential savings will take time and include indirect sources that are hard to quantify • Demand created by the enhanced convenience may actually add to overall health spend, especially in the early years of operation • Implementing and operating a clinic is far-removed from the core business competency • Local health care providers often oppose clinics, generally view them as a threat • Increased liability exposure; general and professional (medical malpractice) • Potential dissatisfaction with clinic staff • Concerns about violations of privacy and confidentiality; employees choose not to use the clinic fearing that PHI might be leaked

FIVE-YEAR CUMULATIVE FINANCIAL IMPACT OF SERVICE DELIVERY OPTIONS

	Mercer Feasibility Analysis			
Financial Feasibility	MD-Led Onsite Clinic	Nurse/Wellness Onsite Clinic	Paladina	Vera Whole Health
Based on Mercer Savings Assumptions				
• Claims Cost savings	5%	5%	5%	5%
• Net Savings/(COST)	($1,897,000)	($839,000)	($3,500,000)	($2,900,000)
• Return on Investment	0.50	0.70	0.30	0.40
Based on Vendor Savings Assumptions				
• Claim Cost Savings			15%	23% to 29%
• Net Savings/(COST)			($354,945)	$4,020,588
• Return on Investment			0.90	1.90

- Mercer's point of view on the vendor savings assumptions is that they are not reasonable savings for the City to expect
- Financial analysis based on 20% participation in year 1 to 40% participation in year 5
  - Lower participation increases the cost

CLINIC MODEL OPTIONS

	Comprehensive MD-Led Onsite Clinic	Nurse/Wellness Onsite Clinic	Near-Site / Shared Clinic
Example		**Vera**	**Paladina**
Description	• One onsite clinic in Downtown Tacoma • Staffed by physician and Medical Assistant • Ability to provide primary and episodic care to all City of Tacoma eligible members • Members can select the clinic provider as their primary care physician	• One onsite clinic in Downtown Tacoma • Staffed by Nurse Practitioner and Medical Assistant • Ability to provide acute episodic care in limited capacity for some of City of Tacoma's eligible members • Integrate care with primary care physicians in the community	• More convenient than traditional settings through Regence, but less convenient than onsite • Less financial risk and more scalable to actual participation • May be perceived as more independent
Pros	• Addresses more time consuming conditions • Serves as another location to treat urgent care needs	• Lower cost due to lower-level staffing	• City of Tacoma not solely responsible for clinic cost • Multiple clinic locations to treat urgent care needs (1 clinic in Tacoma)
Cons	• Participation needs to be strong to recoup costs	• Cannot accommodate all needed care for members	• Financial risk if participants do not seek most of their primary care at one of the locations • Risk of employee dissatisfaction with physician; Paladina currently has two dedicated physicians (and one part-time physician) in Tacoma's near-site clinic

ESTIMATED PARTICIPATION

Estimated Participation	# of Employees	% Participation
Year 1	614	20%
Year 2	766	25%
Year 3	917	30%
Year 4	1,068	35%
Year 5	1,220	40%

- Participation estimates developed by Mercer and are based on a employees working in downtown Tacoma and those working outside of downtown.
- These participation estimates may be high for City of Tacoma based on the long term provider relationships and proximity of services that employees have access to already.
- Clinics require ongoing efforts to ensure their success. A common source of on-site clinic disappointment is low employee utilization. Key success factors include:
  - High quality providers
  - Effective communication / broad awareness
  - Privacy and confidentiality assurances
  - Strong executive support / involvement
  - Culturally compatible with population
  - Superior service delivery
  - Enthusiastic customer service
  - Attractive plan design / incentive
  - Appealing clinic location / layout

RECOMMENDATION

City of Tacoma staff recommends not continuing to pursue worksite health services

- Discussed with Joint Labor who did not give their support, so would be impractical for staff to pursue at this time
- Feasibility analysis estimates an onsite clinic would be a significant cost to the City
- Participation estimates used for analysis are higher than what the City expects
- Onsite clinic model is not believed to be compatible with the population. Employees have well established relationships with existing providers. Employees may have concerns about potential violations of privacy and confidentiality with an additional provider
- Only those employees enrolled in a Regence plan (not Group Health) would be eligible participants of the clinic

MERCER

MAKE TOMORROW, TODAY

WORKSITE CLINIC EVALUATION

CITY OF TACOMA

August 17, 2016

MAKE TOMORROW, TODAY MERCER

TABLE OF CONTENTS

EXECUTIVE SUMMARY

INTRODUCTION

- City of Tacoma is investigating options for worksite health services and engaged Mercer to conduct a feasibility review
- The feasibility review estimated patient volume, office visits, staffing, scope of services, and facilities under various clinic models and participation assumptions
  - A basic assumption is that only the members in the Regence self-funded plan would be eligible to use services. City of Tacoma, in effect, would likely be "double-paying" for those in the fully-insured Group Health plan.
- In order to compare the feasibility review to the perspective of actual suppliers, Mercer sent a Request for Information (RFI) to two suppliers
  - Given City of Tacoma's size and location, as well as industry knowledge of the vendor landscape, Mercer recommended obtaining information from Paladina Health and Vera Whole Health, who have a presence in the Pacific Northwest and offer different clinic approaches and financial models
  - Paladina is a near site/shared clinic model and Vera is an onsite clinic
  - A further request was made of the suppliers to refine their cost/savings projections

EXECUTIVE SUMMARY

- The analysis indicates that City of Tacoma is a borderline case for worksite clinic services based on financial return projected over five years
  - Actual results will be sensitive to the portion of the population that participates, with more participation driving stronger financial results
  - Staffing with a nurse practitioner rather than a physician, improves costs, and overall financial return, but reduces the scope and volume of patients that can be managed
- Overall, under optimal conditions of participation, clinic staffing, reductions in utilization from improved quality, and inclusion of productivity savings, a worksite clinic can show a positive financial return within five years. But to reach optimal conditions, the worksite clinic would likely need to become the primary or sole place of care for almost half the employee population.
- Mercer reviewed the RFI responses from Paladina and Vera
  - Both vendors assume significantly higher claim savings for clinic participants than Mercer typically assumes
  - Paladina analysis does not show savings while Vera analysis does based on their savings assumption of 23 to 28%
  - A more conservative estimate places this at around 5%
- Note: if the City decides to continue to explore a clinic, there are many details that will need to be considered including excise tax impact, reporting and plan design for HDHP members

SUMMARY OF SERVICE DELIVERY OPTIONS

Comprehensive MD-Led Onsite Clinic

- One onsite clinic in Downtown Tacoma
- Staffed by physician and Medical Assistant
- Ability to provide primary and episodic care to all City of Tacoma eligible members
- Members can select the clinic provider as their primary care physician
- **Pro**:
  - Addresses more time consuming conditions
  - Serves as another location to treat urgent care needs
- **Con**:
  - Participation needs to be strong to recoup costs

Nurse/Wellness Onsite Clinic

- One onsite clinic in Downtown Tacoma
- Staffed by Nurse Practitioner and Medical Assistant
- Ability to provide acute episodic care in limited capacity for some of City of Tacoma's eligible members
- Integrate care with primary care physicians in the community
- **Pro**:
  - Lower cost due to lower-level staffing
- **Con**:
  - Cannot accommodate all needed care for members

Near-Site / Shared Clinic

- More convenient than traditional settings through Regence, but less convenient than onsite
- Less financial risk and more scalable to actual participation
- May be perceived as more independent
- **Pro**:
  - City of Tacoma not solely responsible for clinic cost
  - Multiple clinic locations to treat urgent care needs
- **Con**:
  - Financial risk if participants do not seek most of their primary care at one of the locations
  - Risk of employee dissatisfaction with physician; Paladina currently has two dedicated physicians (and one part-time physician) in Tacoma's near-site clinic

FIVE-YEAR CUMULATIVE FINANCIAL IMPACT OF SERVICE DELIVERY OPTIONS

	Mercer Feasibility Analysis			
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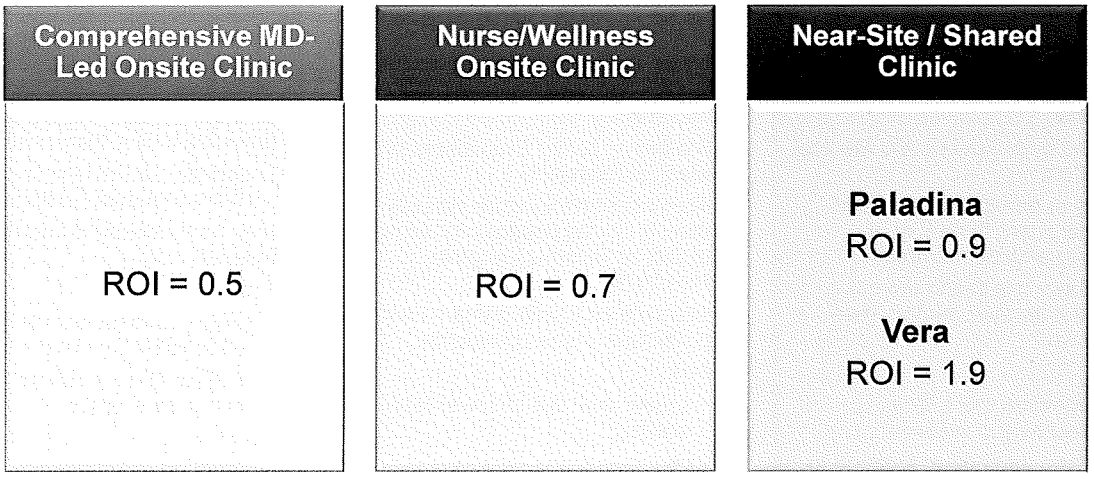
FIVE-YEAR CUMULATIVE FINANCIAL IMPACT OF SERVICE DELIVERY OPTIONS



- Out of all of the models, Paladina is the only one that does not have added costs due to building a clinic
- Sources of savings assumed by Paladina and Vera vary considerably. See slide 32 for more details

FEASIBILITY ANALYSIS

CLINIC FEASIBILITY REVIEW PROCESS

City of Tacoma and Benchmark Data
- Demographics
- Utilization
- Cost

Project Clinic Visits
- Participation assumption based on employee's distance to Downtown Tacoma
- Utilization assumption for each participant

Estimate Staffing
- Providers needed for projected visits
- Staff to support providers

Estimate Clinic Size
- Exam rooms needed based on physician staffing
- Additional space for other clinic rooms (e.g., reception area, restroom, etc.)

Estimate Operational Expenses
- Fixed expenses (by staff and facility size)
- Variable expenses (by visit volume)
- Amortized expenses

Estimate Savings
- Direct Cost Avoidance: Offsets from replaced community visits
- Indirect Cost Avoidance: Utilization reduction and improved productivity

Estimate Return on Investment
- 5-year projection
- Factor in opportunity costs and amortization schedule
- ROI is the ratio of total savings to total costs

Sensitivity Analysis
- Vary participation levels +/-20% from baseline analysis
- Clinic staffing and floor space adjusted accordingly
- Projected savings estimate if City of Tacoma were to use NP instead of MD model

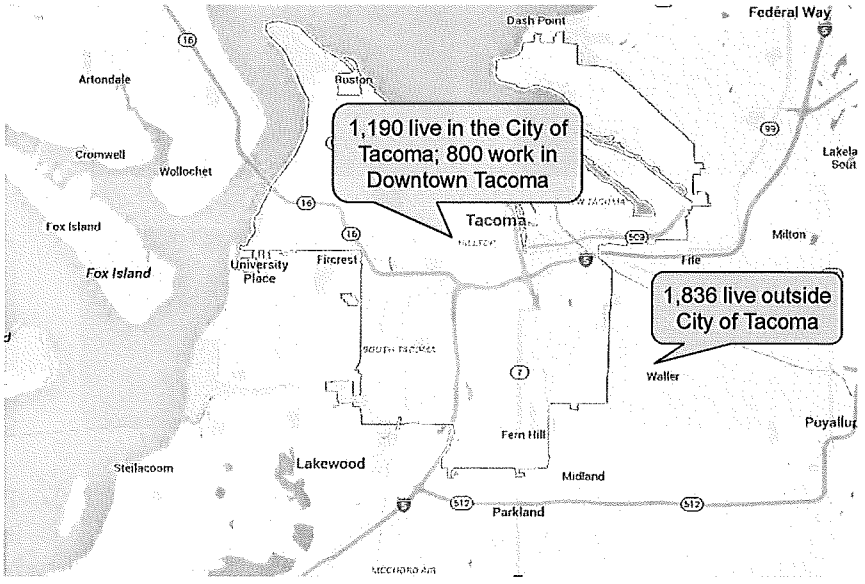
- These steps were taken to independently evaluate feasibility of an onsite clinic in Downtown Tacoma with a traditional vendor relationship

ASSESSING EMPLOYEE PARTICIPATION
OVERVIEW

- Employee participation is the primary driver of whether or not an onsite clinic is financially feasible for City of Tacoma
  - If too few access the clinic (based on geographical proximity to the clinic and participation experience assumptions), then the savings from clinic utilization will not offset the build-out and ongoing operational costs of the clinic
  - The number of clinic visits also determines the quantity and type of staff City of Tacoma should hire for their clinic
- For this review, eligible participants are employees of City of Tacoma (no dependents) who are enrolled in a Regence plan (not Group Health)
- To better understand the effect of participation on results, one primary analysis was conducted and two sensitivity analyses were also run. The sensitivity analyses are:
  - Low Scenario: -20% participation from the primary analysis
  - High Scenario: +20% participation from the primary analysis

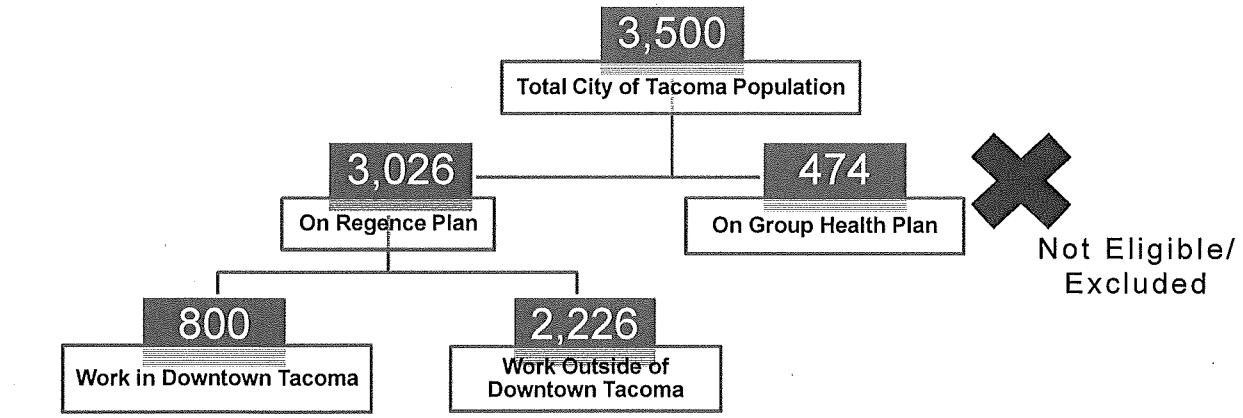
ASSESSING EMPLOYEE PARTICIPATION
CITY OF TACOMA'S REGENCE PLAN ENROLLMENT

- Participants from the self-funded Regence plans only
- Onsite clinic assumed to be placed in Downtown Tacoma
- Employees working / living in Downtown Tacoma assumed to drive the majority of clinic visits because of proximity to clinic



* Based on 3,026 active enrollees in 2015 census data provided by City of Tacoma

ASSESSING EMPLOYEE PARTICIPATION
ESTIMATED PARTICIPATION BY LOCATION



Year	% Participation	# of Participants	% Participation	# of Participants	Total Estimated Participation
1	35%	280	15%	334	614
2	40%	320	20%	446	766
3	45%	360	25%	557	917
4	50%	400	30%	668	1,068
5	55%	440	35%	780	1,220

Note: The 800 employees that work in downtown provided by the City of Tacoma.

DRIVING PARTICIPATION

Clinics require ongoing efforts to ensure their success. A common source of on-site clinic disappointment is low employee utilization or capture. In our practice experience, key success factors include:

- High quality providers
- Effective communication / broad awareness
- Privacy and confidentiality assurances
- Strong executive support / involvement
- Culturally compatible with population
- Superior service delivery
- Enthusiastic customer service
- Attractive plan design / incentive
- Appealing clinic location / layout

ONSITE CLINIC OPTIONS FOR CITY OF TACOMA

Comprehensive MD Model		Nurse/Wellness Model	
Pros	**Cons**	**Pros**	**Cons**
• Drives a wider range of services including chronic care management • May be perceived as higher quality by patients • Likelihood of established relationship with local providers, including higher quality specialists for referrals as needed • Able to see more patients	• Significantly more expensive due to higher salaries • Staffing in part time increments is challenging; does not scale as easily	• Lower operating expenses due to lower salaries • More practical and cost-effective for health coaching and education; focus of clinic becomes wellness oriented	• Will require a supervisory or collaborative physician for oversight (2 hrs. per 1.0 FTE NP) • Some employees will prefer being treated by a physician and perceive a mid-level clinic model as inferior • Cannot manage all of the health conditions a physician can manage and therefore, utilization will be lower

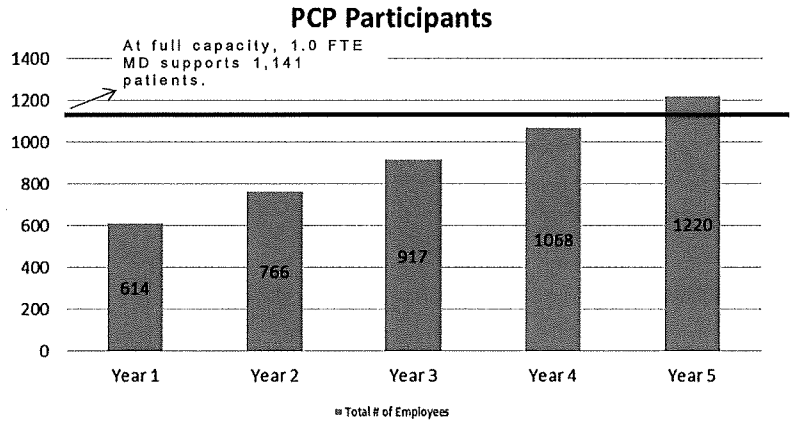
- Neither model guarantees that the clinic will yield high utilization rates and be "successful." Clinic utilization is driven by the scope of services the clinic offers, employee rapport with the physician(s), effective communications, cultural fit, and City of Tacoma's executive buy-in.
- If City of Tacoma's objectives are to create a center of primary care that can fully replace community visits, then an MD model would be the best option; however, feasibility modeling suggests that financial results would not be positive without above average participation
- An NP-led model would provide a more wellness focused set of services with a more positive return on investment

OVERVIEW OF RESULTS
COMPREHENSIVE MD-LED CLINIC

Results Summary	
Employee Penetration Assumption	
Year 1	20% (614)
Year 2	25% (766)
Year 3	30% (917)
Year 4	35% (1068)
Year 5	40% (1220)
Staffing Requirements (Year 1 - Year 5)	
Physician	0.5 - 1.0
Medical Assistant / Front Desk	0.5 - 1.0
Total FTEs	1.0 - 2.0
Space Requirements	
Physician Rooms	2
Nurses Exam Rooms	1
Total Square Feet	~1,700

- Applied employee participation assumption based on employee proximity to onsite clinic in Downtown Tacoma; no dependents
- Assumed 1.8 visits per clinic user, which drives the staffing requirement
- Estimated the space requirement needed for projected staff

ASSESSING EMPLOYEE PARTICIPATION
PROVIDER CAPACITY BENCHMARKING



- Assuming a physician capacity of 11 visits per day and an average of 1.8 clinic visits per user, City of Tacoma would not fully occupy 1.0 FTE MD until Year 5
- Based on experience, it can be difficult to hire on a physician part-time for multiple years; therefore, the modeling assumes 0.5 FTE for Year 1 and 1.0 FTE for Years 2 – 5; this creates cost inefficiencies
- Participation sensitivity analyses show that the 1.0 full-time MD threshold is reached in Year 3 for the high scenario (20% more participation) and not reached within the first five years in the low scenario (20% less participation)

STAFFING
COMPREHENSIVE MD-LED CLINIC

Staff	Salary (per FTE)	Year 1	Year 2	Year 3	Year 4	Year 5
Physician	$229,850	0.5	1.0	1.0	1.0	1.0
Medical Assistant / Front Desk	$37,193	0.5	1.0	1.0	1.0	1.0
Total FTEs		1.0	2.0	2.0	2.0	2.0

- Using only a Physician and Medical Assistant to run the clinic is considered to be the minimum staffing to address employee demands
  - Staffing may be inadequate for front desk coverage and administrative and management needs
- First year would need to have more limited hours of operation unless participation ramps up more quickly
  - Actual staffing will need to be adjusted based on actual demand for services

Note: Salaries taken from salary.com's 75th percentile for Tacoma, WA. Salaries reflect baseline amounts and increase 2.7% a year for medical salary inflation. The salary inflation is based on Mercer's Compensation Planning Survey. 75th % salary used for modeling to be conservative for feasibility analysis.

FINANCIAL RESULTS
COMPREHENSIVE MD-LED CLINIC

	Implementation	Year 1	Year 2	Year 3	Year 4	Year 5	5-Year Total
Clinic operational costs	**($388,000)**	**($481,000)**	**($753,000)**	**($778,000)**	**($805,000)**	**($832,000)**	**($4,037,000)**
Revenue from patients		$3,000	$3,000	$4,000	$5,000	$5,000	$20,000
Medical cost substitution		$204,000	$270,000	$342,000	$423,000	$512,000	$1,751,000
Net Savings/(COST)	**($388,000)**	**($274,000)**	**($480,000)**	**($432,000)**	**($377,000)**	**($315,000)**	**($2,266,000)**
Utilzation Reduction		$25,000	$43,000	$67,000	$98,000	$136,000	$369,000
Net Savings/(COST)	**($388,000)**	**($249,000)**	**($437,000)**	**($365,000)**	**($279,000)**	**($179,000)**	**($1,897,000)**
ROI						**0.8**	**0.5**

- Annual — year 5 ROI of 0.80 is the "run rate" — the ROI that is expected going forward at clinic maturity
  - The ROI is not cost neutral based on medical cost substitution and utilization reduction
- Five-year cumulative ROI of 0.50 is the sum of the first years of costs (including amortized costs) and savings. When including all sources of savings, the ROI is worse than cost neutral over the first five years.
- The sensitivity analysis indicates that +/- 20% does not significantly effect results because of scaling of staff
- Utilization reduction assumes 50% reduction in typical number of specialist referrals, 1-5% reduction in inpatient hospital days, and 5-10% reduction in non-emergent ER visits
- Revenue from patients is a $5 copay for mini-med (limited Rx) dispensing; clinic will be free to participate

STAFFING
NURSE/WELLNESS CLINIC

- One way to reduce onsite clinic costs is by offering a clinic run by a nurse practitioner (NP); however, scope and capacity is also lower.
  - An NP's salary is less than 50% of an MD's salary
  - Model still requires some limited MD oversight (two hrs. per 1.0 FTE NP)
  - Assumed reduction in number of employee visits an NP could serve when compared to an MD (1.3 visits instead of 1.8 visits per user)

Staff	Salary (per FTE)	Year 1	Year 2	Year 3	Year 4	Year 5
Physician	$229,850	0.03	0.03	0.04	0.04	0.04
Nurse Practitioner	$111,049	0.5	0.5	0.75	0.75	0.75
Medical Assistant / Front Desk	$37,193	0.5	0.5	0.75	0.75	0.75
Total FTEs		1.03	1.03	1.54	1.54	1.54

Note: This model assumes optimal staffing, where an NP can be staffed at 0.75 FTE. However, staffing at this level is uncommon and may require the NP to work full-time (1.0 FTE). If this is the case, the model will yield lower savings because of the suboptimal staffing.

FINANCIAL RESULTS
NURSE/WELLNESS CLINIC

	Implementation	Year 1	Year 2	Year 3	Year 4	Year 5	5-Year Total
Clinic operational costs	**($372,000)**	**($378,000)**	**($391,000)**	**($485,000)**	**($502,000)**	**($521,000)**	**($2,649,000)**
Revenue from patients		$2,000	$2,000	$3,000	$3,000	$4,000	$14,000
Medical cost substitution		$171,000	$226,000	$287,000	$354,000	$428,000	$1,467,000
Net Savings/(COST)	**($372,000)**	**($205,000)**	**($163,000)**	**($195,000)**	**($145,000)**	**($88,000)**	**($1,168,000)**
Utilzation Reduction		$21,000	$37,000	$59,000	$88,000	$124,000	$329,000
Net Savings/(COST)	**($372,000)**	**($184,000)**	**($126,000)**	**($136,000)**	**($57,000)**	**$36,000**	**($839,000)**
ROI						**1.1**	**0.70**

- Annual – year 5 ROI of 1.1 is the "run rate" – the ROI that is expected going forward at clinic maturity
  - The ROI is positive based only on medical cost substitution and utilization reduction
- Five-year cumulative ROI of 0.50 is the sum of the first years of costs (including amortized costs) and savings. When including all sources of savings, the ROI is worse than cost neutral over the first five years
- The sensitivity analysis indicates that +/- 20% does not significantly effect results because of scaling of staff
- Utilization reduction assumes 50% reduction in typical number of specialist referrals, 1-5% reduction in inpatient hospital days, and 5-10% reduction in non-emergent ER visits
- Revenue from patients is a $5 copay for mini-med (limited Rx) dispensing; clinic will be free to participate

FEASIBILITY MODEL ASSUMPTIONS
COMPREHENSIVE AND WELLNESS CLINIC MODELS

Assumption	Included in City of Tacoma Model	Impact on Model
Eligible Population	Regence enrolled (3,026 employees); 800 work in Downtown Tacoma and 2,226 are elsewhere. Dependents are not eligible. (City of Tacoma data)	Key driver of total volume of services
Population Growth	0%	
Participation Rates	Downtown Tacoma: 35%-55% (Year 1-Year 5)	
	Outside of Downtown Tacoma: 15%-35% (Year 1-Year 5)	
Staffing Mix and FTE Levels	Based on projected utilization	Operational Costs
Staffing Salary Rates	75th percentile Tacoma, WA (salary.com)	
G&A/Management Fee	30% of staff salary, benefits & replacement costs (20% for G&A and 10% for Management)	
Occupancy Expense	$23.50 per sq. ft. per year	
Financial Arrangement	Cost plus	
Build-out Cost	$225 per sq. ft.	Implementation and startup costs
Square Feet Needed	Based on build out for final year	
Medical Trend	7.5% (Based on other City of Tacoma projections)	Medical cost savings: Value of direct cost avoidance over time
Time Saved Per Clinic Visit	Range depending on service type: • PCP office visit: 2 hours • Lab/Immunizations: 0.5 hour	Savings: Value of lost time avoided
Average Employee Salary	$81,986 (City of Tacoma data)	
Inpatient Admission	1%-5% reduction in bed days at $5,276 per day (Benchmark)	Utilization Reduction
Non-Emergent ER Visits	5%-10% reduction in visits at $1,496 per visit (Benchmark)	

VENDOR REQUEST FOR INFORMATION REVIEW

NEAR-SITE/SHARED CLINIC ANALYSIS
SUMMARY

- Paladina Health (Paladina) and Vera Whole Health (Vera) provided projected savings using their respective clinic utilization assumptions
- In order to try to align each vendor's savings analysis with Mercer's projection, each vendor was told the number of eligible Regence participants (3,026) and the split between Downtown employees (800) and non-Downtown employees (2,226)
  - Year 5 estimated participation assumption of 1,220 was also given to both vendors
  - The Year 5 estimate is based on 55% and 35% utilization for the Downtown and non-Downtown employees, respectively
  - Enrollment assumptions were based on Mercer's assumption of 614 participants in Year 1 to 1,220 in year 5
- PMPM costs and savings were originally calculated based on the vendors' responses and applied to Mercer's enrollment figures. We revised the costs to be on a consistent basis; 2015 per member costs for active employees enrolled on Regence. This enables all clinic modeling (onsite – comprehensive MD-led, onsite – nurse/wellness, and near-site/shared) to be compared more accurately.
- Each vendor assumes different sources of savings, which are not entirely comparable

STAFFING
NEAR-SITE/SHARED CLINIC

Paladina

Staff	Year 1	Year 2	Year 3	Year 4	Year 5
Physician	0.7	0.9	1.0	1.2	1.4
Medical Assistant	0.7	0.9	1.0	1.2	1.4
Total FTEs	1.4	1.8	2.0	2.4	2.8

Note: Staffing based on 1.0 Physician and 1.0 Medical Assistant per 900 patients; estimates per projected enrollment from Mercer's modeling

Vera

Staff	Year 1	Year 2	Year 3	Year 4	Year 5
Nurse Practitioner	1.0	1.0	1.0	1.0	1.0
Whole Health Coach	1.0	1.0	1.0	1.0	1.0
Medical Assistant	1.0	1.0	1.0	1.0	1.0
Total FTEs	3.0	3.0	3.0	3.0	3.0

FINANCIAL RESULTS
NEAR-SITE/SHARED CLINIC — PALADINA

Applying standardized claims and participation to Paladina's savings

	Implementation	Year 1	Year 2	Year 3	Year 4	Year 5	5-Year Total
Health Care Claims Cost w/o Clinic	**N/A**	**$3,588,216**	**$4,812,242**	**$6,192,934**	**$7,753,662**	**$9,521,468**	**$31,868,521**
Claims Cost from Having a Clinic (15% savings)		$3,049,984	$4,090,406	$5,263,994	$6,590,613	$8,093,247	$27,088,243
Net Savings/(COST)	**N/A**	**$538,232**	**$721,836**	**$928,940**	**$1,163,049**	**$1,428,220**	**$4,780,278**
Paladina Fee		$508,392	$634,248	$1,089,396	$1,306,848	$1,537,626	$5,076,510
Net Savings/(COST)	**N/A**	**$29,840**	**$87,588**	**($160,456)**	**($143,798)**	**($109,406)**	**($296,231)**
Savings Bonus Given to Paladina		$14,920	$43,794	$ -	$ -	$ -	$58,714
Total Net Savings/(COST)	**N/A**	**$14,920**	**$43,794**	**($160,456)**	**($143,798)**	**($109,406)**	**($354,945)**

- Savings bonus given to Paladina, or "shared savings," is based on a proportion of total savings projected from medical cost substitution (i.e., using the clinic instead of the community) plus the added cost of the clinic membership fee. The shared savings arrangement only applies for the first two years of the clinic opening and is 50%.
- Sources of savings from having a clinic are projected to be from the following: lowering specialists, inpatient, and outpatient claims; and impacting pharmacy claims through improved generic substitution and adherence by individuals with chronic conditions. All sources of savings combine to generate 15% (note: this is an assumption made by Paladina).
- If savings estimate is more inline with Mercer's estimate of 5%, the five-year cumulative cost would be approximately $3.5M. Paladina would need to generate at least 16% savings each year to reach a five-year cumulative breakeven point
- In Paladina model, capital costs for clinic construction and maintenance are avoided. The financial risk is that patients may seek care at the Paladina clinic only occasionally, while still incurring the full annual charge. This financial arrangement is optimized, when all primary care for a given patient is obtained through the clinic.

FINANCIAL RESULTS
NEAR-SITE/SHARED CLINIC — VERA

Applying standardized claims and participation to Vera's savings

	Implementation	Year 1	Year 2	Year 3	Year 4	Year 5	5-Year Total
Health Care Claims Cost w/o Clinic		**$3,588,216**	**$4,812,242**	**$6,192,934**	**$7,753,662**	**$9,521,468**	**$31,868,521**
Claims Cost from Having a Clinic (23 to 29% savings)		$2,760,238	$3,454,304	$4,396,744	$5,771,015	$7,007,743	$23,390,044
Net Savings/(COST)		**$827,978**	**$1,357,938**	**$1,796,190**	**$1,982,647**	**$2,513,725**	**$8,478,478**
Vera Fee		$221,040	$275,760	$330,120	$243,504	$278,160	$1,348,584
Net Savings/(COST)		**$606,938**	**$1,082,178**	**$1,466,070**	**$1,739,143**	**$2,235,565**	**$7,129,894**
Estimated Clinic Build-Out/Pass-Through Costs	$448,600	$600,310	$570,231	$541,250	$480,919	$467,996	$3,109,306
Total Net Savings/(COST)	**$(448,600)**	**$6,628**	**$511,947**	**$924,820**	**$1,258,224**	**$1,767,569**	**$4,020,588**

- Build-out and pass-through costs are based on 1,200 members and the staffing estimates provided by Vera
- Sources of savings from having a clinic are projected to be from the following: primary care replacement visits; prescription drugs; lab costs; reduction in specialist care, outpatient, ER, and inpatient visits; workers compensation; and sick time off from work. All sources of savings combine to generate between 23% and 29% (note: this is an assumption made by Vera).
- If savings estimate is more inline with Mercer's estimate of 5%, the five-year cumulative cost would be approximately $2.9M. Vera would need to generate at least 14% savings each year to reach a five-year cumulative breakeven point.

INTRODUCTION
VENDOR REQUEST FOR INFORMATION (RFI)

- Mercer developed a questionnaire and reviewed the responses from Paladina and Vera Whole Health.
  - The aim was to capture a broad solution and vendor capabilities
  - Vendors were requested to project clinic parameters; however, these are directly comparable to the ones developed by Mercer given different assumptions about the number of participants.
- Paladina and Vera Whole Health were both thoughtful and enthusiastic in their responses.
  - Given their footprint in the Tacoma-Seattle area, they both offer some unique options for expanding access through the use of existing and planned employer clinics.
  - Would replace primary care physician visits and costs that are currently being billed through Regence.
- Paladina offers a fully inclusive capitated PMPM fee structure based on assumptions of a shared/near site design and of lower minimal participation thresholds.
  - In Paladina's assessment, this model would be feasible for the City of Tacoma.
  - The fee structure would minimize City of Tacoma's investment, but would also require participants to completely replace community PCP visits to be financially successful.
  - There is also a shared savings model to be more fully analyzed to understand the full value proposition.
- Vera offered a more traditional model where a clinic is on City of Tacoma property, but with a hybrid fee structure based on a PMPM fee and pass through operating costs.
  - Vera's costs are higher but also assume more sources of savings.
- Two scenarios were received from each vendor during the RFI process:
  - Scenario 1: Original response using vendors' estimated participation assumptions.
  - Scenario 2: Revised response using standardized participation assumptions.

OVERVIEW

	Paladina Health	Vera Whole Health
General Organization Information	• Prominent in the Pacific Northwest • Specializes in near-site clinics with an emphasis in physician staffed models • Wholly-owned subsidiary of DaVita healthcare Partners	• Based in the state of Washington • Integrated with local health systems such as Virginia Mason and Group Health
Experience	• Manages 51 clinics in 12 states • Operates 4 near-site offices in the state of Washington, including one in Tacoma	• Operates 6 clinics in the state of Washington, concentrated in the Seattle area
Participation Requirement	• Minimum of 900 enrolled members (number of potential enrollees)	• None

KEY DIFFERENTIATORS AS DESCRIBED BY VENDORS

	Paladina Health	Vera Whole Health
Key Differentiators as Described by Vendors	• Employees have 24/7 access to physician, including via secure e-mail and messaging • Physicians have 70% smaller patient panels than traditional practices (900 vs. 2,500) • 30- to 90-minute appointments • No out-of-pocket expenses for patients[1] • Physicians are compensated with a salary instead of payment tied to volume • Model includes health coaching, wellness, and disease management • eClinicalWorks Electronic Health Record (EHR)	• Patient satisfaction score of 4.8 out of 5 at Seattle Children's Hospital • Data-driven organization that combines primary, preventive, urgent care, workers compensation, occupational health, and wellness services • 30- to 60-minute appointments • Willing to put 100% fees at risk with a break-even investment guarantee • Pricing discount for groups who contract directly with Vera through the Employers Health Coalition of Washington (EHCW) • Licenses with, and follows, Virginia Mason Medical Center's clinical guidelines for quality assurance

[1] For patients with a high-deductible/health savings account (HSA), all non-preventive services will be charged a fair market value of Medicare plus 5% until the individual meets his or her deductible

Note: For all members with a high-deductible health plan, a fee schedule will need to be developed that is compliant with regulations governing high-deductible health plans. This is independent of the vendor City of Tacoma chooses

VENDOR CLINIC DESIGN

	Paladina Health	Vera Whole Health	Mercer Comment / Model
Assumed Membership	• 1,220 clinic utilizers in the first five years of the clinic	• 1,200 clinic utilizers in the first five years of the clinic	• 614 year one to 1,220 year five of clinic opening
Engagement Assumption	• Varies based on employee proximity to Downtown Tacoma (estimates provided by Mercer)	• 60% - 80%, estimated engagement rates from Vera • These rates were not used in the financial projections for vendor comparison purposes	• Varies based on employee proximity to Downtown Tacoma and year since clinic opening.
Type of Clinic and Access to Services	• Near-site clinics • Immediate access to 3 clinics in Tacoma, Federal Way, and Puyallup • Potential to add fourth location at no cost in University Place • Physician absences (i.e. for vacation) are covered by other Paladina providers in the same area	• Onsite clinic + near-site clinics • City of Tacoma members would have access to the six near-site clinics in the state of Washington unless City of Tacoma chooses for their clinic to be made private	• Onsite clinic
Staffing	• "Care Team" of Physician (1.0 FTE) and Medical Assistant (1.0 FTE) per 900 patients • Increase of physician staffing as membership increases in order to maintain "Care Team" ratio if City of Tacoma joins • Additional staffing includes RN/Regional Care Coordinator and Medical/Doctor's office oversight • Two dedicated (plus one part-time) in Tacoma clinic; one dedicated physician in Federal Way clinic; recruiting one dedicated physician in Puyallup clinic	• Nurse Practitioner (1.0 FTE) • Whole Health Coach (1.0 FTE) • Medical Assistant (1.0 FTE)	• Physician: 0.5 FTE Year 1, 1.0 FTE Years 2-5 • Medical Assistant / Front Desk: 0.5 FTE Year 1, 1.0 FTE Years 2-5
Clinic Size	• 1,500 – 3,000 ft.^{2} per doctor's office, with typically two physicians assigned per location	• 1,000 ft.^{2}	• Approximately 1,700 ft.^{2}

Note: Slide updated based on revised vendor responses on April 6, 2016

FEES AND PROJECTIONS

	Paladina Health	Vera Whole Health	Mercer Comment / Model
Financial Model	• Capitation (PMPM)	• Hybrid: Capitation (PMPM) and cost plus operating costs	• Cost plus management fee
Fees	• $69 PMPM for adults over 18 and triggered by the employee's enrolling into / out of Paladina's Membership Agreement. City of Tacoma would be billed based on number of Membership Agreements signed at the first of any month – Fee applicable for the first two years of the contract – Year 3 membership fee is $99 PMPM; subsequent years have a 3% fee increase • Original response, which did not include standardized participation assumption and had projections for dependents, showed a fee of $39 PMPM for minors under 18 • Fees are charged monthly, regardless of utilization, until the member terminates • Shared Savings contract occurs over the first two years, but is discontinued at Year 3	• $19.00 PMPM administrative fee • $11.00 PMPM start-up costs for the first three years • Original response, which did not include standardized participation assumption, had start-up costs of $6.00 PMPM • PMPM fee is applicable to enrolled employees, spouses, and children • Annual pass-through expenses for: – Facilities (rent, expenses, etc.) – Staffing salaries – Supplies – Equipment and furniture – Technology – Labs and immunizations – Rx dispensing	• Pass-through expenses for: – Facilities (rent, expenses, etc.) – Staffing salaries – Supplies – Equipment and furniture – Technology – Labs and immunizations – Rx dispensing

Note: Slide updated based on revised vendor responses on April 6, 2016

FEES AND PROJECTIONS (CONT'D)

	Paladina Health	Vera Whole Health	Mercer Comment / Model
Estimated 5-Year Impact Based on Mercer's Enrollment Projection	• Cost of $355,000 • Projection does not include dependent utilization	• Savings of $4.0M • Projection does not include dependent utilization	• MD-led: Cost of $963,000 • Nurse/Wellness: Cost neutral • Projection does not include dependent utilization
Estimated Savings	• Assume 15% savings of gross annual healthcare claims from sources detailed below based on book of business results • 29% five-year cumulative net savings estimate • Original response, which did not include standardized participation assumption and had projections for dependents, showed a 22% five-year cumulative net savings estimate	• 23-29% for all sources of savings (see below) • Original response, which did not include standardized participation assumption, had savings estimate of 18-20% • Including implementation/start-up costs for clinic build out, there are no five-year cumulative net savings	• MD-led model was not projected to have a positive ROI. Total savings (excluding productivity) was estimated to be $2.14 million, or 5% of estimated healthcare claims costs without a clinic • Nurse/Wellness model was projected to be cost neutral after five years. Total savings (excluding productivity) was estimated to be $1.81 million, or 4% of estimated healthcare claims costs without a clinic.
Sources of Savings	• Lowering specialist, inpatient, outpatient, and ER visits • Impacting pharmacy claims	• Impacting pharmacy claims • Reduced lab costs • Replaced community visits • Lowering specialist, inpatient, outpatient, and ER visits • Workers compensation • Sick time off from work	• Replaced community visits • Lowering specialist, inpatient, and ER visits • Lost time / productivity

Note: Slide updated based on revised vendor responses on April 6, 2016

APPENDIX

POTENTIAL BENEFITS FROM EMPLOYER-SPONSORED CLINICS

- Reduced lost work time and absenteeism
- Hard dollar savings through moderated medical trend and lower overall medical spend amongst users of the on-site clinic
- Avoidance of higher cost and time consuming settings (e.g., reduced ER visits and referrals to and use of costly services from specialists)
- When combined with an on-site pharmacy, improved medication compliance, generic and therapeutic substitution and formulary adherence
- Improved population health and risk profile through greater utilization of screening and preventive services
- Greater engagement in lifestyle/care management programs
- Improved employee morale, retention, loyalty and productivity as well as a recruitment and retention inducement
- Lower workers' compensation as well as non-occupational disability costs

POTENTIAL DRAWBACKS OF EMPLOYER-SPONSORED CLINICS

- Clinics require upfront capital commitment and ongoing operational investment, as well as space that might be in demand for other purposes
- Requires strong employee participation in order to see clinic value, both in terms of financial savings and improved employee health
- Realizing potential savings will take time and include indirect sources that are hard to quantify (soft dollar savings)
- Induced demand created by the enhanced convenience and access may actually add to overall health spend, especially in the early years of operation
- For most employers, implementing and operating a clinic is far-removed from the core business competency
- Employer clinics are often opposed by local and regional health care providers who generally view them initially as a competitive threat
- Clinics will increase the liability exposure to the employer – both general and professional (medical malpractice)
- Some workers will be concerned about potential violations of privacy and confidentiality and choose not to use the clinic fearing that PHI might be leaked

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