

John Marchica:

Welcome to Season 4 of Healthcare Rounds. Here, we explore the vast and rapidly evolving healthcare ecosystem with leaders across the spectrum of healthcare delivery. Our goal is to promote ideas that advance the quadruple aim, including improving the patient experience, improving the health of populations, lowering the cost of care and attaining joy in work. I'm John Marchica, host of Healthcare Rounds. I'm also the CEO of Darwin Research Group and faculty associate at the Arizona State University College of Health Solutions. Please, don't forget to rate and review us wherever you get your podcasts and send your questions, comments, or ideas for Healthcare Rounds to podcast@darwinresearch.com. Let's get started.

Kim Asciutto:

Today, we welcome John Gorman, founder and chairman of Nightingale Partners, the first Opportunity Zone fund to invest in social determinants of health interventions with health insurers, states and provider organizations. He is the founder and former executive chairman of Gorman Health Group. John's work focuses on Medicare, Medicaid and Affordable Care Act strategy, governance and turnaround of distressed health plans.

Kim Asciutto:

Prior to founding his firm. John served as the assistant to the Director of Healthcare Financing Administrations, now CMS Office of Managed Care, where he provided day-to-day management and served as the external liaison for the Medicare and Medicaid managed care programs. John's career in Washington began as Press Secretary and Staff Director for U.S. Representative John Conyers, Jr., then Chairman of the Government Operations Committee. John serves in the board of directors of Henry Ford Health Systems Health Alliance Plan in his birthplace of Detroit, Michigan, and serves as a senior advisor to Premier Incorporated the hospital purchasing cooperative on Medicare Advantage and Medicaid matters.

John Marchica:

All right, so let's get started. I will have read in your background, but thank you. First of all, thank you for taking the time to talk to me today. I really appreciate it. Our listeners appreciate it, John. You've got a really interesting background in healthcare and I thought just to kind of orient people, start us off by talking about your history and where you've been and where you are today.

John Gorman:

Sure. Well, I got started here in D.C. about 30 years ago working for my hometown Congressman from Detroit, John Conyers, Jr. He died earlier this year, but, at the time, he was the Chairman of what was then the Government Oversight Committee. So I came in as his Press Secretary, having been a journalist up until then. Then a year later I was his Chief of Staff. And that was when he walked into my office and said, "It's time we've got the Congressional Black Caucus," of which he was the Dean, "involved in the single-payer movement.

John Gorman:

And it's important for all of us to get behind a single payer." He said, "So this being so important, you're going to do healthcare." And I said, "Well, Mr. Chairman, I don't know a thing about healthcare." And he said, "John, that's bullshit." He knew that my parents had met at Wayne State med school in Detroit. And he's like, "You've probably forgotten more about healthcare in dinnertime conversation than most

of us will ever know. So you're doing healthcare." And that's how it happened. A year later, I was then helping to run President Clinton's campaign in Michigan in '92. And when he won, my plum was to go help run a new office of managed care in what was then HCFA, which is now of course, CMS. So we were going to build the first office that would be directly responsible for all Medicare and Medicaid Managed Care Programs. And I was 25 and instantly had a \$79 billion portfolio. And that kind of shit only happens in D.C. as you know, John.

John Marchica:

We're the same age, roughly, I'm guessing. And when I got my start at Abbott, my first in-house job at Abbott in 1992, same year, was the market research analyst for the new Abbott Managed Care Division.

John Gorman:

Oh, wow. Wow. [crosstalk 00:04:56]

John Marchica:

So anyway, go on.

John Gorman:

So did that for a number of years and then came out and opened Gorman Health Group, which I ran for 22 years thereafter and which became, at the time, the biggest consulting and technology shop in government sponsored healthcare, so focused on Medicaid Managed Care and on Medicare Advantage. And we had nine spinoff companies that all came out of our consulting practice, which we really kind of used as like an R and D laboratory for the development of technology or outsource services.

John Gorman:

And so I sold the company in 2018, 22 years was long enough for me and I was sitting on my ass, retired, in April of 2019, when I got a notice on my phone that the IRS had just completely revised the regulations for the Opportunity Zone Program, which came out of Trump's big tax giveaway bill, but was actually Cory Booker's real estate reinvestment program in disadvantaged communities. And the IRS, John, had just rewritten the regs, to allow OZ capital to be used, not just for real estate purchases in these disadvantaged communities, but now for leases, but more importantly for our purposes, for working capital or to meet the business requirements of a new co, in one of these disadvantaged communities. And for us, I sat up, I slapped my forehead, and I said, "Shit, that's it. Here's the source of funding for us to start making large scale investments in social determinant of health interventions with Medicare and Medicaid plans." And that was what led to the birth of Nightingale Partners, which is where I am today.

John Marchica:

So back up a little bit. There's going to be a lot of people that aren't going to know what Opportunity Zones are. I mean it's-

John Gorman:

Happy to explain it.

John Marchica:

We know we see it, but if you could explain, go into a little bit of depth about that.

John Gorman:

Yeah. What Opportunity Zones are, is basically a tax shelter that says that if you invest capital gains in one of the roughly 9,000 Opportunity Zones across the country. And those zones, John, are all severely economically disadvantaged and are almost all medically underserved under the federal designation. And that means they don't have enough healthcare providers or services to serve the population that lives there. And the law says that if you invest your capital gains in one of these Opportunity Zones and you leave it in for at least 10 years, then not only is your initial investment completely tax-free, but all of the proceeds that you make on that investment are completely tax-free. [crosstalk 00:08:03] And so as you can imagine, that was like catnip for Republican billionaires and it opened up about \$6.2 trillion in available capital. We are the only fund out there that I'm aware of that is using this program exclusively to make healthcare related investments.

John Gorman:

The vast majority of the roughly hundred billion that's been invested in OZs thus far, John, has been around real estate and we're the only ones out there doing healthcare, so far.

John Marchica:

So in practical terms, we're looking to buy a building for our company. And I noticed that on occasion, even in Scottsdale, parts of Phoenix and Scottsdale, a location will pop-up for Opportunity Zones.

John Gorman:

Exactly.

John Marchica:

I haven't really been looking in that area, but so, if we were to go into one of these areas and bought a building, then anything, if we held it for 10 years, then anything, that we did, any kind of investments, any improvements, those are tax free, no capital gains.

John Gorman:

The proceeds that you make on your exit are completely tax-free. And that's-

John Marchica:

That's unbelievable.

John Gorman:

So in our world, with these investments that we make in social determinants, they're all designed to improve the quality of care and dramatically reduce the cost of care for lower income members. And that's relatively easy to do, so we've yet to produce an investor prospectus that didn't get at least a 27 or 30% internal rate of return, but then what the Opportunity Zone's shelter, the tax shelter, does is add, John, about another 315 to 360 basis points on top of that. So, for rich, high net worth individuals, family offices, corporations that have a lot of capital gains, this is a great alternative investment structure, if you don't want to have all your money in the market or in other sectors of the economy. And, we just found that ironically this program that came out of Trump's big tax giveaway bill, suited our

purposes perfectly. So, what gets me up out of bed in the morning is the idea that we've hacked a Republican billionaire tax shelter, with healthcare for black and brown people. And, that gets me excited.

John Marchica:

So, what do these investments look like? Are you building grocery stores in food deserts? Are you putting in physician offices and funding those offices? What do these investments look like?

John Gorman:

In part, a lot more of our projects tend to be direct investments into services that will ameliorate social determinants of health. Obviously the reason this is such a ripe area for investment is that we know from the research, John, that social determinants of health are really just four fancy words for poverty. And, when you look at all the research, it shows you pretty definitively that poverty is accountable for 60 to 80% of healthcare costs in this country, and 80% really for seniors. Because, look when you've been living in poverty your entire life, most likely you've been dealing with systemic racism, you've been dealing with all of those social determinants for your entire lifetime.

John Gorman:

In health care, John, poverty charges interest. And so when you're a senior and you've been living under these conditions for your entire life, those effects are much more pronounced. And that's why you get to the higher end of that spectrum, around 80% of health care costs accountable for social determinants. So our investments tend to be much more direct service related. Some of them are place-based, but the hallmarks of our projects tend to be, every one of them involves the assignment of and deployment of community health workers. So these are basically social workers without the license who grew up in these underserved communities and can be trained to serve as navigators for really vulnerable, complex patients. They've been consistently shown to reduce health care costs on average, by about 2200 bucks per member per year, almost all of our investments involve food security and helping people eat better. And, in the case of diabetics to do medically appropriate meal delivery for them to try to get their hemoglobin A1Cs under control. Food security has been consistently shown to deliver results of 2,500 bucks a year per patient, on average, in some cases, even much higher.

John Gorman:

Geisinger sort of did the landmark study in Pennsylvania, a few years back, John, where they found, they were spending \$300,000 per patient per year on their uncontrolled diabetics. So they started a medically appropriate meal delivery service for their uncontrolled diabetic seniors. And within 14 months, they'd knocked their average costs down to \$48,000 per patient per year. So net of the cost of the meals prepared, packaged and delivered, they saved \$192,000 per patient per year.

John Marchica:

That's amazing.

John Gorman:

That was a 35 X ROI, John. And for investors like us, it doesn't get any better than that, man. I mean, that's... Nowhere will you find an investment return that kind of numbers, anywhere else in the world? So food security is a very big component of all of our interventions and others like transportation to medical appointments, or even as you mentioned to groceries, if you've got beneficiaries living in food

deserts, and say they've got congestive heart failure, but all they can eat within walking distance around them is a can of condensed soup from the local bodega. That's got enough sodium in it to land a CHF patient in the hospital that afternoon. So it makes a lot of sense to give her a ride to and from a grocery store and show her how to prepare healthy meals, to keep her CHF and her diabetes in control. So, a lot of our investments, [crosstalk 00:15:00] Yeah, go ahead.

John Marchica:

Sorry. I was just going to say some of the big health systems, you mentioned Geisinger have similar kinds of initiatives, but, in your case, this is mostly Medicare and Medicaid, correct?

John Gorman:

Correct.

John Marchica:

So the taxpayer is who's benefiting.

John Gorman:

Oh yeah. But the most immediate beneficiary of it is the Medicare Advantage plan, who of course is a hundred percent at risk for the cost of their members. So Geisinger, in that example, did this benefit for their Medicare Advantage members who were elderly and had out of control A1Cs. And those kinds of results are exactly the kind of stuff that investors like us love to jump into.

John Marchica:

So are you getting investments from the Cignas, the Humanas of the world that have those patient population?

John Gorman:

Yes. Most of our projects thus far really have been with Medicaid plans, which are much closer to understanding the needs of these populations than we see even among the Medicare Advantage plans, though the MA plans are coming around on this. There's a very different dynamic in place for MA plans, John, because, for every dollar that they might want to invest in social determinants, it's going to hit the competitiveness of their monthly premium. And Medicare Advantage survives in a zero premium environment right now. And so the MA plans have been a lot more hesitant to get into these types of investments in a large scale, which is really one of the reasons why we exist. We exist to de-risk the wide scale adoption and offering of social determinant interventions among plans by bringing other people's money to the dance, so it doesn't affect their competitive position.

John Gorman:

And frankly takes all the risk and the guesswork out of it for their actuaries, who, I think we all know, really run these companies. Now, like our most recent investment, which we just announced this morning before I jumped on with you guys, is with... We led a round of investment for a company called Edenbridge Health and Edenbridge is a next generation PACE provider, so the Program of All Inclusive Care for the Elderly. So, what Edenbridge does is adult daycare centers on steroids as a nursing home diversion option and Edenbridge really excels, especially in the age of COVID where we're very nervous about congregate care settings, they're very good at projecting these services into home and

community-based settings to enable really vulnerable, frail seniors to remain in their homes safely with all of the services that they would get in an assisted living facility or a nursing home, and keeps them out of COVID high risk environments, like a skilled nursing facility.

John Gorman:

So we just announced that this morning. We were thrilled about that one. That's a place-based investment, as you mentioned. So, we are buying up real estate in Opportunity Zones to build these adult daycare centers with them. And just last week, John, we were down in Puerto Rico, where the need is the greatest. In all of the United States, Puerto Rico, which is of course a U.S. territory, is desperate for these types of investments, and not a lot of mainlanders are aware that the average income in Puerto Rico is 40% of the average income in Mississippi.

John Gorman:

And so if we tend to think of Mississippi as the most dirt poor state in the union, now think Puerto Rico's got 40% of that, aside from being hurricane and earthquake ravaged over this last five years, this is the most desperate community of Americans that we have. So it's telling that all of Puerto Rico basically has been designated one giant Opportunity Zone.

John Gorman:

And so what we're doing down there is a joint venture with Boys and Girls Clubs of Puerto Rico, and with Triple S, which is the Blue Cross Blue Shield plan of the Caribbean. And we're going into 13 of Puerto Rico's most notorious public housing projects. And we're going to open up a school, which Boys and Girls Clubs will run. We're going to open up a Workforce Development Center, which we're jointly going to run. Boys and Girls Clubs will handle all the job training for tourism and pharmaceutical jobs in Puerto Rico. We're going to handle all the healthcare related job training for community health workers, or promotores, as we call them in Puerto Rico, or for contact tracers. And we'll jointly run that training center so that we can lift the members in these public housing projects out of poverty with real jobs.

John Gorman:

And then we're going to run an onsite healthcare services and social service's clinic, right embedded within these public housing projects. And Triple S is going to help us run these clinics. And we will be building for Triple S a platform to address social determinants for all of their members across Puerto Rico, from these centers in these 13 public housing projects. So we're really excited about that one. At its heyday, when we have all 13 of these centers funded, it's going to be over... God, it could be close to \$200 million. So we're really excited about that one. And that's another example of place-based investment that we're doing that serves as a hub for healthcare and social services. Does that make sense?

John Marchica:

It does. I'm wondering where your sources of funding are coming from and what's in it for them. In other words, if I had an extra a hundred grand lying around and I wanted to put some money into this fund, is it just, okay, I'm basically doing a charitable donation or how does this circle back to an Opportunity Zone?

John Gorman:

Like I said, all of our investments have to flow through Opportunity Zones, so all of our investors, John, tend to be really high net worth individuals, family offices, that run large family foundations and corporations that are throwing off a lot of capital gains. And like I said earlier, we've yet to produce an investor prospectus for these interventions that came in at less than 27 or 30% internal rate of return. So they're making great money on these investments that, typically the stock market can't even produce this kind of return. And then what the Opportunity Zone tax shelter does is, as I mentioned, adds another 315 to 365 basis points on top of that. So we're typically producing investments with a 30 to 33% rate of return, which as most large investors like our syndicate represents, those are great returns and it gives them a wonderful story to tell in their annual report, some feel good stuff that goes along with it, but you know, most of these guys are in it for the money. And that's why we really kind of focus on real adverse selection.

John Gorman:

We focus on the highest risk patients that are most impactable, that we know we can do the greatest good for. And that's why we really are very careful about targeting our investments into communities that need this type of investment desperately, because frankly, that's where we're going to get the greatest healthcare savings, which we share with our healthcare partners. That's how we repay those investors.

John Marchica:

Okay. So, want to ask a couple of big picture questions before we sign off. You're a D.C. guy.

John Gorman:

Yep.

John Marchica:

Insider. What's the fate of the ACA right now.

John Gorman:

Oh, man. I tell you, man, I have been sitting around, literally have chewed off all of my fingernails since Amy Coney Barrett got nominated. I think we know that the appointments that Trump has made to the Supreme Court probably came with a quid pro quo, like he did in Ukraine and pretty basically every place else, that said, if I put you on the court, you are going to destroy Obamacare for me. I'm very concerned about the outlook now that she has been confirmed to the Supreme Court and this just horrible exercise of power by the Republicans in the Senate. And I think the money is pretty good. At least even money, that they're going to strike down the whole ACA, even though the legal argument brought by the Republican's Attorneys General is just terrible lawyering and jurisprudence on its face. I mean, the case that they're making is basically that, because we've repealed the individual mandate that therefore it's not what we call in legal circles severable.

John Gorman:

And therefore it means that the Supreme Court should invalidate the entire law. That is not the case at all. And it's going to be a terrible ruling if that's what they decide. But I think it's at least even money that they're going to throw the whole law out, which is going to instantly produce chaos among at least 45 million Americans, either for their coverage directly through the exchanges, through the Medicaid expansion and/or through the preexisting condition protections that Trump talks a lot about, but hasn't

done more than an executive order around, which has no binding effect in law or regulation. So, and to do that right in the middle of a pandemic, it's just terrifying, John, and I just cannot believe that we've gotten to this point. But I think it's, like I said, at least even money that they're going to throw the law out.

John Marchica:

My feeling is, and I'm not a lawyer, but that there is a principle of do no harm in law. And I forget what it's called, but it's effectively, the Supreme Court is looking at this and saying, "If we toast the U.S. economy by doing this, by throwing the healthcare markets into chaos, and it's not just the preexisting conditions, it's the things like the Medicare expansion, things like accountable care organizations, the structure of bundled payments and the way that CMS, the innovation center.

John Gorman:

[crosstalk 00:26:38] innovation office. The 10 million that funded the CMMI all came out of the ACA, so that gets thrown out with the bath water as well. You're exactly right.

John Marchica:

So my sense is, and maybe this is just wishful thinking, that regardless of whatever quid pro quo, the feeling is at least odds are, that he's not going to be in office for much longer. We don't know, but odds are that he won't. And, even if he would be, that judges will look at this and say the legal argument is terrible, as you pointed out, it's lazy, vindictive, and doesn't make a heck of a lot of sense. And if we do this, the implications, because the ACA has become really part of the fabric of American healthcare in ways that a lot of people don't think about.

John Gorman:

Right.

John Marchica:

It's not just kids can stay on their parents up to 26 or [crosstalk 00:27:39] There are those things that the general public knows like pre-existing conditions, but the ACA is, like I said, it's a part of the fabric of how healthcare is delivered in the U.S. today.

John Marchica:

And if that goes out in a couple of weeks or whenever it is that they're looking at it... So I'm hopeful that leveler heads, and that they'll look at this, and they'll say from a legal standpoint, regardless of what their opinions are as conservatives or liberals, and maybe that Roberts sets everybody down and says, "Look, this is the implications. We need to have a 9-0 decision here and put this to bed."

John Gorman:

Well, I don't see that happening. I think the only bulwark here is that Chief Justice Roberts just does not want invalidating the ACA as part of his legacy on the court. And that agreeing with the argument the Republican Attorneys General has made is tantamount to the ultimate politicization of the Supreme Court, because that's all this argument is, is politics. There's no legal basis in the claim that they have made to the court.

John Gorman:

And, but I'll tell you, man, I'm just a lot more cynical, especially when you've seen a couple of the recent opinions from Kavanaugh and Gorsuch. They're clearly saying, "We're toeing the boss's line here on these rulings." Like what Kavanaugh just said on the Wisconsin voter suppression case was disgusting. And that's what made the bottom dropout on my stomach in thinking about what could happen on November 10th when they hear the ACA case. So I think we're going to have to stay tuned and hope for the better angels on the court to prevail, but there is no bottom with this administration or with anybody they put on the court, as I've seen thus far. And I'm pretty cynical about what the outcome could be, John.

John Marchica:

Well, not being part of D.C. and just looking at this from the outside, I have hope that regardless of ideology, that obviously the Supreme Court has become more political or more ideological, but that Roberts is, like as you say, for his legacy, but also what he needs to do to dispel that notion of politics. And it'd be interesting to know how these justices sit around and how they discuss cases, and what happens behind the scenes rather than what we can read from transcripts, from oral arguments or things like that.

John Gorman:

Like I said, I'm not optimistic, brother, but maybe we can check back in, in a month or so, and see where we're at and survey the wreckage.

John Marchica:

Yeah. So how's the drumming coming? How's the band?

John Gorman:

We have a jam session tonight. And then next week we start back on every Friday night over at our studio, we'll be doing small open mic nights. And that's about all that's keeping my head on during this pandemic, man.

John Marchica:

Are you still doing block parties and things like that?

John Gorman:

No, we had to stop the block parties, because I've got too many elderly neighbors that were complaining about all the noise. We moved down to this wonderful studio downtown in D.C., and we're taking up the whole top floor, which could actually accommodate about 200 people, but we're only going to bring in about 20 folks at a time just to keep it safe. And, we'll just get back to our weekly jams and help our mental health that way.

John Marchica:

Yeah. Yeah. Well, we just recently moved and that forced me to take a look at my inventory of... I think I got eight guitars now at this point.

John Gorman:

Oh, man.

John Marchica:

But, I hooked up my keyboard, my digital piano, all my stuff. And I sat down, it was just last weekend or the weekend before last, excuse me. And I must've played for like an hour. And, it's been so long since I've taken the time to do it. I've just been so busy.

John Gorman:

You got to make time for it.

John Marchica:

Got to make time. Music is so important.

John Gorman:

Yeah. When we do these jams, we're starting at 6:30 tonight. We'll probably play till 1:00 in the morning, until at least my hands are bleeding and you know, it's time to call it a night. But yeah, this is our therapy brother.

John Marchica:

I don't know how you do it. I tried to learn once as an adult. It felt to me like I was flying helicopter, like I couldn't get my feet going at the same time that this hand was doing something, and this hand was doing something. With piano, you've learned to kind of play together. I don't know how to describe it, but the left hand is kind of doing what it wants to do and the right hand is doing that. And it's more symbiotic, but drumming, man, how do you do it?

John Gorman:

Then you got your two feet in there and not just the pedals on a piano and you got your two feet in there, so it really does require some ambidextrousness as you know. But, I hadn't picked up the sticks in 30 years when we put the band together right after Trump got elected, because I think we all knew we were going to need the therapy and it just kind of came right back to me.

John Gorman:

And, it's just... I definitely do find some impairments now that I'm older and my brain isn't wired. I used to be able to drum and sing at the same time. I can't sing anymore when I'm playing. It's just too much stuff going on in the neurons, but you know, I can still beat the hell out of the cans and enjoy the hell out of doing it.

John Marchica:

That's awesome. Well, listen, John, it's been great. Let's keep in touch. I love the work that you're doing. It's really interesting stuff and let's check back in and after the dust settles, maybe in a few months and see how things have transpired post-election and all of that.

John Gorman:

Let's hope the better angels prevail on November 3rd and we get this country back on track.

John Marchica:

Agreed. All right, brother. Thanks again for having me. It's always a pleasure, John.

John Gorman:

Absolutely. Thank you.

Kim Asciutto:

From all of us at Darwin Research Group, thanks for listening. Health Care Rounds is produced by me, Kim Asciutto and is engineered by Andrew Rojek. Theme music by John Marchica. Darwin Research Group provides advanced market intelligence and in-depth customer insights to healthcare executives. Our strategic focus is on healthcare delivery systems and the global shift toward value-based care. Find us at darwinresearch.com. See you next round!



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