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Factors Supporting Critical Access Hospital Turnaround

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Muskie School of Public Service

Maine Rural Health Research Center

Flex Monitoring Team

Maine Rural Health Research Center

Contact Information

John A. Gale
Maine Rural Health Research Center
Muskie School of Public Service
University of Southern Maine
jgale@usm.maine.edu
207.228.8246

Maine Rural Health Research Center

Learning Objectives

- Policy environment for supporting vulnerable Critical Access Hospitals (CAHs)
- Factors contributing to hospital instability
- Process of identifying “at-risk” hospitals
- Key elements supporting hospital turnaround
- Characteristics of high performing hospitals
- Supporting vulnerable CAHs

Policy Environment

- New wave of potential CAH/rural hospital closures
- Little appetite for supporting “non-viable” rural hospitals
- Flex was never designed to save “marginal” hospitals
- Concerns about continued use of cost-based reimbursement
- CAHs located within 10 miles of another facility are on the radar screen as are those with very low census/utilization rates
- Hospital systems less unwilling to “carry” that perform poorly
- Communities do not understand realities of hospital finance

Policy Realities

- Flex Program has been on the budgetary chopping block
- Concerted advocacy effort has protected Flex so far
- Pay for performance presents another non-regulatory threat to cost-based reimbursement
- CAHs are beginning to close (Examples include Maine, Georgia, Pennsylvania, other states)
- Focusing on business services and operations alone is not sufficient to save many hospitals

Studying CAH Turnarounds

- Identify 3-5 potential CAH turnaround candidates using UNC’s hospital stress index and Medicare cost report data
- Confirm performance with state contacts
- Review community/environmental context
- Extensive literature review
- Mine prior case studies and Flex work
- Conduct case studies

Early Warning Signs of Financial Distress

- Financial indicators
  - Declining days cash on hand and current ratio
  - Increasing days in account receivable
  - Capital expenditures not keeping pace with depreciation
  - Internally prepared financial statements
- Operational indicators
  - Excessive FTEs per adjusted patient days
  - Decline in outpatient utilization/outpatient rates below expected market share
  - Problematic physician relations
  - Employee issues
  - Quality and accreditation problems

Early Warning Signs (cont'd)

- Market indicators
  - Increasing/high unemployment rates
  - Increasing/high rates on uninsurance (only a few major employers providing coverage)
  - Declining population rates

Early Warning Signs for CAHs

- Limitations of board and staff
  - Often lack essential health care and financial expertise
  - Lack of representation and depth
  - Limited management resources
- Negative community perception
  - First communication should be internal, making sure all employees and medical staff members understand the hospital's situation and the role they need to play in a turnaround
  - External message to the community should be consistent

CAH Early Warning (cont'd)

- No strategic plan
  - Typically do not have actionable, measureable strategic plans
- Increased competition
  - From external sources and within systems
  - FQHCs
- Major surprises
  - Loss of physicians
  - Changes in economy
  - Major market shift

CAH Early Warning (cont'd)

- CEO turnover
- Declining inpatient/outpatient volume
- Cost structure changes
- Cash and cash flow deterioration
- Staff reductions/perceived drop in quality

Keys to Turnaround

- Find dynamic leadership
- Create a strategic plan
- Leverage community support
- Reduce costs
- Develop revenue opportunities
- Improve revenue cycle management
- Improve quality and customer satisfaction
- Reduce staff turnover
- Promote physician/hospital alignment
- Collaborate/enter into partnerships

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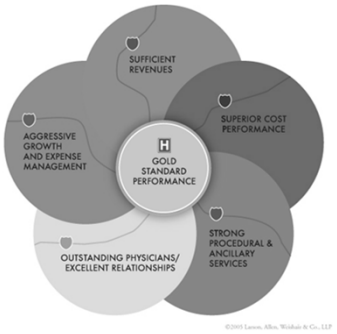
THE GOLD STANDARD ROAD MAP



LarsonAllen's Gold Standard Performance

- Higher overall charges
- Higher overall mark ups on expenses
- Higher percentage of revenues from non-Medicare payers
- Lower overall costs
- Lower staffing
- Lower ER costs

Community Values to Consider

- Commitment to physicians
- Local and regional strength
- Clinical excellence
- Commitment to future capital investment in Pocatello
- Public and not-for-profit hospital characteristics
- Access regardless of ability to pay
- Community care beyond the hospital

Community Values (cont'd)

- Commitment to the community
- Reporting community benefit
- Commitments to employees
- Governance and local control
- Experience
- Compliance
- Financial resources

Turnaround Characteristics
Fairchild Medical Center, California

- Quality: strengthen hospital's negotiating position with payers
- Strategic Growth: increasing the volume of patient services
- Management Discipline: intense monitoring and control over expenditures and efficiency of operations
- Culture: establishing organizational values and beliefs supportive of collaboration, trust, achievement, accountability
- Relationships: developing strong, positive hospital-employee and hospital-physician relationships

Factors Influencing Financial Health

- Geographic location
- Scale and scope of services – balance is key
- Payer mix
- Partnerships and support
  - Community
  - Inter-hospital networks
  - Local government and business support
- Leadership and managerial support