Case Studies of Critical Access Hospital Turnarounds

Annual Meeting
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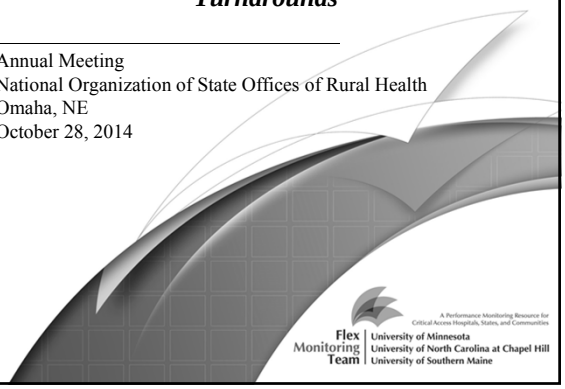

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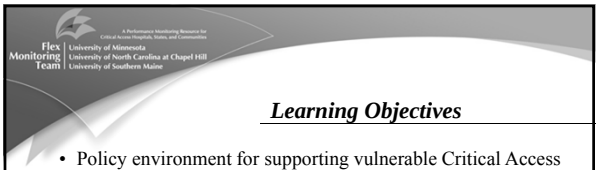

Learning Objectives

- 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

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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

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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

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Studying CAH Turnarounds

- Identify potential CAH turnaround candidates using UNC's hospital stress index and Medicare cost report data and through input from key rural stakeholders
- Confirm performance with state contacts
- Review community/environmental context
- Extensive literature review
- Mine prior case studies and Flex work
- Conduct case studies

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Early Warning Signs -Financial

- Financial indicators
  - Declining days cash on hand and current ratio
  - Cash flow changes/deterioration
  - Increasing days in account receivable
  - Capital expenditures not keeping pace with depreciation
  - Internally prepared financial statements
  - Cost structure changes

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Early Warning Signs -Financial

- Operational indicators
  - Excessive FTEs per adjusted patient days
  - Decline in outpatient volume
  - Decline in outpatient utilization/rates below expected market share
  - Problematic physician relations
  - Employee issues
  - Quality and accreditation problems

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Early Warning Signs -Market

- Market indicators
  - Increasing/high unemployment rates
  - Increasing/high rates of uninsurance
  - Declining population rates
  - Declining employer base
- Increased competition
  - From external sources and within systems
  - FQHCs, other hospitals
- Major surprises
  - Loss of physicians
  - Changes in economy
  - Major market shift

Early Warning Signs - Organizational

- Limitations of board and staff
  - Often lack essential health care and financial expertise
  - Lack of representation and depth
  - Limited management resources
- Negative community perception
- No strategic plan
- CEO turnover
- Staff turnover
- Perceived drop in quality

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

Turnaround Characteristics - Non-Profit CAH, CA

- 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

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Turnaround Characteristics - County CAH, MO

- Economy: declining economy, aging population, no population growth, loss of key employers
- Quality: quality perceived to be good by board and members of the community
- Strategic growth: due to declining economy and local competition, opportunity for growth is limited
- External support: county funding through tax levy
- Management discipline: focus on controlling expenses and improving efficiency, staffing level and costs too high
- Management: returning administrator able to re-establish cost control

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Turnaround Characteristics - County CAH, IA

- Challenges: one major commercial insurer, low volumes, reimbursement, and physician recruitment
- Economy: agrarian industries, stable over last five years, signs of decline, concerns about population outmigration
- Strategies: ACO development in area, developing service to target aging local population, patient satisfaction, administrative efficiency, increase cash on hand, diversify
- External support: county funding through tax levy
- Management discipline: focus on strategic growth, hospital renovation, controlling expenses, and improving efficiency
- Management: administrator in place for four years, recent retirement of long-time administrative staff

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Turnaround Characteristics - Tax Exempt CAH, TX

- Challenges: Declining reimbursements, an unfavorable payer mix and sagging hospital operations, remote location, poor management infrastructure
- Part of a hospital system
- Strategies: improved operational accountability, strengthened physician relations, developed new revenue-generating programs, consolidated business office with another system hospital, substantially improved intake and billing process
- Management: promoted Nursing Director to CEO and hired new CFO, strengthened board
- Management discipline: focused on collecting better financial data on intake and qualifying patients in advance for charity

Turnaround Characteristics - County CAH, NC

- Challenges: long time decline in revenues and financial stability
- Approached county for funding and bond issues
- Strategies:
  - Renovated facility,
  - Improved physician recruitment and operations, formed physician practice group
  - Regained accreditation,
  - Formed network including 7 Rural Health Clinics
- Management: new administrator

Turnaround Characteristics - Tax Exempt CAH, CO

- Challenges: Declining volumes, technical default on bonds
- Community context: Near ski areas, high commercial payer mix (above 50 percent)
- Strategies:
  - Hospital board education
  - Billing process improvements for better cash flow
  - Supply spend analysis to reduce supply costs
  - Improved purchasing agreements and protocols
  - Monitor and control labor expenses and maximize staff productivity
  - Initiated 340B Drug Discount Program
  - Leadership training and cultural change initiatives emphasizing structure, discipline and accountability for long-term success

Keys to Turnaround

- Find dynamic leadership
- Create a strategic plan
- Leverage community support
- Reduce costs
- Develop revenue opportunities
- Improve revenue cycle management

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Keys to Turnaround (cont'd)

- Improve quality and customer satisfaction
- Reduce staff turnover
- Promote physician/hospital alignment
- Collaborate/enter into partnerships

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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

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Community Values to Consider

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

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Community Values (cont'd)

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