Rural Hospital Sustainability

Tips and Strategies to Improve the Position of your Rural Hospital

TAHFA & HFMA South Texas Fall Symposium

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Presenter

Community Hospital Corporation

Michael Morgan, Director of Due Diligence and Strategic Analysis
Community Hospital Corporation

• CHC owns, manages and consults with hospitals
• A not-for-profit organization based in Plano, Texas
• Our mission is to guide, support and enhance the mission of community hospitals and healthcare providers
Community hospitals are facing an increasingly challenging environment due to diminishing populations, declining utilization trends, and shrinking reimbursement rates.

According to data from the Agency for Healthcare Research and Quality, there are 68 PCPs per 100,000 people in rural areas, compared with 84 per 100,000 in urban areas.

- Approximately 65 percent of primary care health professional shortage areas are in rural counties, according to Rural Healthy People 2020.

Despite the many challenges facing the community health care community, there are actionable steps that rural hospitals can take to grow revenues and control costs.
The majority of independent hospitals today have less than 100 beds.

Independent community hospitals across the country are asking tough questions and examining innovative solutions in response to the challenging environment we find ourselves in.

Source: The Advisory Board Company. *The Community Hospital Advantage.*
Hospital Closures

- 77 rural hospitals have closed from January 2010 – Present

Hospital Closures (cont.)

• Most hospitals that closed between 2010 and 2014 exhibited some common traits:
  – States have not elected to expand Medicaid
  – Less than 150 FTEs
  – Less than $10M in salary and benefits expense
  – Less than 30% occupancy rate
  – No longer offer obstetrics services

Hospital Closures (cont.)

**Market Factors**
- Small or declining populations
- High unemployment (as high as 18%)
- High or increasing uninsured patients
- High proportion of Medicare and Medicaid patients
- Competition in close proximity

**Hospital Factors**
- Low daily census, as low as 2.3 patients a day
- Lack of consistent physician coverage
- Deteriorating facility
- Fraud, patient safety concerns, and poor management

**Financial Factors**
- High and increasing charity care and bad debt
- Severely in debt
- Insufficient cash-flow to cover current liabilities
- Negative profit margin

Hospital Financial Trends

2012 – 2014 Median Total Margins of Urban Hospitals and Rural Hospitals by Medicare Payment Classifications

Source: North Carolina Rural Health Research Program. 2012-14 Profitability of Urban and Rural Hospitals by Medicare Payment Classification.
Hospital Financial Trends (cont.)

2014 Operating Margin Quartiles of Urban Hospitals and Rural Hospitals by Medicare Payment Classification

Source: North Carolina Rural Health Research Program. 2012-14 Profitability of Urban and Rural Hospitals by Medicare Payment Classification.
Path To Financial Distress

Unprofitability

Net assets decline

Insolvency

Bankruptcy

Closure

Unprofitability, net assets decline, and closure data are readily available. Insolvency and bankruptcy data are not.

Source: North Carolina Rural Health Research Program. Predicting financial distress in rural hospitals.
## 2013 US Rural Hospitals and Signs of Financial Distress

<table>
<thead>
<tr>
<th>Financial distress signal</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unprofitability:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 years negative operating margin</td>
<td>659</td>
<td>30%</td>
</tr>
<tr>
<td>Negative cash flow margin</td>
<td>537</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Net assets decline:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt;20% decline in net assets</td>
<td>355</td>
<td>16%</td>
</tr>
<tr>
<td>Negative net assets</td>
<td>237</td>
<td>11%</td>
</tr>
<tr>
<td><strong>Closed:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No longer provides inpatient care</td>
<td>14</td>
<td>1%</td>
</tr>
</tbody>
</table>

What’s a hospital to do?
Operational Best Practices
Operational Best Practices

• Formal Medical Staff Development Plan
  – Identify the needs in your community by specialty
  – Identify physician succession planning needs
  – Identify recruitment priorities

• Annual Market Assessment
  – Evaluate demographics, market share, competitive environment and growth opportunities

• Annual Business Plan
  – Co-Developed by Board/Medical Staff/Hospital Administration
  – 5-7 Key Objectives
  – Initiatives should be actionable, measurable, and include target dates and responsible person(s)
  – Business Plan should be utilized to develop operating and capital budgets
Operational Best Practices (cont.)

• Maintain solid Revenue Cycle processes
  – Review key revenue cycle indicators each month

• Conduct formal, annual reviews...
  – Charge master/strategic pricing review
  – Review of all managed care plans
  – Third party annual coding audit
Operational Best Practices (cont.)

• Implement a Productivity Tool
  – Published bi-weekly (pay period)
  – Senior leadership/department managers held accountable to performance
  – Standards correlate to metrics in budget
  – Monthly department manager financial performance reviews
Operational Best Practices (cont.)

- Supply Chain – GPO that maximizes supply savings

<table>
<thead>
<tr>
<th>Hospital</th>
<th>M/S Savings %</th>
<th>M/S Savings</th>
<th>Rx Savings %</th>
<th>Rx Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>306 beds</td>
<td>12.74%</td>
<td>$578,000</td>
<td>9.39%</td>
<td>$383,000</td>
</tr>
<tr>
<td>104 beds</td>
<td>6.00%</td>
<td>$68,000</td>
<td>9.31</td>
<td>$127,000</td>
</tr>
<tr>
<td>57 beds</td>
<td>17.55%</td>
<td>$913,000</td>
<td>9.39</td>
<td>$31,000</td>
</tr>
<tr>
<td>40 beds</td>
<td>20.35%</td>
<td>$112,000</td>
<td>10.8</td>
<td>$88,000</td>
</tr>
<tr>
<td>15 beds</td>
<td>46.50%</td>
<td>$37,000</td>
<td>21.28</td>
<td>$18,000</td>
</tr>
</tbody>
</table>

- Purchased services/professional contracts should be reviewed annually.
  - Contract compliance as well as benchmarking against marketplace for pricing
  - Review of repairs and maintenance agreements
Operational Best Practices (cont.)

- Consider a regional partner relationships or affiliations. *Remember: independence doesn’t mean isolation.*
What should we measure?
Monthly financial indicators
Key Financial Indicators

- Aggregate volume and provider utilization trends
- Operating Ratios
  - Net to gross revenue percentage
  - Expenses as a percent of Net Operating Revenue (key in on labor, supplies, and purchased services)
  - Revenue and expenses per adjusted patient day trends – understanding how trends are affected by growing outpatient volumes/diminishing inpatient volumes.
  - Understand labor costs relative to volumes. Is the hospital flexing staff properly? EEOB (FTE staffing per adjusted occupied bed) targets are key.
Key Financial Indicators (cont.)

• Patient Revenue Indicators
  – Bad debt percentage
  – Inpatient and outpatient revenue percentages
  – Net to gross percentage by payor class

• Liquidity Ratios
  – Cash and cash equivalents balance
  – Days cash on hand
  – Net days in patient accounts receivable
  – Rolling 12 month cash collections as a percentage of net revenue less bad debts
Key Financial Indicators (cont.)

- Liquidity Ratios (cont.)
  - Create a dashboard of business office indicators for monthly review

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Target</th>
<th>Current Month</th>
<th>FYTD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>High</td>
</tr>
<tr>
<td>Days Unbilled</td>
<td>5 days</td>
<td>11 days</td>
<td>11 days</td>
</tr>
<tr>
<td>Rolling 12 Mos Cash Collect % Net Rev Less Bad Debts</td>
<td>100.0%</td>
<td>99.0%</td>
<td>106.4%</td>
</tr>
<tr>
<td>A/R Days (Net)</td>
<td>48 days</td>
<td>42 days</td>
<td>42 days</td>
</tr>
<tr>
<td>Percent of Medicare &lt; 60 days</td>
<td>95%</td>
<td>92%</td>
<td>92%</td>
</tr>
<tr>
<td>Percent of Medicaid &lt; 90 days</td>
<td>90%</td>
<td>64%</td>
<td>76%</td>
</tr>
<tr>
<td>Percent of Commercial Insurance &lt; 90 days</td>
<td>90%</td>
<td>62%</td>
<td>66%</td>
</tr>
<tr>
<td>Credit Balance %</td>
<td>3%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Cost to Collect per Dollar</td>
<td>$0.05</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
</tbody>
</table>
### Nonprofit Hospitals and Healthcare Systems Financial Benchmarks

<table>
<thead>
<tr>
<th></th>
<th>Median</th>
<th>AA Rating</th>
<th>A Rating</th>
<th>BBB Rating</th>
<th>Below BBB Rating</th>
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</thead>
<tbody>
<tr>
<td>Days Cash on Hand</td>
<td>203.4</td>
<td>289.4</td>
<td>205.3</td>
<td>161.5</td>
<td>85.9</td>
</tr>
<tr>
<td>Days in Accounts Receivable</td>
<td>48.2</td>
<td>47.4</td>
<td>48.1</td>
<td>50.6</td>
<td>49.8</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>3.0%</td>
<td>4.9%</td>
<td>3.6%</td>
<td>0.6%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Operating EBITDA Margin</td>
<td>9.7%</td>
<td>11.5%</td>
<td>10.3%</td>
<td>7.7%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Excess Margin</td>
<td>4.8%</td>
<td>7.6%</td>
<td>5.4%</td>
<td>2.4%</td>
<td>0.4%</td>
</tr>
<tr>
<td>EBITDA Margin</td>
<td>11.7%</td>
<td>14.7%</td>
<td>12.4%</td>
<td>9.5%</td>
<td>8.9%</td>
</tr>
<tr>
<td>Cash to Debt Percentage</td>
<td>141.8%</td>
<td>201.7%</td>
<td>143.7%</td>
<td>89.5%</td>
<td>52.2%</td>
</tr>
<tr>
<td>Bad Debt as Percentage of Patient Revenue</td>
<td>5.3%</td>
<td>4.5%</td>
<td>5.4%</td>
<td>5.7%</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

**Source**
Summary

• Ultimately, hospitals in financial distress face closure.
• As operators, we need to understand and communicate the importance of business planning and its interconnectedness to financial success.
• We should create opportunities throughout all levels of the organization for ownership of specific initiatives to occur.
Thank You!

Community Hospital Corporation
7800 N. Dallas Parkway, Suite 200
Plano, Texas 75024
972.943.6400
www.communityhospitalcorp.com