Keeping the H in Hometown

Rural Hospital Sustainability

Tips and Strategies to Improve the Position of your Rural Hospital

TAHFA & HFMA South Texas Fall Symposium

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CHC
Community Hospital Consulting

Presenter

Community Hospital Corporation

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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

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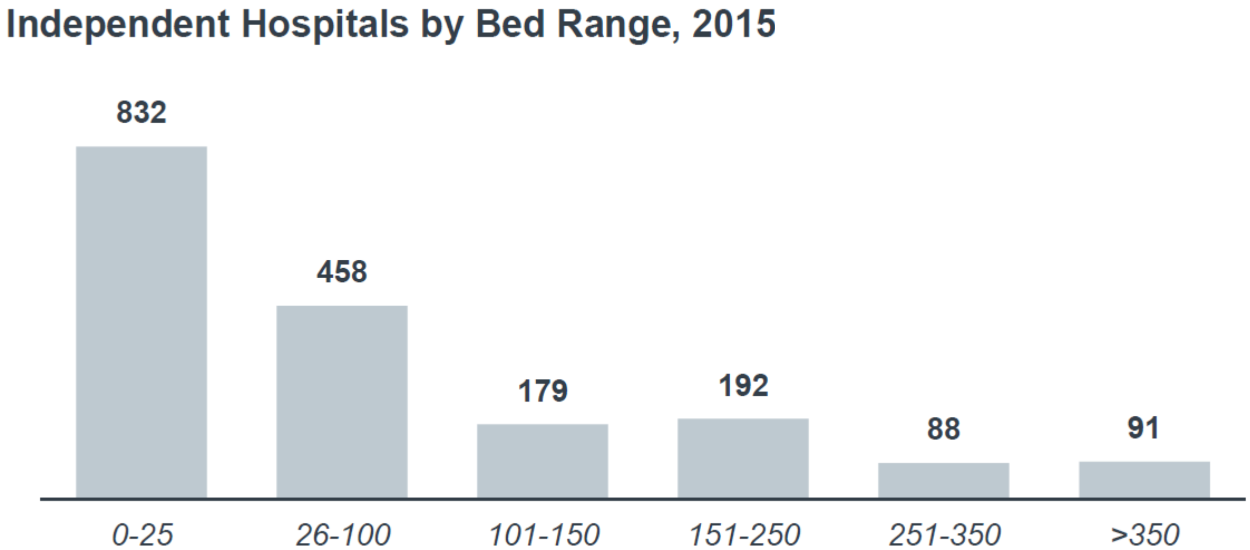
The Community Hospital Dilemma

- 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.

Am I Able to Stay Independent?

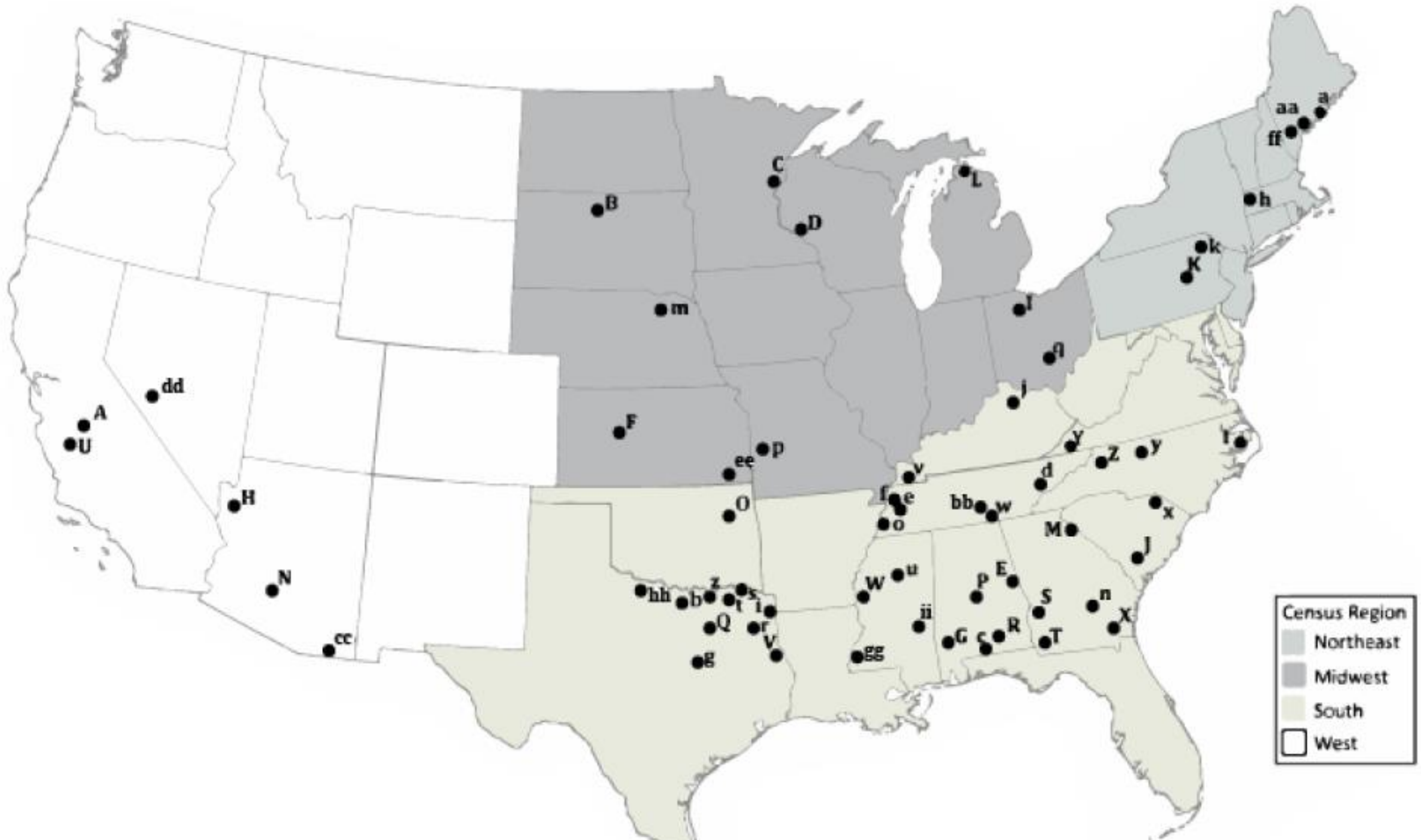


- The majority of independent hospitals today have less than 100 beds.
- Independent community hospitals across the country are asking tough questions and examining innovative solutions in response to the challenging environment we find ourselves in.

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

Hospital Closures

- 77 rural hospitals have closed from January 2010 – Present



Source: North Carolina Rural Health Research Program. *Rural Hospital Closures*: 61iv Closures from January 2010-Present.* http://www.beckershospitalreview.com/finance/a-state-by-state-breakdown-of-77-rural-hospital-closures.html

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

Source: North Carolina Rural Health Research Program. *Predicting financial distress in rural hospitals.*

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

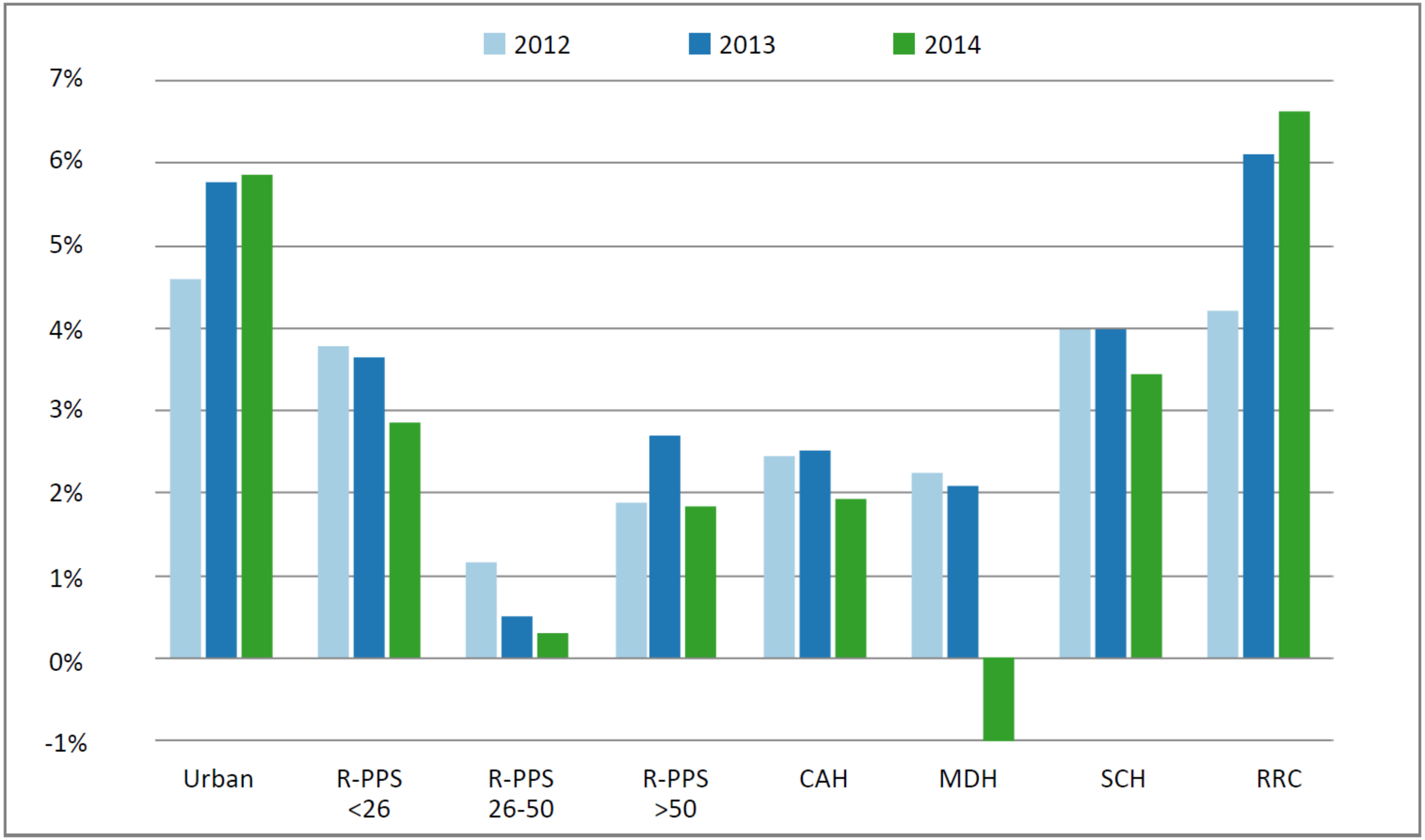
Financial Factors

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

Source: North Carolina Rural Health Research Program. *Predicting financial distress in rural hospitals.*

Hospital Financial Trends

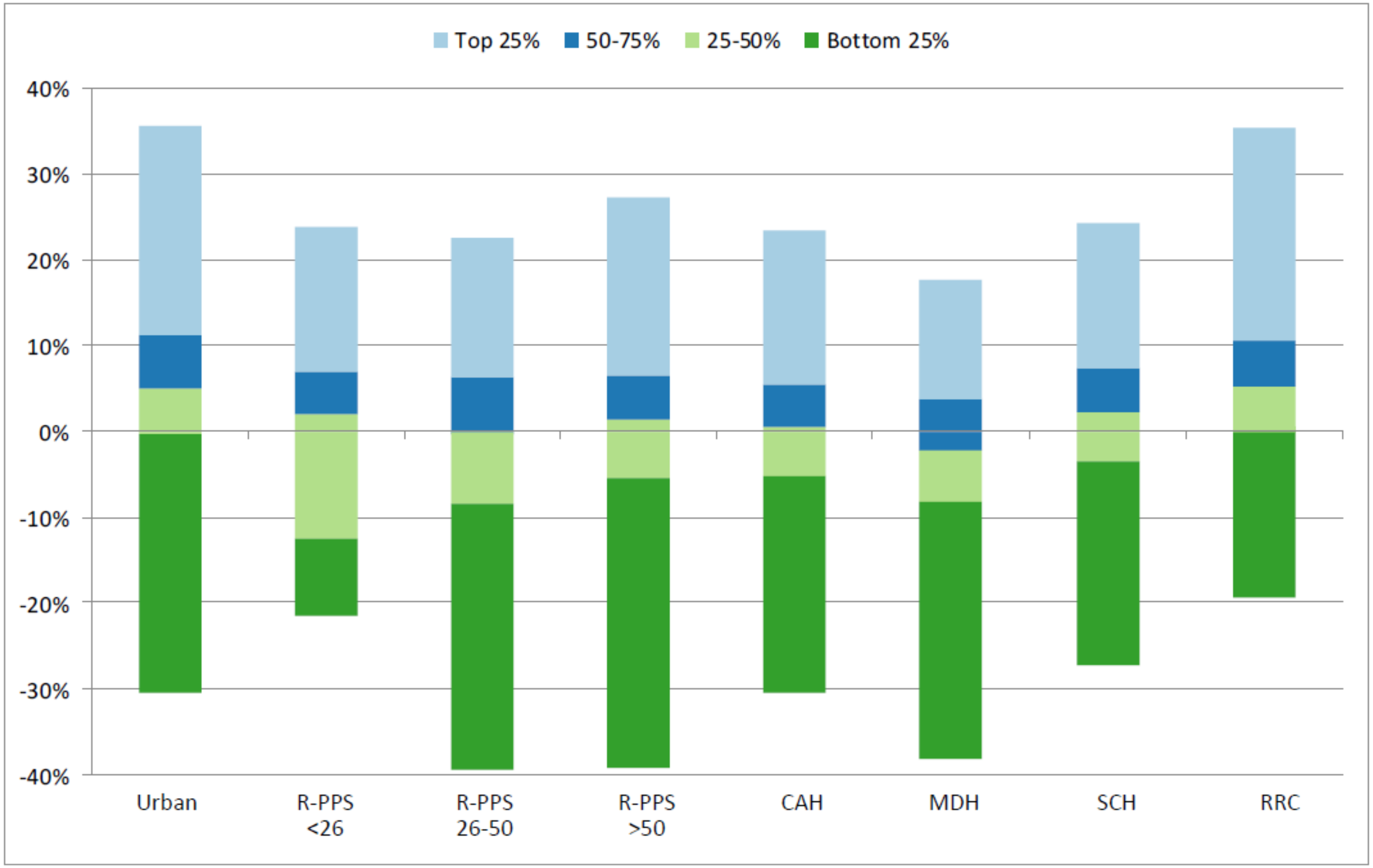
2012 – 2014 Median Total Margins of Urban Hospitals and Rural Hospitals by Medicare Payment Classifications



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

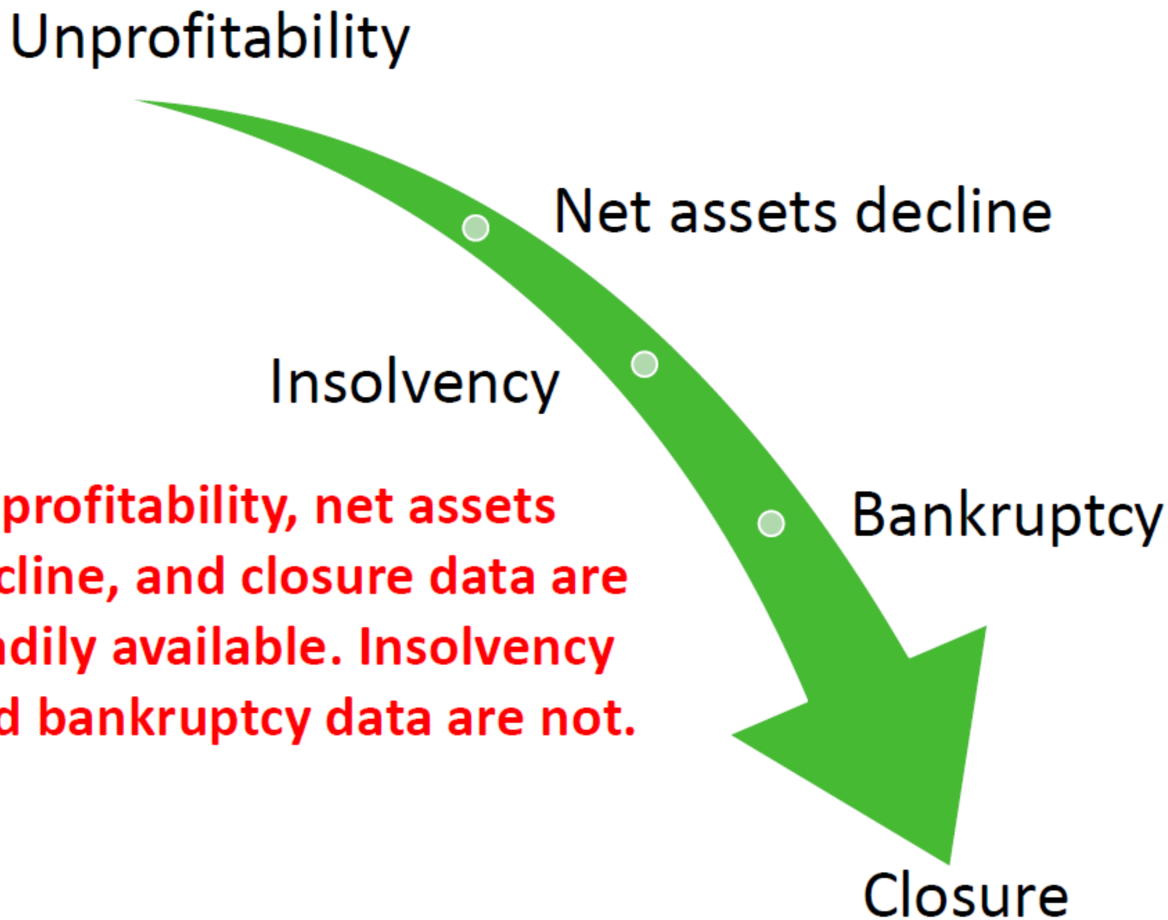
Hospital Financial Trends (cont.)

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, 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

Financial distress signal	Number	Percent
Unprofitability:		
2 years negative operating margin	659	30%
Negative cash flow margin	537	24%
Net assets decline:		
>20% decline in net assets	355	16%
Negative net assets	237	11%
Closed:		
No longer provides inpatient care	14	1%

Source: North Carolina Rural Health Research Program. *Predicting financial distress in rural hospitals.*

What's a hospital to do?

Operational Best Practices

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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

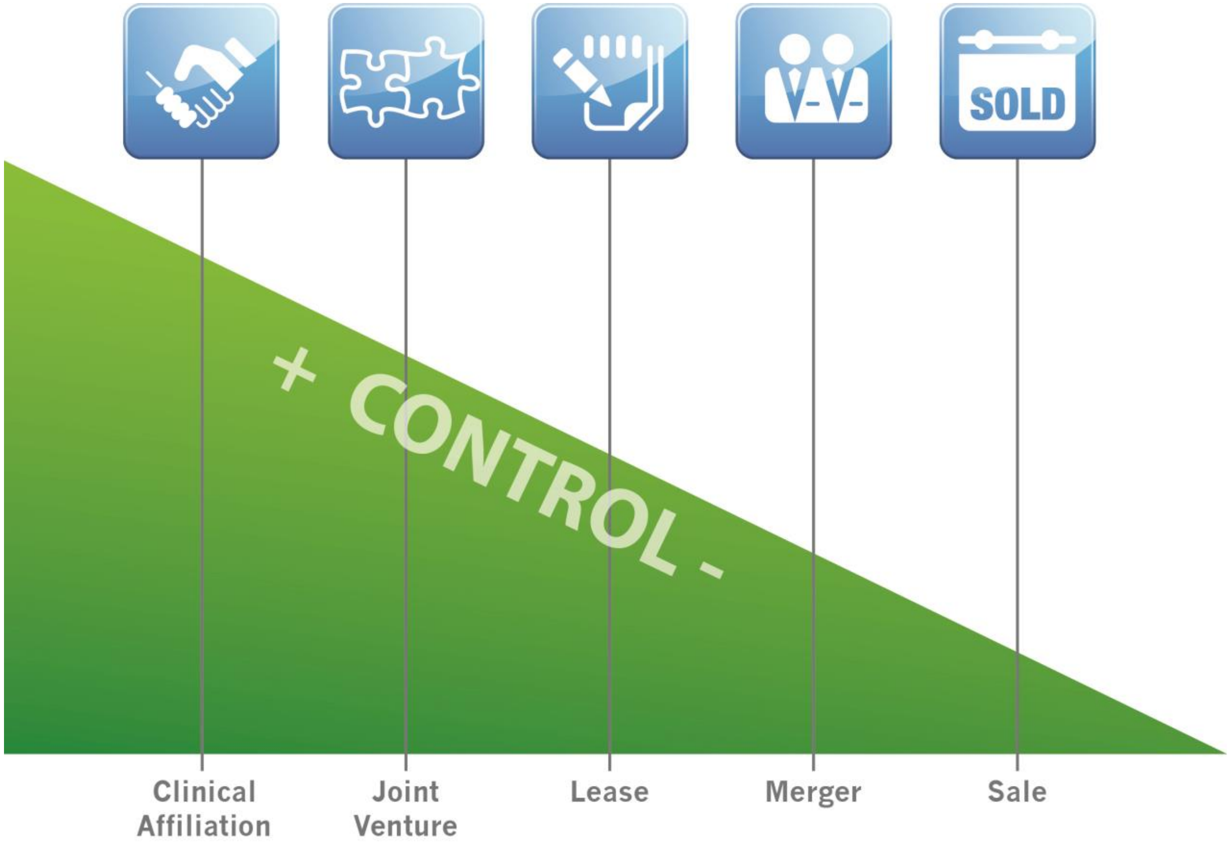
CHC Supply Trust Findings

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

- 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

Indicator	*Target*	*Current Month*	*FYTD*		
			High	*Low*	*Avg*
Days Unbilled	5 days	11 days	11 days	6 days	7 days
Rolling 12 Mos Cash Collect % Net Rev Less Bad Debts	100.0%	99.0%	106.4%	99.0%	103.8%
A/R Days (Net)	48 days	42 days	42 days	35 days	38 days
Percent of Medicare < 60 days	95%	92%	92%	87%	90%
Percent of Medicaid < 90 days	90%	64%	76%	64%	73%
Percent of Commercial Insurance < 90 days	90%	62%	66%	61%	63%
Credit Balance %	3%	1%	2%	1%	1%
Cost to Collect per Dollar	$0.05	$0.00	$0.00	$0.00	$0.00

Non-Profit Financial Benchmarks

Nonprofit Hospitals and Healthcare Systems Financial Benchmarks

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

Source

Fitch Ratings, "2014 Median Ratios for Nonprofit Hospitals and Healthcare Systems" report, Aug 2015 (Becker's, Oct 15)

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!

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