Factors Supporting Critical Access Hospital Turnaround
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Flex Monitoring Team

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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
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, measurable 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
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