Trailblazing Critical Access Hospital Turnarounds

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A Performance Monitoring Resource for
Critical Access Hospitals, States, and Communities

Flex Monitoring Team

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Learning Objectives

- Factors contributing to hospital instability
- Identifying “at-risk” hospitals
- Key elements supporting hospital turnaround
- Characteristics of high performing hospitals
- Supporting vulnerable CAHs
- Examples of CAH turnarounds

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
- On the radar screen: CAHs within 10 miles of another facility and with very low census/utilization rates
- Systems less unwilling to "carry" poorly performing CAHs
- Communities do not understand realities of hospital finance

Realities

- Only concerted advocacy efforts have protected Flex from funding cuts
- Pay for performance presents another non-regulatory threat to cost-based reimbursement
- CAHs are beginning to close (Maine, Georgia, Pennsylvania, other states)
- A focus on business services and operations is not sufficient to save many hospitals
- With rare exceptions, cost cutting is not a solution either

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

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
- 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

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 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/beliefs supporting collaboration, trust, achievement, accountability
- Relationships: developing strong, positive hospital-employee and hospital-physician relationships

Turnaround Characteristics - County CAH, MO

- Declining economy, aging population, no population growth, loss of key employers
- Quality perceived to be good by board and the community
- Strategic growth: limited opportunities for growth
- External support: county funding through tax levy
- Focus on controlling expenses and improving efficiency - staffing levels and costs too high
- Returning administrator able to re-establish cost control
- Administrator in constant communication with staff and community to explain changes

Turnaround Characteristics - County CAH, IA

- One major commercial insurer, low volume, reimbursement, and physician recruitment
- Agrarian economy showing signs of decline, concerns about population outmigration, local support, and utilization
- ACO development, serving aging population, patient satisfaction, efficiency, increase cash on hand, diversification
- County funding through tax levy
- Strategic growth, hospital renovation, controlling expenses, and improving efficiency
- CEO in place for four years, retirement of administrative staff

Turnaround Characteristics - Tax Exempt CAH, TX

- Declining reimbursements, unfavorable payer mix, sagging operations, remote location, poor management infrastructure
- Part of a hospital system
- Improved operational accountability, strengthened physician relations, new revenue-generating programs, consolidated business office with another system hospital, improved intake and billing process
- Nursing Director promoted to CEO, new CFO, strengthened board
- Collecting better financial data on intake and qualifying patients in advance for charity care

Turnaround Characteristics - County CAH, NC

- Declining 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
- New administrator

Turnaround Characteristics - Tax Exempt CAH, CO

- Declining volumes, technical default on bonds
- Near ski areas, high commercial payer mix (above 50%)
- Strategies:
  - Board education
  - Billing process improvements for better cash flow
  - Spending 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
- Improve quality and customer satisfaction
- Reduce staff turnover
- Promote physician/hospital alignment
- Collaborate/enter into partnerships

Important Strategies

- Adopt a framework to guide turnaround activities
  - Supports a top to bottom look at hospital operations and provides a "road map" to develop needed strategies
  - Suggestion: CAH Blueprint for Performance Excellence
- Expand and develop programs and services
  - Hospitals can rarely be saved solely by cutting costs - revenues and volume are necessary. Investment may be needed.
- Benchmark staffing hours.
  - Internally and against other providers to identify opportunities to improve efficiency.
- Benchmark revenue
  - Assess if hospital is operating within established standards and identify opportunities to improve contracting, operational, and financial processes.

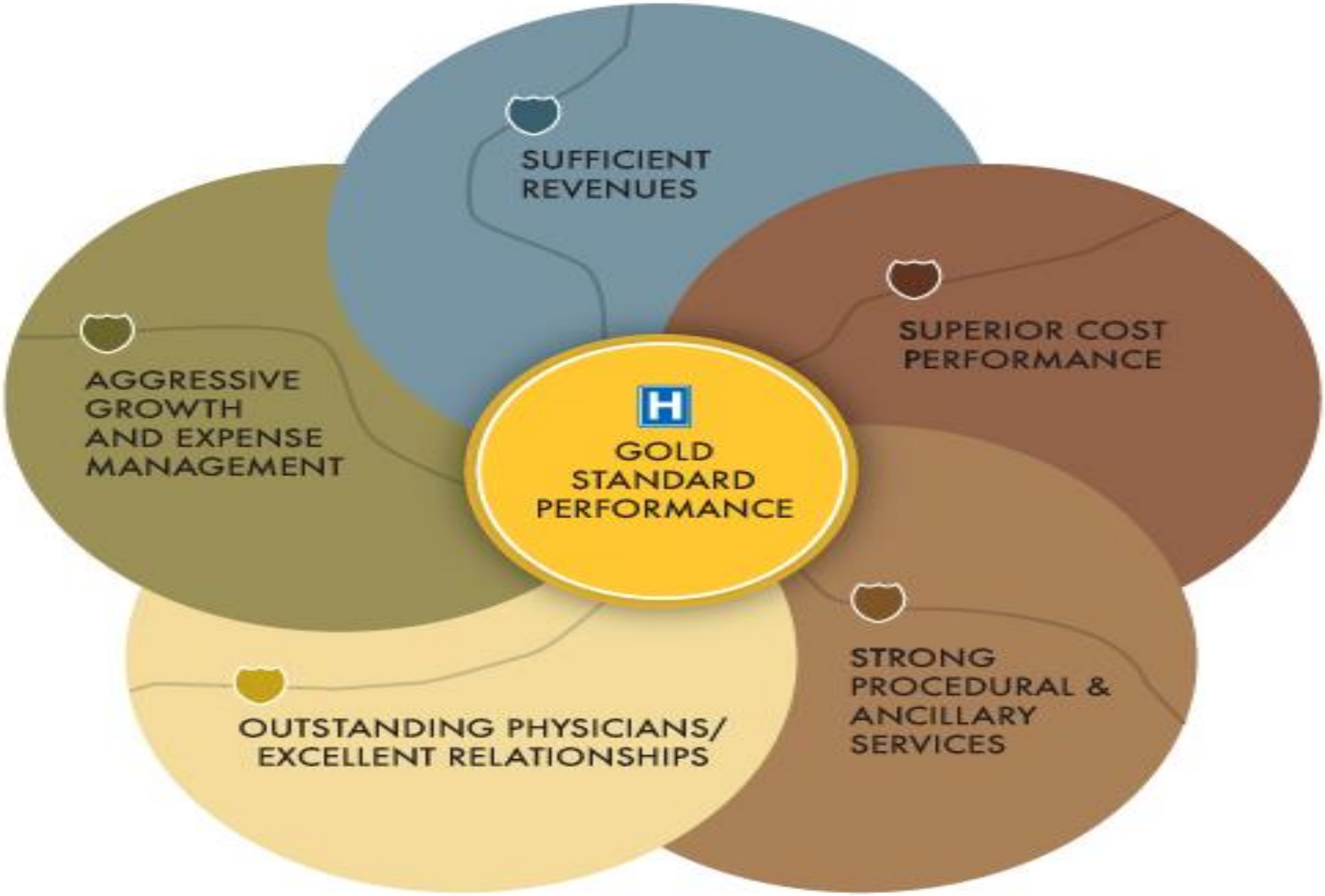
Important Strategies

- Target the revenue cycle process
  - Front end is critical–collect accurate patient information/authorizations.
- Implement a patient accounting system
  - Use to manage all stages of the revenue cycle to minimize claims delays and denials.
- Listen to the physicians
  - Physician involvement/engagement are critical to hospital operations.
- Involve the board
  - Engage boards to address the changing needs of the hospital and to serve as community champions.

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

THE GOLD STANDARD ROAD MAP



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

Community Values to Consider

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