



The Performance Improvement Imperative for Community, County, and District-Owned Hospitals

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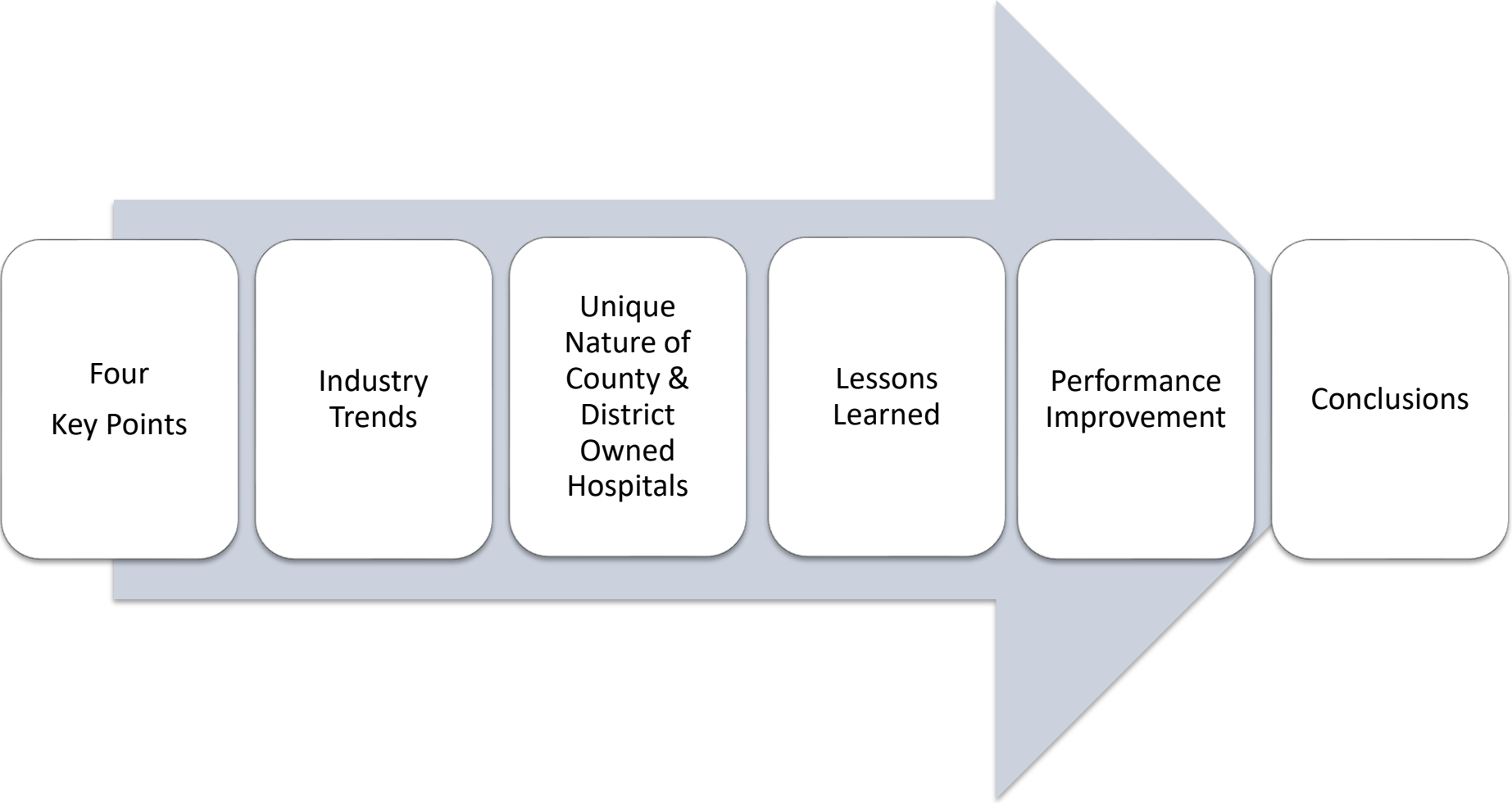
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Agenda



Main Points - Key Findings

A Very Dynamic Healthcare Environment

- Essential to understand organizational risk profile and manage strategic risks
- Risk profile changes have far reaching effects but can also go undiagnosed

Relationship Constraints

- Trust and communication as the essential currency
- Develop a mechanism to improve communication and forge trust

Common Fact Base and Shared Vision

- Develop a common fact base to downgrade emotions and make objective decisions
- Craft a shared vision to unite stakeholders and create common ground

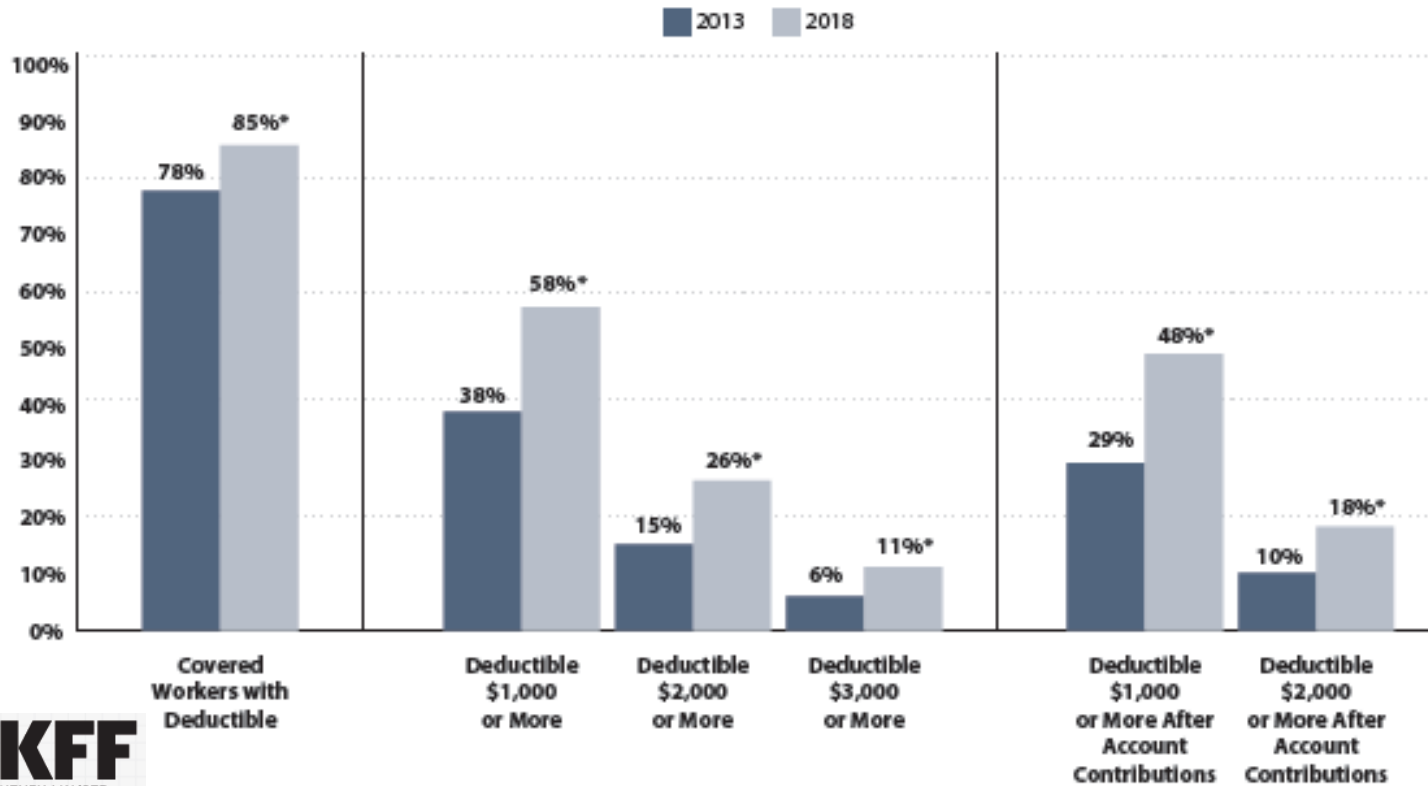
Operating Performance

- Distractions from operating discipline are costly
- Cash/cash flow are the lifeblood of any strategic option

Industry Trends

Increasing Consumer Payment Responsibility = Greater Financial Risk for Providers

Percentage of Covered Workers With Various Single Coverage General Annual Deductible Levels, 2013 and 2018



* Estimate is statistically different from estimate for the previous year shown (p < .05).

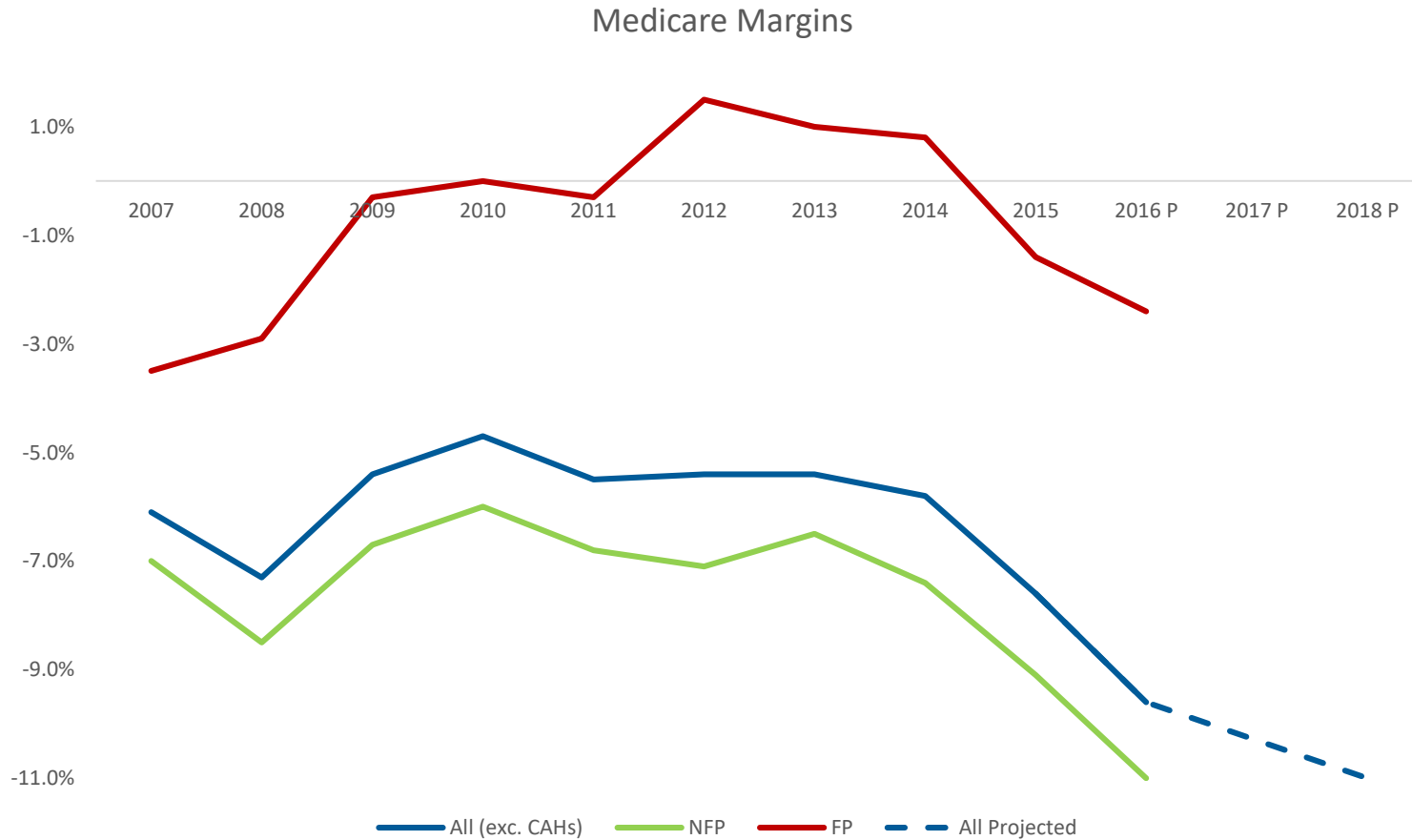
NOTE: These estimates include workers enrolled in HDHP/SOs and other plan types. Account contributions include an employer's contribution to an HSA or HRA. Average general annual deductibles are for in-network providers.

SOURCE: KFF Employer Health Benefits Survey, 2018; Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2013

- Covered workers with deductibles has risen since 2013, increasing consumer responsibility
- This increase in covered workers with deductibles has increased at the \$1K, \$2K, and \$3K average deductible levels

- *Increasing consumer deductibles means greater consumer/patient responsibility for payment*
- *For healthcare providers, greater consumer/patient responsibility means more financial risk*

Medicare Margins: US Hospitals



Medicare margins are expected to decline due to cessation of Meaningful Use funding and decreases in uncompensated care payments due to coverage expansion of ACA.

Margin Contraction Threatens Nonprofit Hospitals



MOODY'S

- **August 2018:** According to Moody's, **expense growth for nonprofit and public hospitals outpaced annual revenue growth in FY2017**
 - The median annual expense growth rate was 5.7 percent in FY2017, down from 7.1 percent the previous year
 - The lower expense rate was largely due to better control of supply and labor costs
 - However, the annual revenue growth rate declined faster, falling from 6.1 percent in fiscal 2016 to 4.6 percent in fiscal 2017
 - The **lower revenue growth was attributable to factors including the shift to outpatient care, increased ambulatory competition and lower reimbursement rates**
- Moody's expects **nonprofit hospital margins will continue to be suppressed through 2018** after median operating margins and cash flow margins fell to all-time lows of 1.6 percent and 8.1 percent, respectively, in fiscal 2017
- The medians are based on an analysis of audited fiscal year 2017 financial statements for 303 freestanding hospitals, single-state health systems and multistate healthcare systems, representing 78 percent of all Moody's-rated healthcare entities

Unique Nature of County & District Owned Hospitals

Unique Nature of County & District Owned Hospitals



Multiple layers of governance and responsibility results in blurred lines of accountability



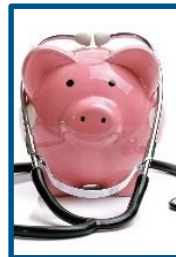
Political agendas, poor communication and lack of transparency can undermine effective board oversight functions



Public conflict dissuades talented and capable board nominees, providers and staff



In some cases a government owned hospital system is not permitted to expand outside of the county/parish/district boundary



In some jurisdictions, authority-owned hospitals cannot file bankruptcy

County & District Owned Hospitals, continued



Subject to open meeting/sunshine laws



Tax support can mask actual financial and operational struggles of the hospital



Eroding operating performance creates financial exposure for tax payers and compromises a public asset



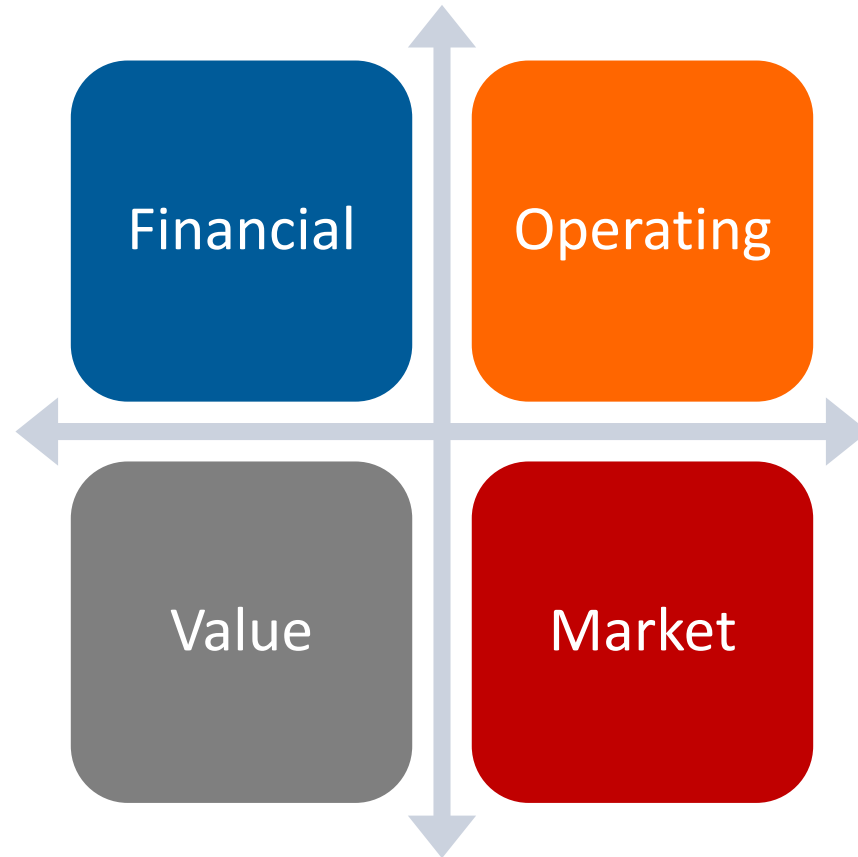
The County/District hospital is everyone's business: a complicated business and critical community resource becomes a source of division

Lessons Learned

County and District-Owned Hospitals Have a Higher Propensity for Inter-Board Conflict and Dysfunction

- Eroding hospital operating performance
- Reductions to hospital services
- Contentious medical staff or employee issues
- Hospital board and management resist questions posed by elected officials
 - Management decisions are debated/second guessed by public officials
- Differing risk tolerances/perceptions of strategic risk held by hospital and county/district officials
- Personal agendas and histories drive board agendas and debate, driving away talented board members, providers and staff
- A lack of transparency, poor communication and personality conflicts all undermine the trust needed for effective county/district and hospital board oversight functions

Evaluating & Mitigating Strategic Risk



Many boards do not appreciate the cumulative effects of changes in risk factors that can take place over several years.

- The strategic risk profile for most hospitals and health systems is quite dynamic
- The four risk domains depicted to the left describe the major sources of strategic risk in today's environment
- Poor performance in one domain will have collateral or "spill over" effects on one or more of the other domains
- Key trends within each risk category should be monitored annually and long term trends quantified

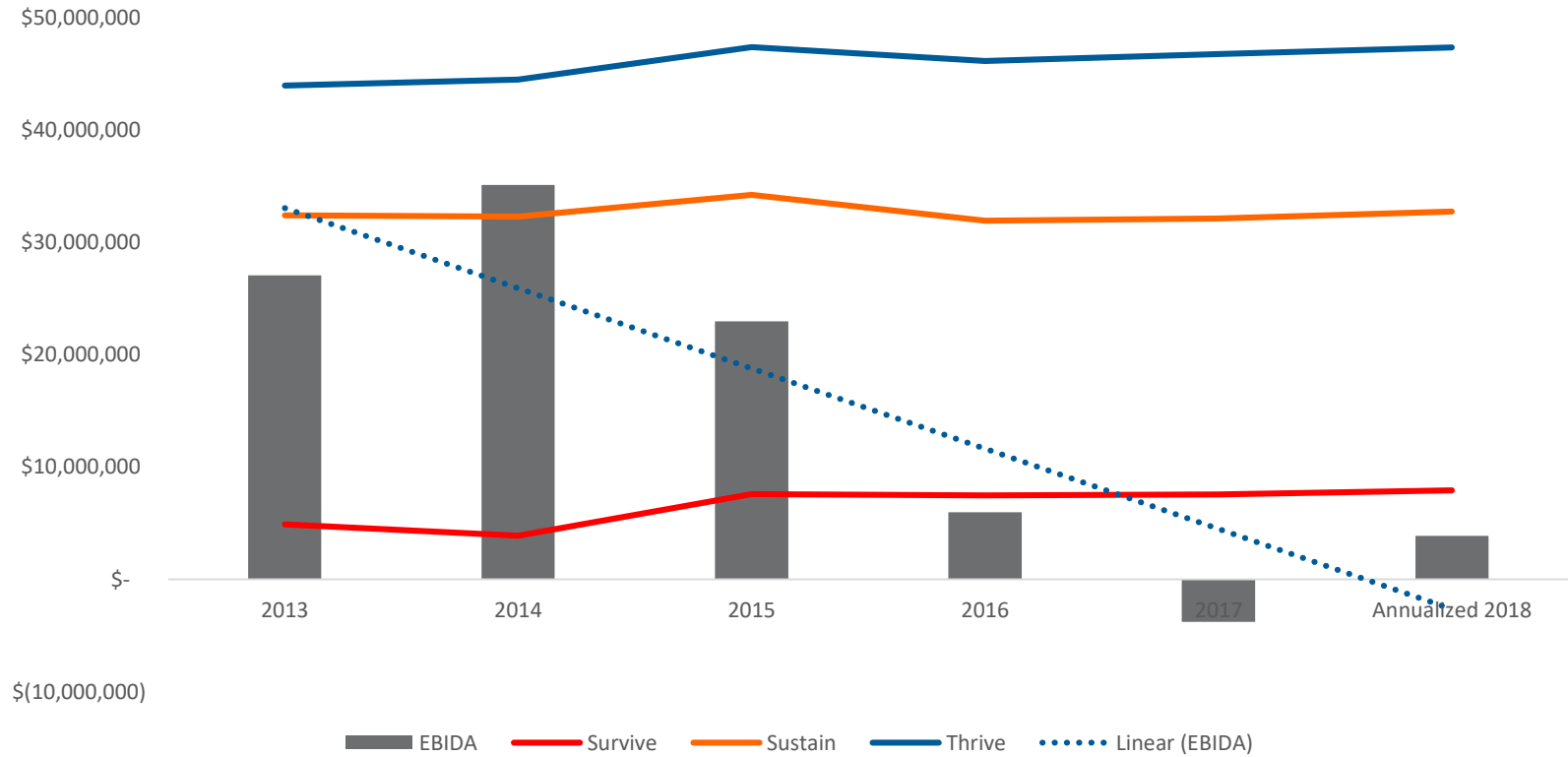
Key Strategic Risk Indicators

Category	Indicators	Comments
Financial Risk Indicators	<ul style="list-style-type: none"> Operating Revenue Trend Operating Cash Flow & Cash Flow Margin Debt Service Coverage Operating Margin Days Cash on Hand Days in A/R 	<ul style="list-style-type: none"> Top line revenue growth is vital to long term health of organization Operating Cash Flow & Cash Flow Margin are critical for DSCR covenant and investment
Operating Risk Indicators	<ul style="list-style-type: none"> FTEs per AOB Case Mix Index Payer Mix Key Volume Trends (O/P and I/P) Practice Operations, Production and Losses Revenue and Cost per Adjusted Patient Day 	<ul style="list-style-type: none"> FTEs per AOB key efficiency metrics Payer mix and CMI indicate how well the organization is competing for sought after patient populations
Value Risk Indicators	<ul style="list-style-type: none"> Cost Position / Total Cost of Care Attributed Covered Lives Quality Scores Performance at Managing Risk for ERISA, ACO and other Population Health vehicles Retail pricing and charge variability 	<ul style="list-style-type: none"> Covered lives reflect key population health metric and move from fee for service What is the organization's ability to manage the health status of populations
Market Risk Indicators	<ul style="list-style-type: none"> Market Share Trends Provider Alignment, Recruitment and Retention (vs. documented need; turnover, productivity) Consumer Preference Research 	<ul style="list-style-type: none"> Market share is an indicator of how well the hospital is competing for patients and covered lives Provider alignment is essential for attribution of covered lives

Performance Improvement

From Sustainability to Survival: A Difficult Operating Environment

EBIDA (\$000s) incl. Tax Proceeds



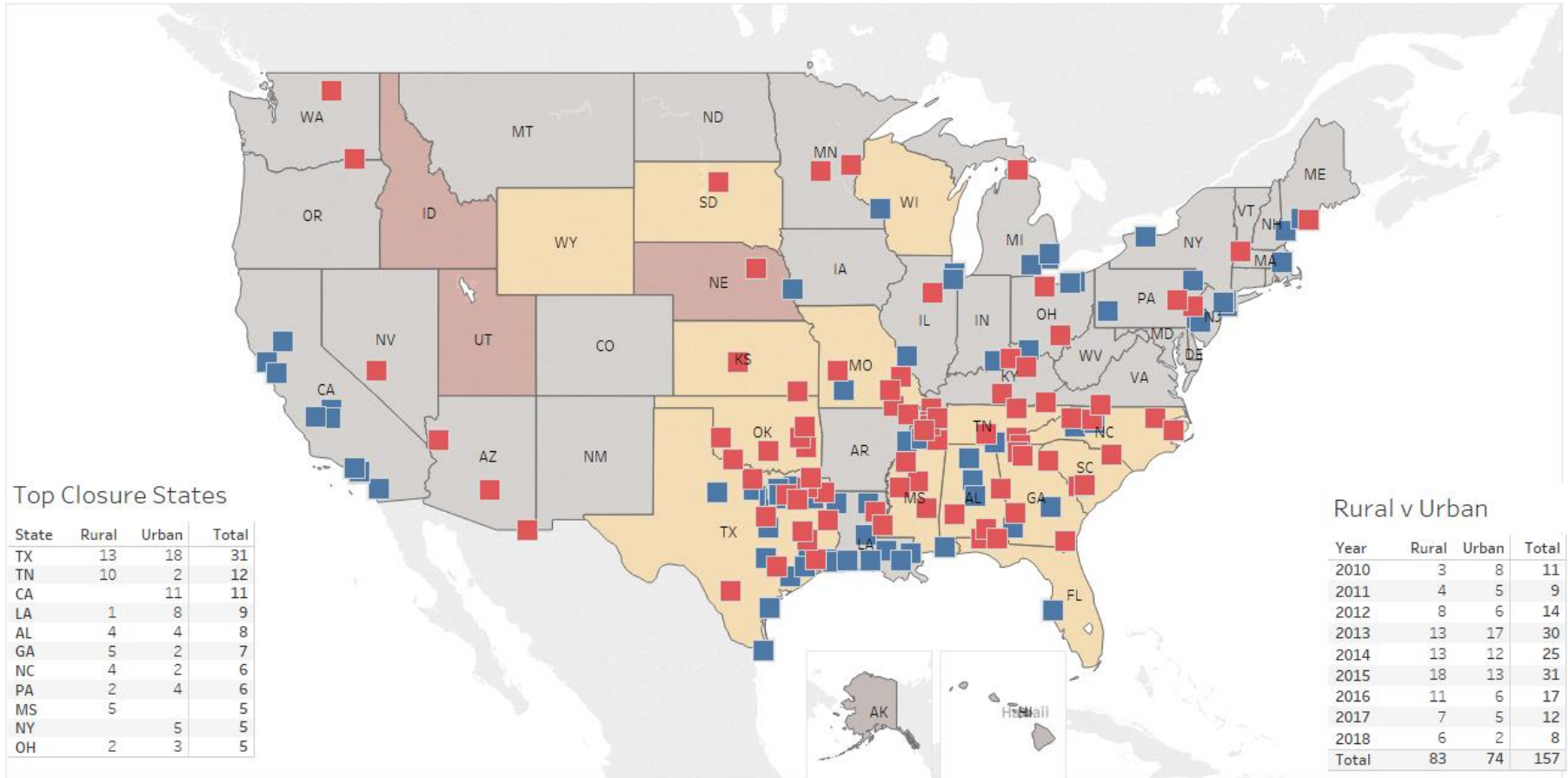
EBIDA = Thrive: 4.0% of operating expenses + 120% of depreciation expense + debt service

EBIDA = Sustain: 120% of depreciation expense + debt service

EBIDA = Survive: debt service

Difficult Operating Environment & National Hospital Closures

Rural and Urban Hospital Closures since 2010



Current Status of Medicaid Expansion Decision

- Adopted the Medicaid Expansion
- Considering the Medicaid Expansion
- Not Adopting the Medicaid Expansion at this Time

Rural v Urban

- Rural
- Urban

Rural v Urban based on cost report designation

Sources: Cost Report data, The Cecil G. Sheps Center for Health Services Research, KFF.org (Updated 5/11/2018)

When Should Performance Improvement Be Addressed?

Declining reimbursement and reduced inpatient utilization are forcing healthcare organizations to retool existing assets and operations to match the evolving demand for healthcare services.

- Two or more years of declining net patient revenue; recurring failure to achieve budgeted levels of performance
- Delayed investments in necessary capital infrastructure and clinical equipment
- Triggering events that impact bond ratings, bond covenants, or other financial commitments
- Loss of key provider relationships or management resources
- Lack of internal tools to monitor and adjust operations to match changing service demand



Because many healthcare organizations across the country are struggling to maintain positive financial performance, many of these organizations fail to appreciate how grave their operations are since “everyone is struggling.”

Performance Improvement: Growing Revenue

Revenue Enhancement

- Revenue cycle & business office management
 - Chargemaster
 - Code utilization
 - Billing & collection practices
 - Denial management
- Employed providers & provider clinics
 - Provider productivity
 - Clinic practice management
 - Clinic designation planning

Sources of Longer Term Revenue Growth

- Payor contract renegotiation
- Direct contracting with local employers
- Strategic service line growth



Importantly, speed-to-impact of revenue enhancement opportunities is critical for hospitals that need to improve their cash position.

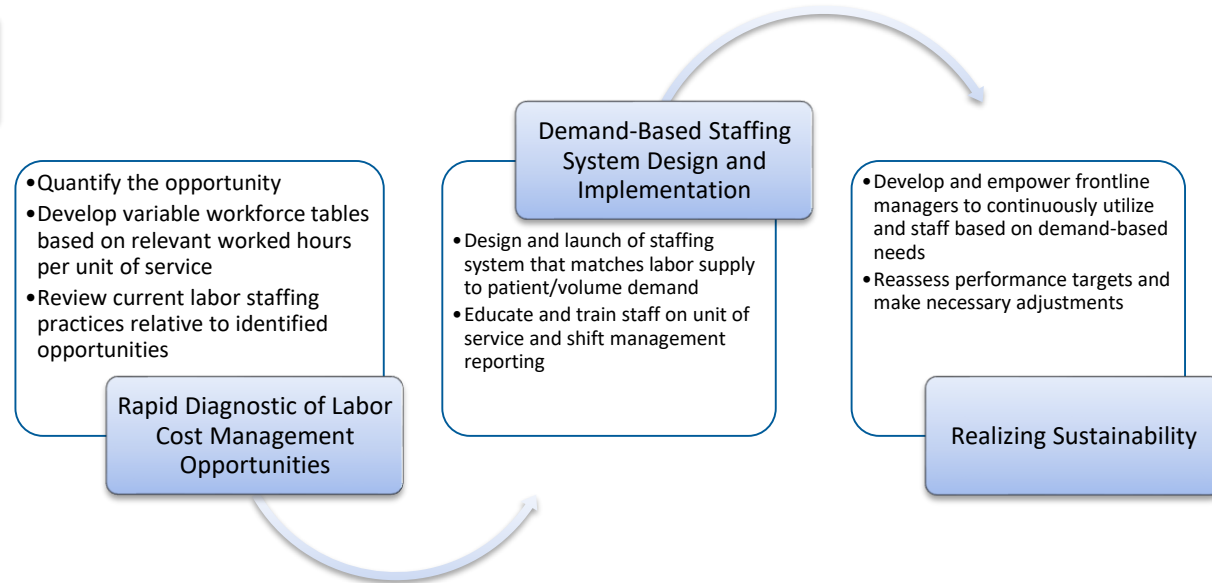
Areas of focus to realizing enhanced revenue:

- Quantify and execute on immediate revenue enhancing activities like Revenue Cycle enhancement*
- Train and equip providers and provider staff in more efficient practice operations that improve bottom-line financial performance*
- Measure the ROI from longer-term growth opportunities to ensure effective utilization of limited financial resources*

Performance Improvement: Controlling Costs

Labor Productivity and Staffing

- On average, 50 – 60% of hospital operating expenses are directly tied to staffing costs
- For healthcare organizations that need to realize performance improvement, managing staff to match service demand or patient volume represents a key opportunity for reducing labor expenses by 10 to 15%
- Equipping and empowering frontline managers to make these demand-based adjustments to staffing is key to realizing performance improvement in this area



Executive-level sponsorship is critical to realizing more efficient, demand-based staffing practices.

Necessary components to recognizing labor cost management:

- Rapidly identify and quantify the performance improvement opportunity under a demand-based staffing system
- Design, implement, and track the improved financial performance of healthcare organizations from utilizing a demand-based staffing system
- Train and transfer responsibility for continued execution of demand-based staffing practices to frontline managers to ensure sustainability of results

Performance Improvement: Improving Patient Experience

Redesigning Processes to Focus on the Patient

- Overtime, all organizations are prone to developing “workaround” processes that attempt to solve one problem but eventually create others.
- In healthcare organizations, these workarounds can create unexpected issues that contribute to:
 - Uncoordinated and delayed admissions processes
 - Delays in patient discharges
 - Long wait times, extended treatment times, high cost and low reimbursement issues, especially in the Emergency Dept
- Redesigning these processes provides healthcare organizations with an opportunity to realize efficiencies that maximize reimbursement, enhance care quality, and promote greater patient satisfaction.

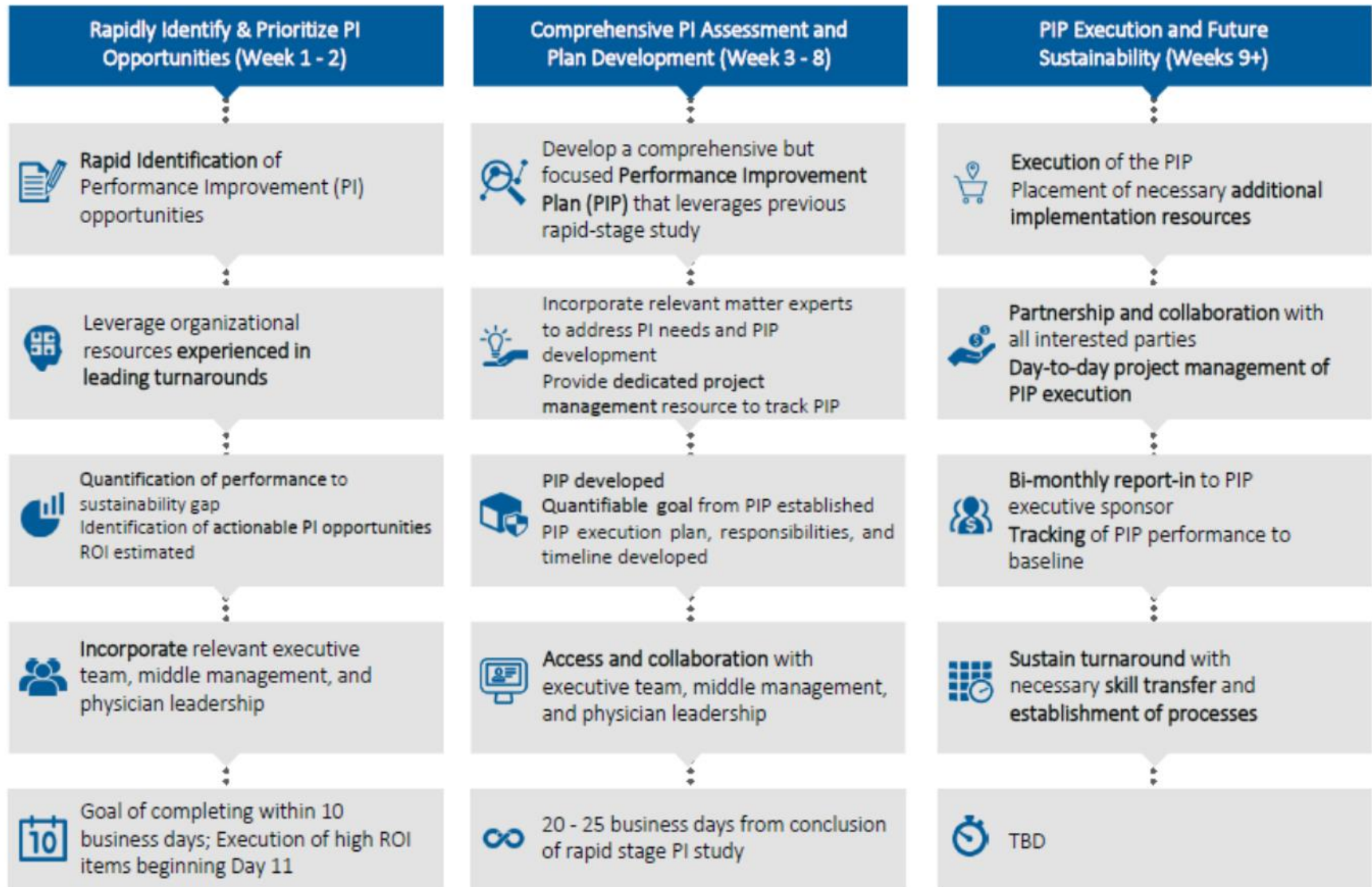


Patient satisfaction and quality outcome scores are impacting financial reimbursement on top of a fixed DRG payment system. Developing efficient processes leads to enhanced financial performance and enhanced quality.

Approaching enhancements to the patient experience:

- Quantify financial impact from enhanced quality scores, reductions in length of stay, and decreasing patient wait times
- Objectively evaluate key clinical processes to identify optimization opportunities that produce financial savings and improved patient satisfaction
- Partner with department leaders and providers to implement these redesigned processes

Best Practice Performance Improvement: Rapid Identification and Execution of Quantifiable Opportunities



Guiding Principles for Achieving Performance Improvement



Expert-led

Utilization of experienced, turnaround executives who have led prior turnaround efforts is critical for improving the speed-to-impact and realizing performance improvement.



Quantifiable Impact

Quantifying the performance improvement opportunities allows stakeholders to prioritize limited internal resources and develop goals.



Stakeholder Communication and Confidence

Frequently and effectively communicating with relevant stakeholder groups is indispensable for stabilizing stakeholders' perspective and instilling confidence in turnaround efforts.



Focus on Clinical Quality

Grounding performing improvement in enhancing clinical quality, improving the patient experience, and optimizing clinical operating processes is central to aligning turnaround efforts with the broader mission of the organization.



On-Demand Resources

Ensuring that the organization has access to a flexible set of resources that assist in the execution of the PI plan and fill critical resource gaps is central to ensuring the success of the program.



Sustainable Results

A performance improvement initiative is only successful if the improvement is sustained. As part of an organizational turnaround effort, establishing processes that ensure the long-term sustainability of the current successes is crucial.

Conclusions

Things to Remember

- District and County-Owned facilities cannot relocate to greener pastures to address bottom-line pressures
- Often, mission-driven considerations dictate that unprofitable services continue to be offered
- For these reasons, understanding the performance improvement tool box is essential: ***No margin, no mission***
- Rapid identification and quantification of performance improvement opportunities is a key first step to changing the trajectory of the organization
- Understanding the ROI from pursuing individual performance improvement opportunities is vitally important when determining how to prioritize scarce resources
- Ensuring that the right resources processes are developed is necessary to sustain the performance improvement results
- Assess your organization's risk profile annually, and appreciate that it is dynamic
 - Operational performance is one element of risk that can be mitigated

Questions & Thank You

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