



STROUDWATER

---

# PERFORMANCE IMPROVEMENT BOOTCAMP

## SESSION 2

JOHN DOWNES, DIRECTOR  
WADE GALLON, SENIOR CONSULTANT

How Market Insights Drive Rural Hospital Performance

# PANELISTS



John Downes, MBA, LEED AP  
Director



Wade Gallon, CPA, FHFMA  
Senior Consultant



# SIX SESSION SERIES

1

## Overview

- Highlight the strategic imperative for improvement, identify areas with the most significant opportunity, and deliver an overview of financial and operational best practices.

2

## Reducing Outmigration / Growing Volume

- Reducing leakage and outmigration to grow market share and keep care local has been shown to have the highest ROI across more than 30 performance improvement engagements.
- Identify strategies for evaluating demand, engaging with providers and the community, coordinating with external partners.

3

## Cost Report Opportunities

- This session will show how CAHs can use the Medicare cost report as a strategic tool to capture missed revenue opportunities and strengthen financial stability.
- Learn how to leverage the Medicare cost report for performance improvement, identify opportunities, mitigate cash flow risk, and apply best practices for interpretation.



# SIX SESSION SERIES

4

## Swing Bed Bootcamp

- This session provides leaders with a hands-on, interactive overview of swing bed programs, covering compliance, care quality, financial performance, and growth strategies.
- Gain practical insights on regulatory requirements, care planning, program optimization, financial impact, and marketing strategies.

5

## 340B Programs

- The 340B Drug Pricing Program continues to evolve rapidly, with new manufacturer actions, rebate models, and regulatory changes reshaping how covered entities approach savings and program compliance.
- Identify opportunities to optimize program performance, evaluate pharmacy models, and anticipate emerging trends.

6

## Revenue Cycle Deep Dive

- Strong revenue cycle performance requires intentional strategy, collaboration, and, above all, cross-functional leadership support.
- Identify strategies to engage leaders, align key performance indicators with organizational goals, and apply real-world practices to drive sustainable revenue cycle improvements.

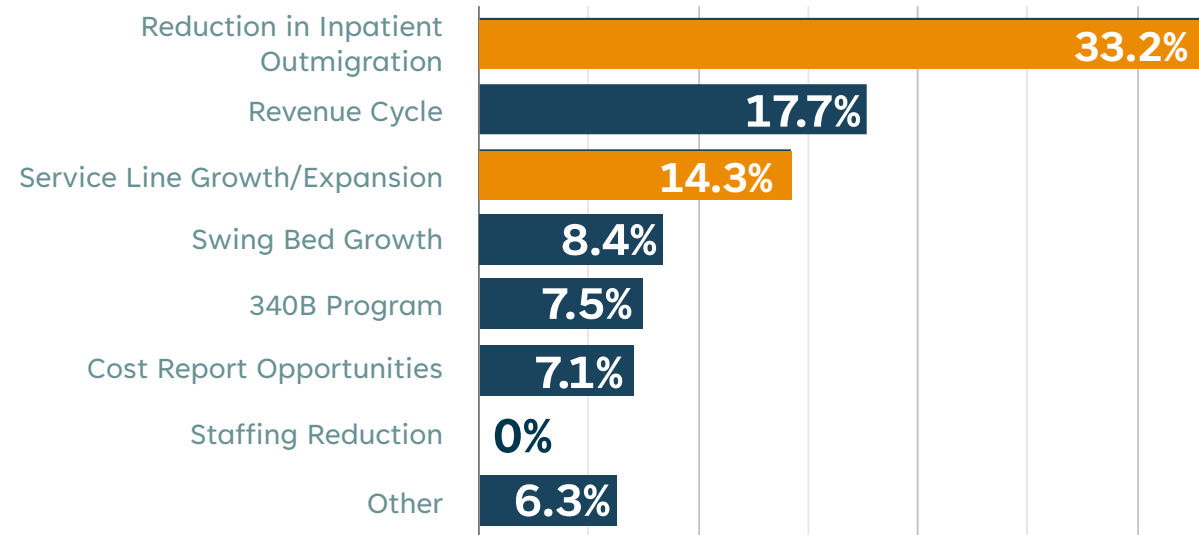


# PROVEN RETURN ON INVESTMENT

**\$1.7M**

For nearly 30 hospitals participating in financial and operational assessments, the median value of financial improvement identified was approximately \$1.7m, equating to nearly 8% of net patient revenue

**The improvements were identified across several functional areas – expressed as a percentage of the total improvements identified:**



“

"Stroudwater's depth of wisdom and genuine passion for rural healthcare made all the difference. Their humility and expertise ensured immediate results but also laid the groundwork for sustained success."

| Kevin DeRonde, Mahaska Health CEO

”

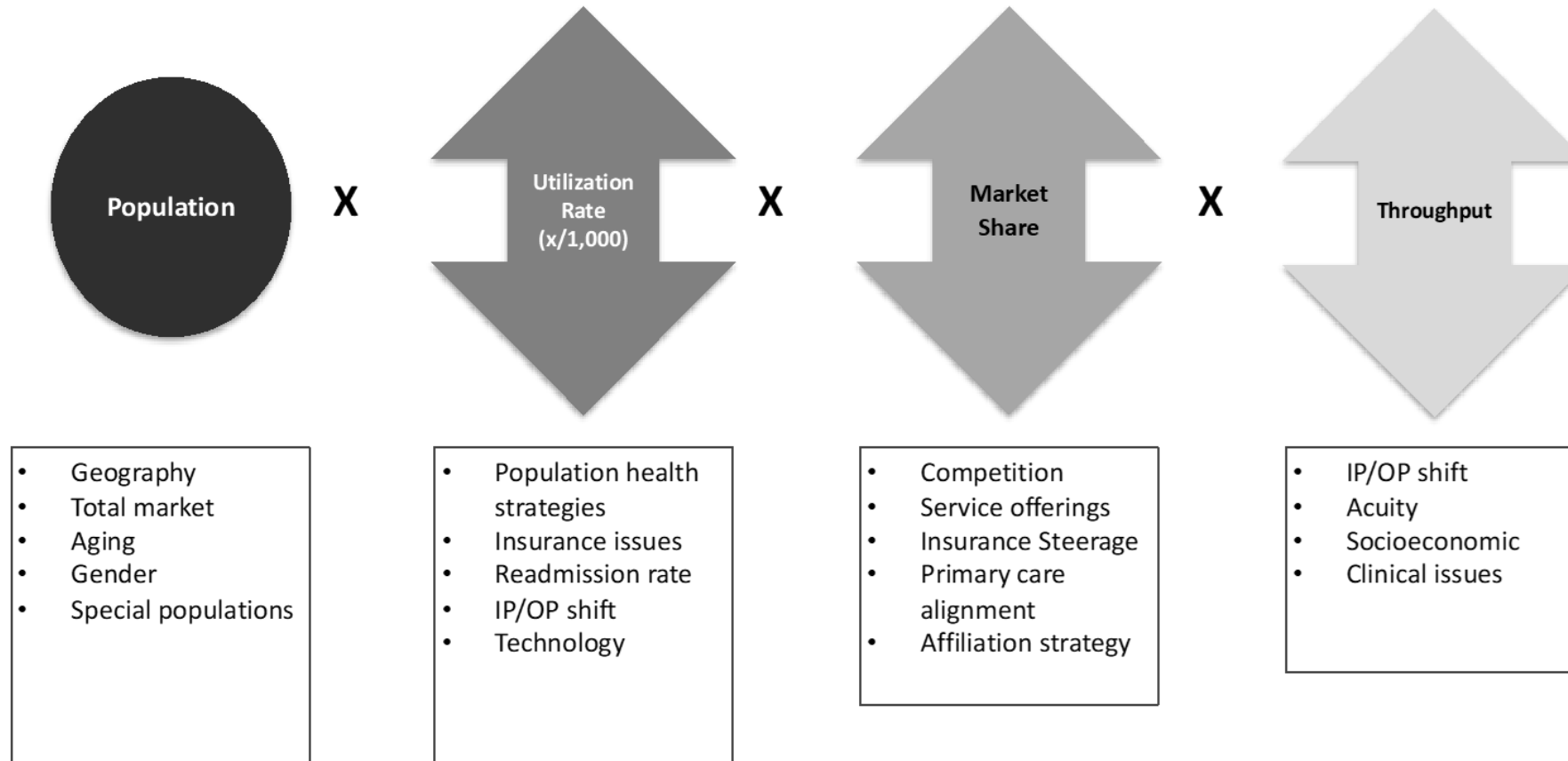


# LEARNING OBJECTIVES

- Learn how to evaluate the market opportunity
  - Population
  - Demographics
  - Utilization
- Calculate the value of capturing the “low hanging fruit”
  - Growing market share of services you’re already providing
  - Differentiating needs versus wants
- Identify when new services make sense to consider
  - Market volumes
  - Staffing requirements
  - Facility requirements



# FOUR LEVERS TO CALCULATING MARKET OPPORTUNITY

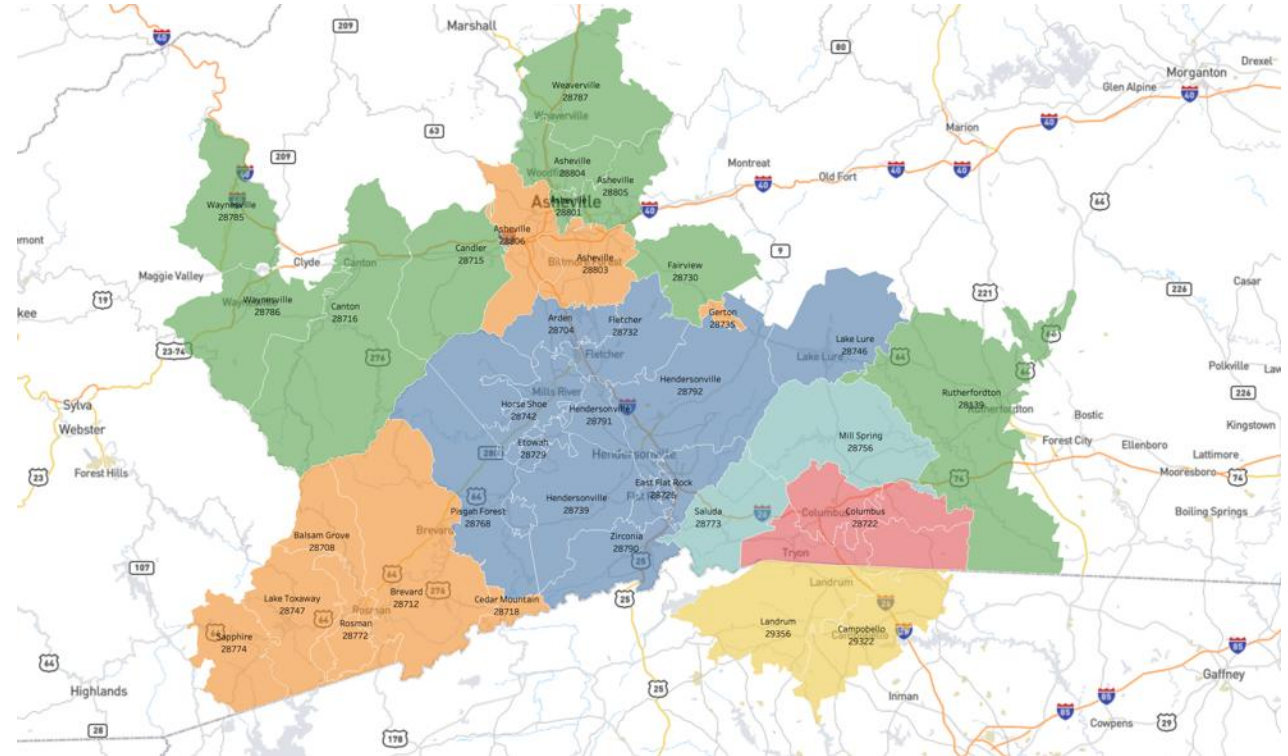


<b>Operating Parameters</b>	<i>Random vs Scheduled</i> <i>Universal vs Specialty</i>	<i>Confidence Intervals vs Occ %</i> <i>Observation</i>	<i>Distinct Unit Types</i>
-----------------------------	---	--	----------------------------



# WHAT IS OUR “REAL” SERVICE AREA?

- County vs. district vs. hospital-defined service area
- Are we the dominant provider?
- Should we “subdivide” the service area?
- Who does the project benefit?





# DEMOGRAPHICS

- Population projections
- Age distribution
- Special groups
- Market dynamics



# UTILIZATION OF HEALTHCARE SERVICES

---

Existing volumes

---

Inpatient vs outpatient

---

Service lines

---

Market share





## WITH WHOM DO WE COMPETE?

- Hospitals
- Retail marketplace
- Provider groups

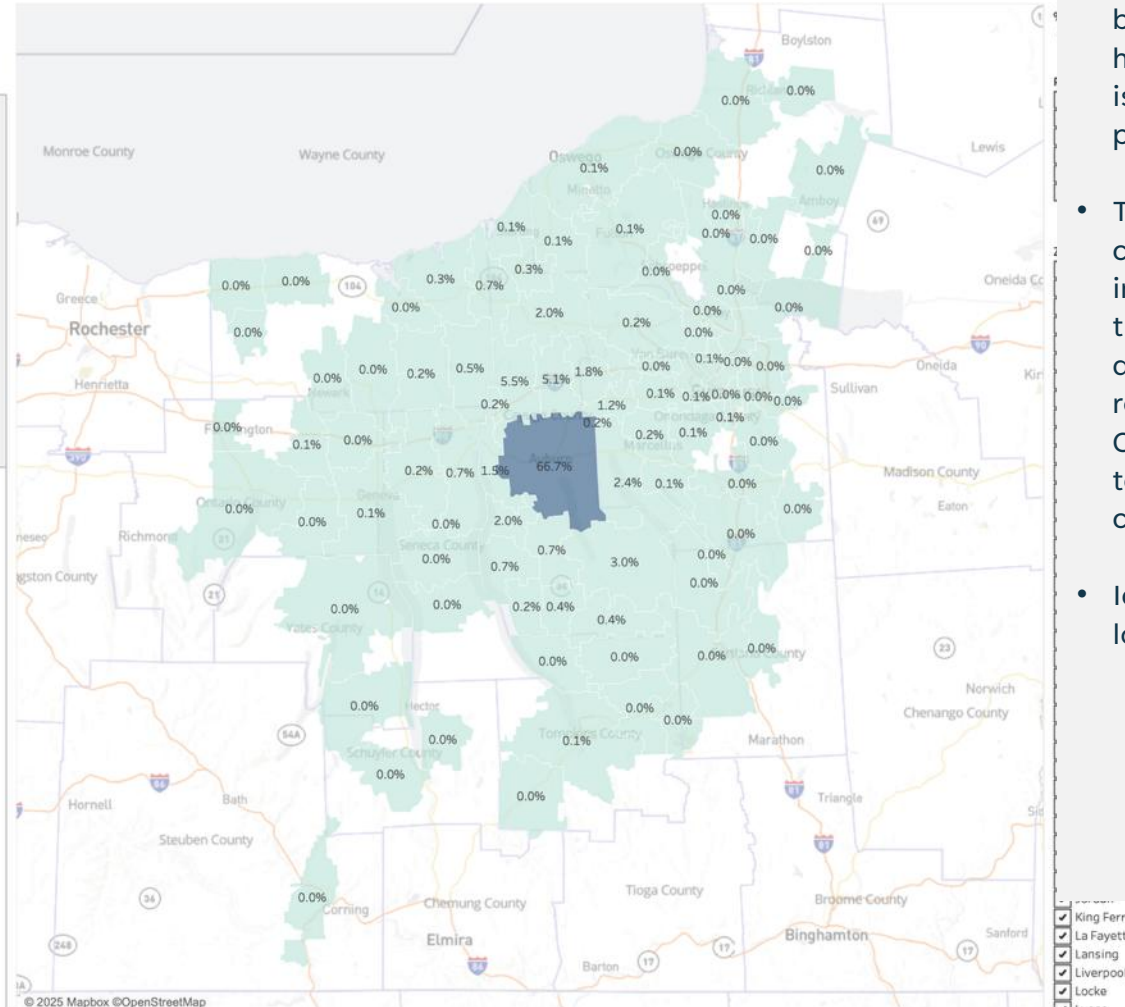




# IDENTIFY A SERVICE AREA USING PATIENT ORIGIN

## ED Patient Origin

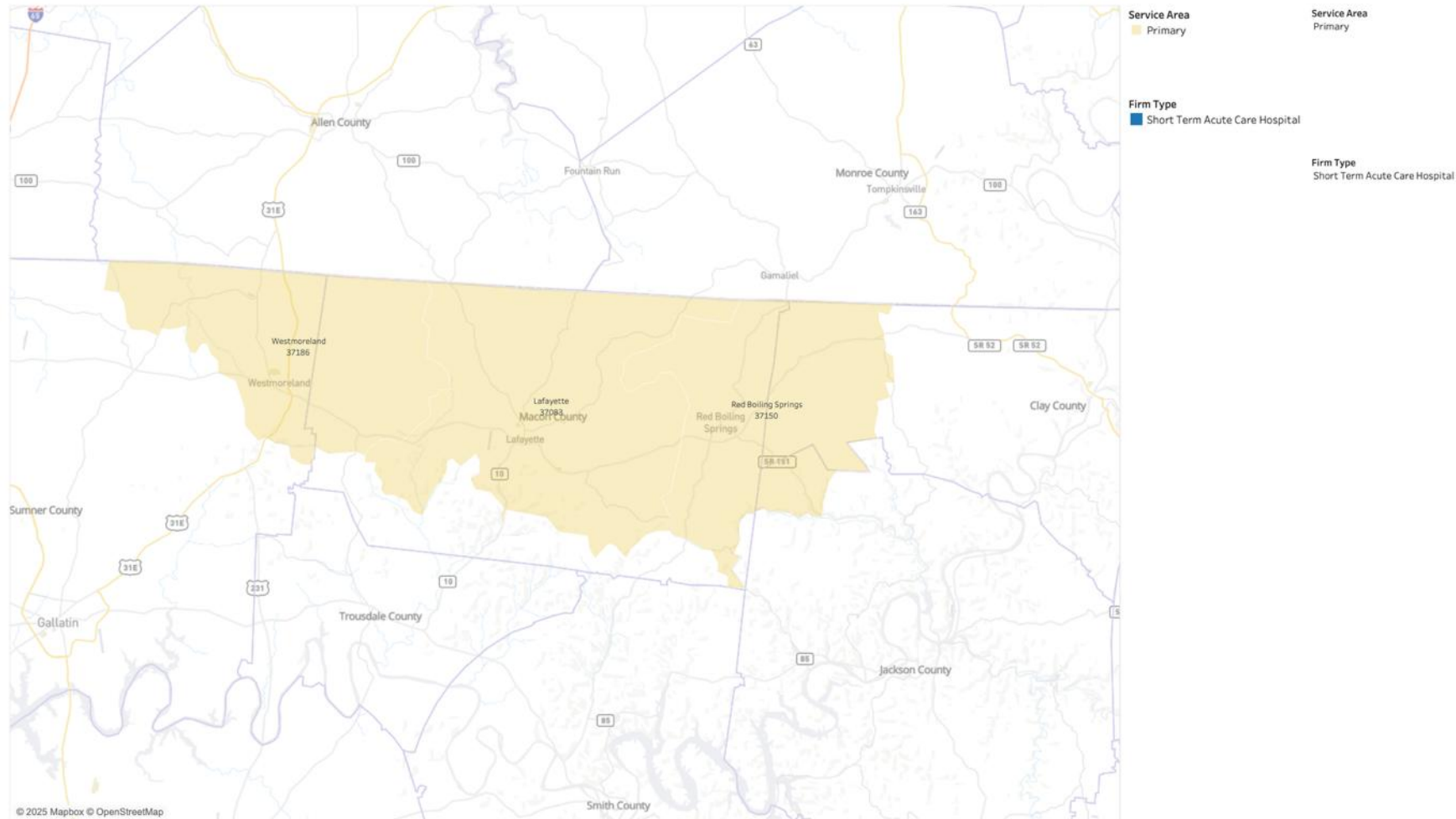
Auburn Service Areas	ZIP Code	ZIP Name	Unit Qty	% of Total	Running Total
Grand Total			24,276	100.0%	100.0%
Primary	Total		20,568	84.7%	84.7%
	13021	Auburn	16,192	66.7%	66.7%
	13140	Port Byron	1,345	5.5%	72.2%
	13166	Weedsport	1,228	5.1%	77.3%
	13118	Moravia	740	3.0%	80.3%
	13152	Skaneateles	574	2.4%	82.7%
	13160	Union Springs	489	2.0%	84.7%
Secondary	Total		2,352	9.7%	94.4%
	13033	Cato	495	2.0%	86.8%
	13080	Jordan	440	1.8%	88.6%
	13034	Cayuga	353	1.5%	90.0%
	13060	Elbridge	280	1.2%	91.2%
	13148	Seneca Falls	181	0.7%	91.9%
	13147	Scipio Center	170	0.7%	92.6%
	13143	Red Creek	166	0.7%	93.3%
	13146	Savannah	133	0.5%	93.9%
	13071	Genoa	86	0.4%	94.2%
	13165	Waterloo	48	0.2%	94.4%
Other	Total		1,356	5.6%	100.0%
	13026	Aurora	178	0.7%	95.1%
	13092	Locke	92	0.4%	95.5%
	14590	Wolcott	83	0.3%	95.9%
	13111	Martville	79	0.3%	96.2%
	13081	King Ferry	58	0.2%	96.4%
	13108	Marcellus	48	0.2%	96.6%
	13153	Skaneateles Falls	45	0.2%	96.8%
	13112	Memphis	42	0.2%	97.0%
	13027	Baldwinsville	41	0.2%	97.2%
	14433	Clyde	39	0.2%	97.3%
	13117	Montezuma	39	0.2%	97.5%
	13126	Oswego	36	0.1%	97.6%
	13110	Marietta	36	0.1%	97.8%
	13069	Fulton	36	0.1%	97.9%
	13156	Sterling	31	0.1%	98.1%
	13031	Camillus	27	0.1%	98.2%
	14456	Geneva	25	0.1%	98.3%
	13074	Hannibal	23	0.1%	98.4%
	13088	Liverpool	18	0.1%	98.4%
	13204	Syracuse	17	0.1%	98.5%
	13215	Syracuse	16	0.1%	98.6%
	13208	Syracuse	16	0.1%	98.6%



- Service area can be defined by others (e.g., county or hospital district), but ideally is calculated using actual patient origin.
- Traditional origin was calculated using 75% of inpatient discharges, but this often fails to take into account the less significant role inpatient care plays in CAHs, and sometimes fails to take into account contiguity,
- Ideally, organizations will look at:
  - Inpatient origin
  - ED origin
  - Clinic origin
  - Ancillary / procedural origin



# DEFINE A SERVICE AREA FOR ANALYSIS



Sources: Stroudwater analysis; Definitive Healthcare; HRSA

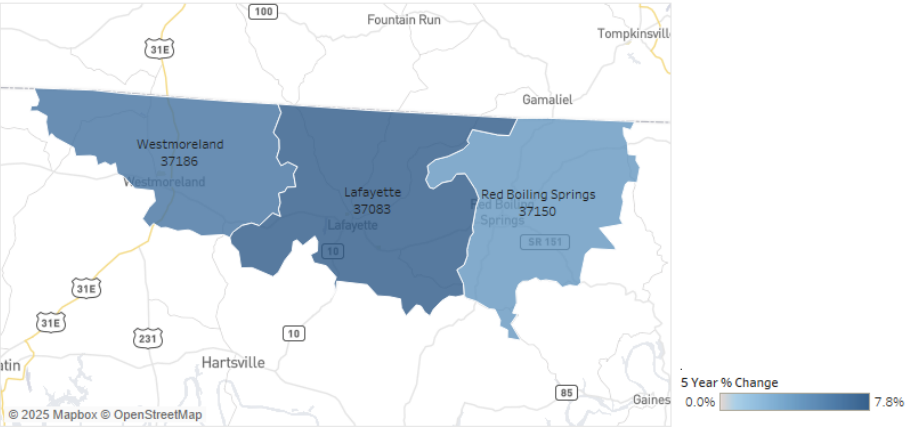


# EXAMINE DEMOGRAPHICS

Current	Projected
33,451	35,705

Age Group Detail		5 Year (#)		5 Year (%)	
Age	Current	Projected			
0-17	7,939	8,274	335		4.2%
18-44	11,165	11,924	759		6.8%
45-64	8,402	8,429	27		0.3%
65+	5,945	7,078	1,133		19.1%

5-Year Change (%) by ZIP Code



5 Year Change (#)	5 Year Change (%)
2,254	6.7%

ZIP Code Population Detail						
Service Area	ZIP Name	ZIP Code				
Primary	Lafayette	37083	17,608	18,978	1,370	7.8%
	Red Boiling Springs	37150	5,019	5,223	204	4.1%
	Westmoreland	37186	10,824	11,504	680	6.3%
			Current	5yr Est.	# Change	% Change

- Current and projected population
- Distribution by ZIP code
- Distribution by age cohort
- Additional detail is often helpful:
  - Income
  - Insurance Coverage
  - Health Status

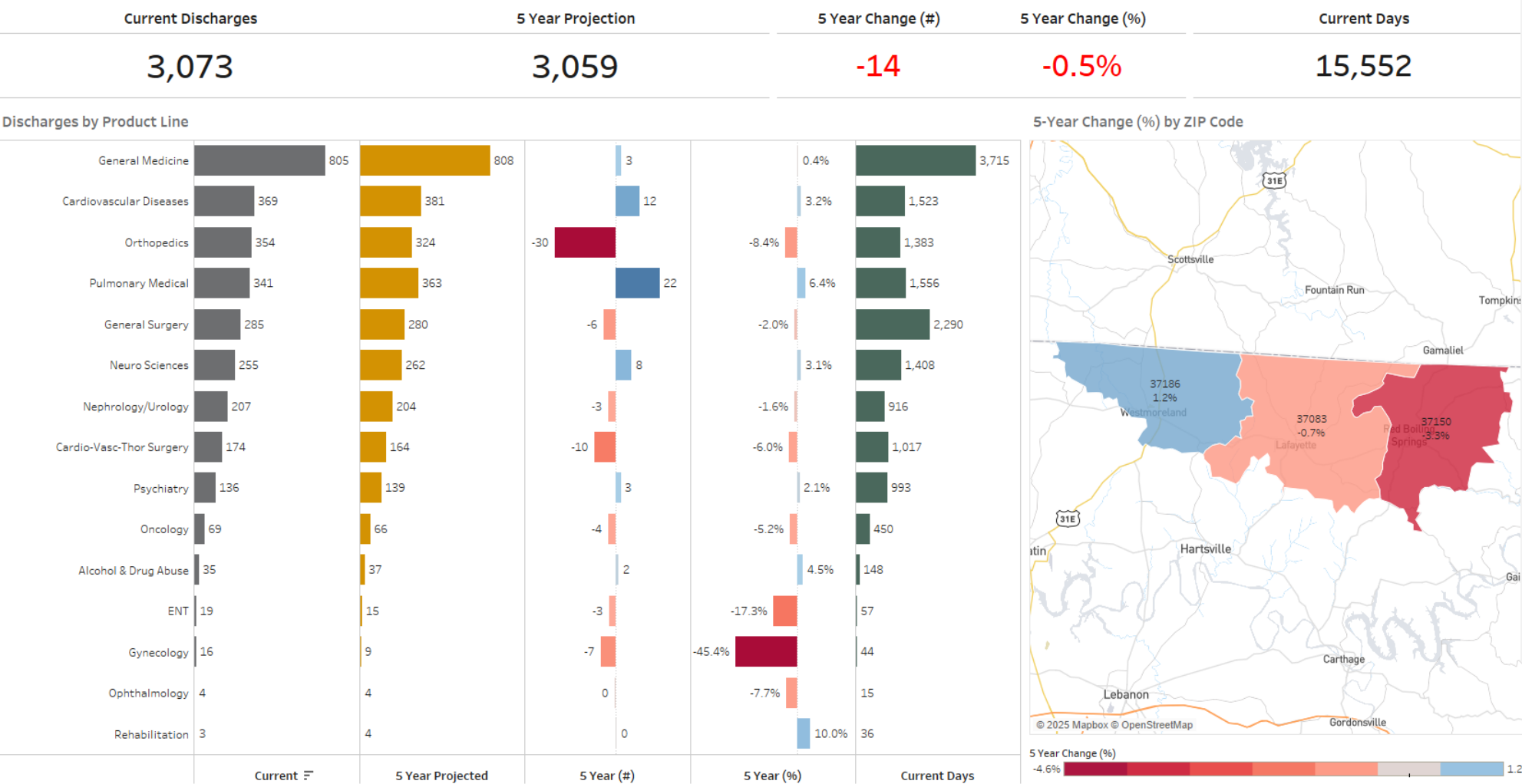


## 33% OF PERFORMANCE IMPROVEMENT GAINS WERE FROM PREVENTING INPATIENT OUTMIGRATION

- What is the total volume of inpatient discharges / days estimated in the service area?
- What is your hospital able to keep?
  - Service Lines
  - Acuity
  - Staffing competency
- What is the capacity of your inpatient unit(s)?
- Why are patients not being admitted to your hospital?
  - Never had the chance
  - Patient choice
  - Provider choice
  - Capacity constraints



# FOR THE PSA...UNDERSTAND THE DEMAND FOR I/P DISCHARGES



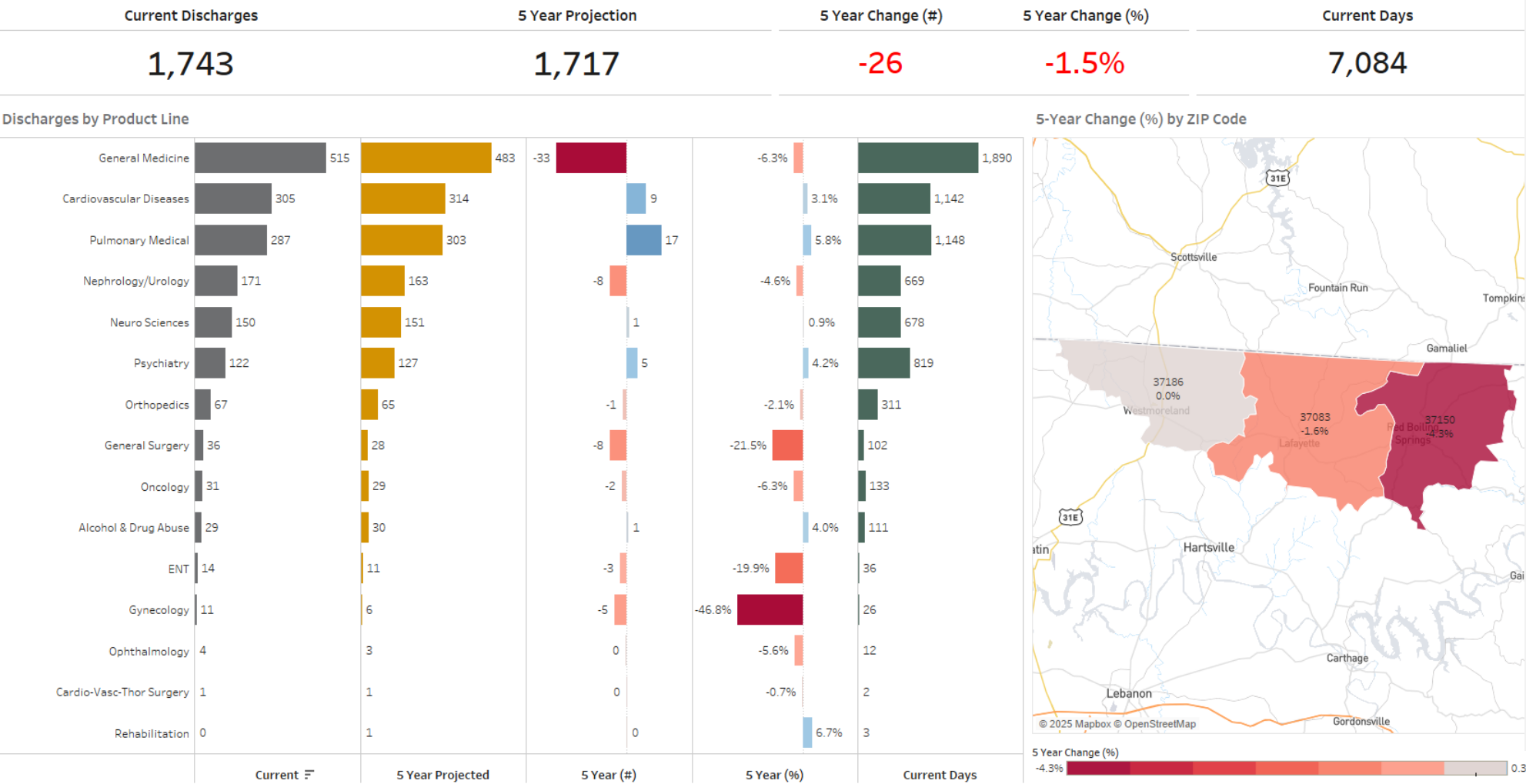
- In the example PSA, excluding OB/Delivery, Newborns and Neonatology, across all other service lines and payers, IP discharges are anticipated to decline by 0.5% over the next five years, from 3,073 to 3,059.
- These acute services are estimated to account for 15,552 acute patient days.
- 15,552 patient days represent an average daily census (ADC) of 42.6.

Source:Merative. "High Acuity" includes DRGs with a case weight of 1.5 and above





# BE REALISTIC ABOUT ACUITY CONSTRAINTS...



- In the PSA, focusing only on lower acuity discharges with a case mix index below 1.5, and again excluding OB/Delivery, and Newborns Neonatology, IP discharges are anticipated to decline by 1.5% over the next five years, from 1,743 to 1,717.
- These acute services are estimated to account for 7,084 acute patient days.
- 7,084 patient days represent an average daily census (ADC) of 19.4.

Source:Merative. "High Acuity" includes DRGs with a case weight of 1.5 and above



## HOW DO WE ADD ACUTE DAYS?

- Grow appropriate ED volume
- Maximize appropriate ED admissions
- Ensure ED staff have comfort with the provider capabilities on the floor
- Consider telemedicine / remote monitoring / support where appropriate to keep patients in house



# EVALUATE THE FINANCIAL IMPACT OF ADDING 593 ACUTE DAYS

- Given high-fixed cost, growth in inpatient volumes creates significant margin opportunity
  - Margin opportunity exists for both Acute care growth as well as Swing Bed service growth
  - Oftentimes, dilutive effect on cost-based reimbursement is offset by payment from non-cost-based payers

**Model A: Base Case (FY 2024 Cost Report)**

	ADC	Total Days	Cost Based Payer Mix	Cost Based Days	Other Days	Payment Per Day	Other Payment
Acute (inc Observ, ICU)	9.4	3,422	49%	1,680	1,742	\$ 2,500	\$ 4,355,776
Swing Bed - SNF	2.0	733	100%	733	-	\$ 1,200	\$ -
Swing Bed - NF	0.2	65	0%	-	65	\$ 350	\$ 22,750
<b>Total Days</b>	<b>11.6</b>	<b>4,220</b>		<b>2,413</b>	<b>1,807</b>		<b>\$ 4,378,526</b>
<b>Net Acute/SB SNF/Obs</b>		<b>4,155</b>	<b>58%</b>	<b>2,413</b>	<b>1,807</b>		
Inpatient Fixed Costs		\$ 10,894,507					
Inpatient Variable Costs		\$ 1,186,200 <sup>1</sup>					
<b>Total Inpatient Costs</b>		<b>\$ 12,080,707 <sup>2</sup></b>					
Inpatient Costs Per Day		\$ 2,908		\$ 2,908			
Less: Cost-Based Carveouts		\$ (583,361)		\$ (140.40)			
<b>Cost Based Payment</b>				<b>\$ 6,676,180</b>			\$ 6,676,180
<b>Total Payment</b>							<b>\$ 11,054,706</b>
<b>Inpatient Costs</b>							<b>\$ 12,080,707</b>
<b>Net Margin</b>							<b>\$ (1,026,001)</b>

<sup>1</sup> Assumes \$300/day marginal acute costs and \$200/day marginal swing bed SNF and NF costs

<sup>2</sup> Nursing costs plus Acute Inpatient departmental inpatient charges times departmental RCCs (WS C)

**Model B: Grow Acute Census to ADC of 11**

	ADC	Total Days	Cost Based Payer Mix	Cost Based Days	Other Days	Payment Per Day	Other Payment
Acute (inc Observ, ICU)	11.0	4,015	49%	1,971	2,044	\$ 2,500	\$ 5,110,590
Swing Bed - SNF	2.0	733	100%	733	-	\$ 1,200	\$ -
Swing Bed - NF	0.2	65	0%	-	65	\$ 350	\$ 22,750
<b>Total Days</b>	<b>13.2</b>	<b>4,813</b>		<b>2,704</b>	<b>2,109</b>		<b>\$ 5,133,340</b>
<b>Net Acute/SB SNF/Obs</b>		<b>4,748</b>	<b>57%</b>	<b>2,704</b>	<b>2,109</b>		
Inpatient Fixed Costs		\$ 10,894,507 <sup>1</sup>					
Inpatient Variable Costs		\$ 1,364,100 <sup>2</sup>					
<b>Net Inpatient Costs</b>		<b>\$ 12,258,607</b>					
Inpatient Costs Per Day		\$ 2,582		\$ 2,582			
Cost Based Payment		\$ (583,361)		\$ (122.86)			
<b>Total Payment</b>				<b>\$ 6,648,507</b>			\$ 6,648,507
<b>Total Payment</b>							<b>\$ 11,781,847</b>
<b>Inpatient Costs</b>							<b>\$ 12,258,607</b>
<b>Net Margin</b>							<b>\$ (476,760)</b>
<b>Difference</b>							<b>\$ 549,241</b>

<sup>1</sup> Assumes \$300/day marginal acute costs and \$200/day marginal swing bed SNF and NF costs

<sup>2</sup> Nursing costs plus Acute Inpatient departmental inpatient charges times departmental RCCs (WS C)



# EVALUATE THE IMPACT OF ADDING 657 ACUTE DAYS AT NON-CAH

- Given high-fixed cost, growth in inpatient volumes creates significant margin opportunity
  - PPS Hospitals don't face the same dilutive effect on Medicare rates as CAHs do

Contribution Margin Impact of Incremental Acute Volume				
Average Daily Census (M/S ADC)		Low Growth		High Growth
		1.2		1.2
Targeted Acute ADC		2.0		3.0
Incremental Acute ADC		0.8		1.8
Incremental Acute Days		292		657
Estimated Revenue per Acute Day	\$	1,500	\$	1,500
Estimated Incremental Daily Expense	\$	(500)	\$	(500)
Estimated Daily Acute Profit	\$	1,000	\$	1,000
Estimated Incremental Acute Contribution Margin	\$	292,000	\$	657,000

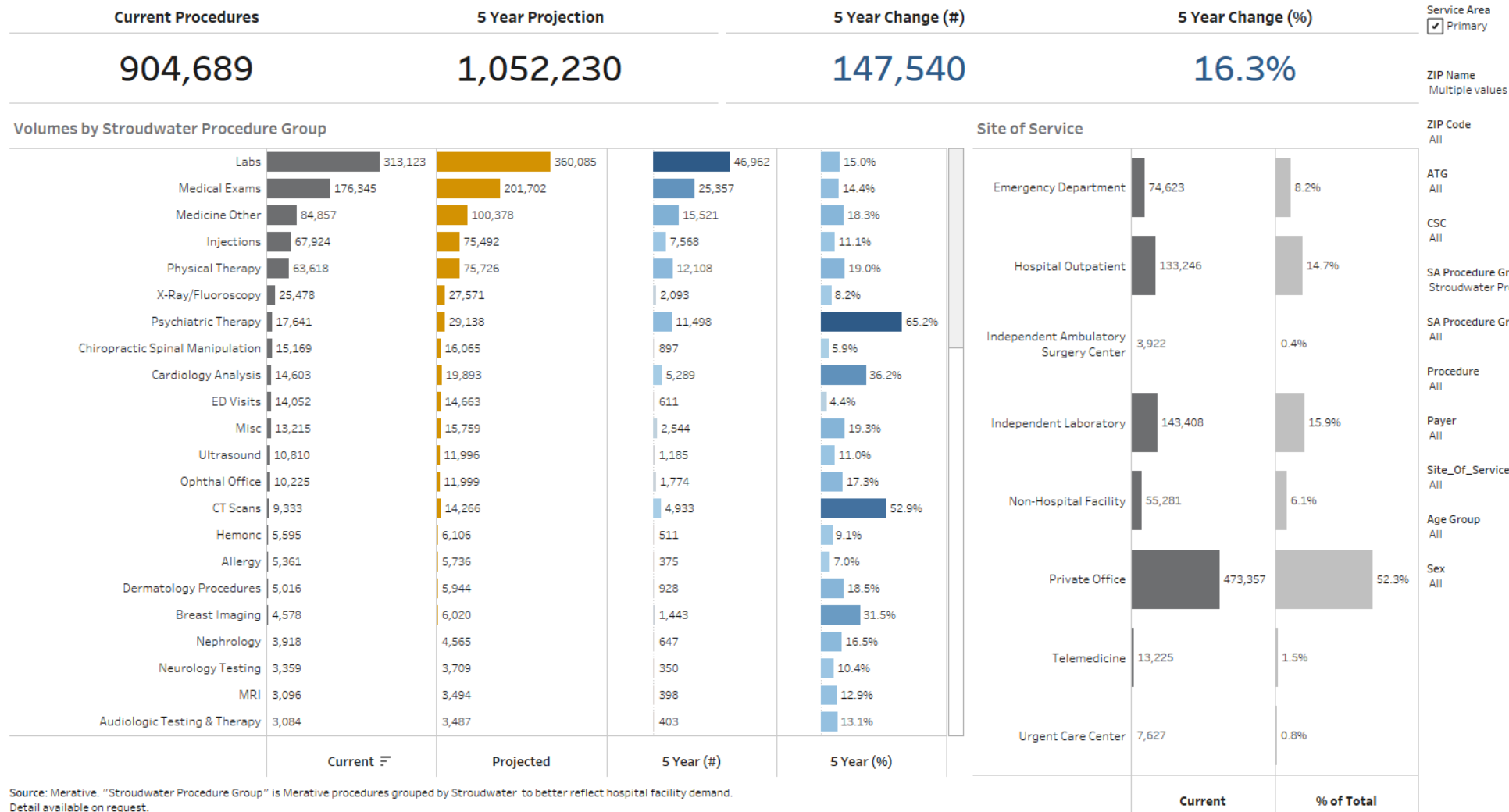


## 14% OF PERFORMANCE IMPROVEMENT GAINS WERE FROM GROWING / EXPANDING SERVICE LINES

- Understand what OP volumes exist in the market today
  - Do we offer the service?
  - What is our market share?
  - Is the service offered nearby?
  - Do we have the facilities to accommodate growth?
  - Do we have the providers to deliver the care?
- #1 opportunity is to do more of what we are already doing
  - Capture appropriate ED patient volumes – if emergency patients CHOOSE to leave the community, ask ourselves why?
  - Growing ED volumes also helps to grow inpatient volumes
  - Ancillary services where we don't have high market share...what are the reasons?
    - Schedule availability / convenience?
    - Cost?
    - Provider referral streams?



# FOR THE PSA...UNDERSTAND THE DEMAND FOR OP SERVICES



- Adjusted PSA outpatient volumes are anticipated to grow by 16.3% over 5 Years.
- 52.3% of all outpatient volumes occur at the physician office site of service.
- The PSA is anticipated to generate:
  - 176k office visits
  - 25.4k x-rays
  - 14k ED visits
  - 10.8k ultrasounds
  - 9.3k CT scans
  - 4.5k mammograms

Source: Merative. "Stroudwater Procedure Group" is Merative procedures grouped by Stroudwater to better reflect hospital facility demand. Detail available on request.



# WHAT ARE WE DOING TODAY AND WHERE ARE THE OPPORTUNITIES?

	PSA Estimate	FY 2025A Volume	Share of PSA (using 25A)
ED Visits	14,052	10,500	74.7%
X-Ray	25,478	9,938	39.0%
CT Scans	9,333	5,835	62.5%
MRI	3,096	792	25.6%
Ultrasound	10,810	3,227	29.8%
Mammography	4,578	3,042	66.4%
Dexa	809	365	45.1%
OP Lab	313,123	142,580	45.5%

- For things we're already doing, what prevents us from capturing more volume?
- Common issues include:
  - Throughput..."The wait was too long so I went elsewhere"
  - Price..."You're too expensive. My insurer sent me elsewhere."
  - Referral patterns..."My PCP sent me to XYZ location for lab work, etc."
- Identify the barriers and look to remove them.
- If we already capture close to 100% share...then perhaps we can learn "why" some services are capturing more than others.



# IF WE CAPTURE MORE ED VOLUME...WHAT MIGHT IT MEAN?

Assumptions:		Example CAH
Annual ED Arrivals		10,500
% Growth in ED Visits with Decreased Outmigration / Performance Improvement		10.00%
Current LWBS Rate		3.00%
Improved LWBS Rate		1.00%
Current ED Admission Rate (acute and Observation)		9.00%
Improved ED Admission Rate		12.00%
Estimated ED Technical Charge (WS C Charges divided by visits)	\$	1,526
Estimated ED Ancillary Charges (estimated based on avail. Services)	\$	1,500
Estimated ED Admission Charge (avg estimated IP / admission charges)	\$	13,624
Payment to Charge Ratio (WS G-3, NPSR / Gross Revenue)		31.32%
Variable Cost Ratio (estimated)		20.00%

## Current ED Contribution Margin:

Current ED Arrivals	10,500
Current LWBS Rate	3.00%
Net ED Visits	10,185
ED Technical Charge (Avg per visit)	\$ 1,526
ED Ancillary Charge (Avg per visit)	\$ 1,500
Total ED related charges (Avg per visit)	\$ 3,026
ED Charges (Total Annual)	\$ 30,819,810
Current Inpatient / Observation Admissions %	9.00%
ED Related Inpatient / Observation Admissions	917
Estimated ED Admission Charge (avg estimated IP / admission charges)	\$ 13,624
ED related Acute/Observation Charges	\$ 12,488,440
Total ED IP and OP related charges	\$ 43,308,250
Payment to Charge Ratio (WS G-3, NPSR / Gross Revenue)	31.32%
Estimated ED IP and OP Net Patient Revenue	\$ 13,564,144
Estimated Variable Cost Ratio	20.00%
Estimated Variable Costs	\$ 2,712,829
Estimated Current ED Contribution Margin	\$ 10,851,315

- Increased ED volume can contribute to the bottom line in the following ways:
  - Direct reimbursement for ED visit
  - Ancillary revenue associated with ED visit (e.g., imaging, lab, etc.)
  - Greater inpatient admissions (Acute & Observation)





# IF WE CAPTURE MORE ED VOLUME...WHAT MIGHT IT MEAN?

	Example CAH
<b>Improved ED Contribution Margin:</b>	
Current ED Visits	10,500
Growth in ED visits with Decreased Outmigration	10.00%
Improved ED Arrivals	11,550
Improved LWBS Rate	1.00%
Net ED Visits	11,435
Total ED related charges (Avg per visit)	\$ 3,026
ED Charges (Total Annual)	\$ 34,600,797
Improved Inpatient/Observation Admissions %	12.00%
ED Related Inpatient/Observation Admissions	1,372
Estimated ED Admission Charge (avg estimated IP / admission charges)	\$ 13,624
Improved ED related Acute/Observation Charges	\$ 18,694,035
Total Improved ED IP and OP related charges	\$ 53,294,832
Payment to Charge Ratio (WS G-3, NPSR / Gross Revenue)	31.32%
Improved Estimated ED IP and OP Net Patient Revenue	\$ 16,691,941
Estimated Variable Cost Ratio	20.00%
Estimated Variable Costs	\$ 3,338,388
Estimated Improved ED Contribution Margin	\$ 13,353,553
Net Impact of ED Improvement	\$ 2,502,238
% Contribution Margin Improvement	23.06%

- When considering direct reimbursement, additional ancillaries, and potential inpatient admission growth, growth in ED volumes are potentially significant



# IF WE CAPTURE MORE LAB VOLUME...WHAT MIGHT IT MEAN?

Lab Tests		
Fully Allocated Costs vs. Relevant Costs		
	Total Costs	Relevant Costs
Direct Costs:		
Salary	\$ 326,632	\$ -
Supplies	\$ 581,708	\$ 145,427 *
Total Direct Costs	\$ 908,340	\$ 145,427
Allocated Costs:		
Variable	\$ 217,297	\$ 50,000 **
Overhead	\$ 366,143	\$ -
Total Allocated	\$ 583,440	\$ 50,000
Fully Allocated Costs	\$ 1,491,780	\$ 195,427
Number of Tests	102,057	102,057
Cost Per Test	\$ 14.62	\$ 1.91
Revenue Per Test	\$ 7.89	\$ 7.89
Gain (Loss) Per Test	\$ (6.73)	\$ 5.98
* Estimated at total supplies times 25% ** Represents miscellaneous costs of billing paper and supplies, etc.		

- Given very low variable cost, lab services create opportunity for additional contribution margin in a hospital



# COMMON PITFALLS WHEN CONSIDERING ADDING NEW SERVICES

- What we often hear...
  - “We have a donor that has pledged to give us \$X to put in \_\_\_\_\_ service, so we should proceed.”
  - “Our last CHNA told us that the community wants \_\_\_\_\_ service, so we need to do this.”
  - “At my last facility, we provided \_\_\_\_\_ service and it did really well, so we should do it here.”
  - “Our biggest competitor recently started providing \_\_\_\_\_ service, and we need to be able to stay competitive.”
  - “I attended a presentation on \_\_\_\_\_ service, and it seems like a really good idea.”



# WHAT ABOUT ADDING NEW SERVICES?

- Complete a market assessment to understand the total estimated market volume for the service
  - What share would we need to make it viable financially, clinically and operationally?
    - Example:
      - A community generates an estimated 2,200 GI procedures (e.g., colonoscopies, upper GI, etc.)
      - At 100% share, this would likely require 1-2 GI procedure rooms
      - At 25% share, with only 550 procedures this wouldn't "fill" a room but could be enough to justify a part time provider...and the space could be used for other minor procedures when not being used for GI.
      - This may make sense
      - For a smaller community that generates only an estimated 500 GI procedures, a 25% share would be 125 procedures, and this may be more challenging to justify bringing someone onsite to perform the service.



# WHAT ABOUT ADDING NEW SERVICES?

- Develop a pro-forma for the service offering, considering:
  - Anticipated volumes
    - Often helpful to model multiple volume scenarios
  - Payer Mix
  - Service Location
    - Hospital
    - Provider-based Clinic
    - Rural Health Clinic
    - Freestanding Clinic
  - Supplemental revenue
  - Expenses
    - Fixed vs variable
    - Staffing, capital, supplies, etc.
  - Medicare Cost Report impact





QUESTIONS?

# COMING UP...

3

## Cost Report Opportunities

- This session will show how CAHs can use the Medicare cost report as a strategic tool to capture missed revenue opportunities and strengthen financial stability.
- Learn how to leverage the Medicare cost report for performance improvement, identify opportunities, mitigate cash flow risk, and apply best practices for interpretation.

In just a few minutes  
October 9<sup>th</sup> at 11am EDT

4

## Swing Bed Bootcamp

- This session provides leaders with a hands-on, interactive overview of swing bed programs, covering compliance, care quality, financial performance, and growth strategies.
- Gain practical insights on regulatory requirements, care planning, program optimization, financial impact, and marketing strategies.

October 16<sup>th</sup> at 11am EDT



# COMING UP...

5

## 340B Programs

- The 340B Drug Pricing Program continues to evolve rapidly, with new manufacturer actions, rebate models, and regulatory changes reshaping how covered entities approach savings and program compliance.
- Identify opportunities to optimize program performance, evaluate pharmacy models, and anticipate emerging trends.

October 23<sup>rd</sup> at 11am EDT

6

## Revenue Cycle Deep Dive

- Strong revenue cycle performance requires intentional strategy, collaboration, and, above all, cross-functional leadership support.
- Identify strategies to engage leaders, align key performance indicators with organizational goals, and apply real-world practices to drive sustainable revenue cycle improvements.

October 30<sup>th</sup> at 11am EDT







STROUDWATER

---

**THANK YOU**

1685 Congress St. Suite 202

Portland, Maine 04102

[www.stroudwater.com](http://www.stroudwater.com)