Reed Claymon

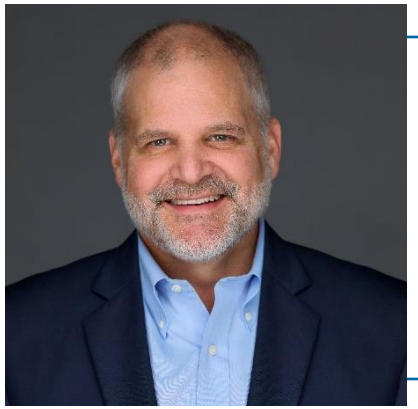
STROUDWATER

2026 RURAL HOSPITAL PARTNERSHIPS INSTITUTE: COUNTY- AND DISTRICT-OWNED HOSPITALS

KEY TAKEAWAYS

- The current environment and industry outlook indicate that the status quo is not a viable option for most healthcare entities
- County and District Hospitals pose a unique set of challenges
- Legacy disfunction and battles between boards need to be addressed
- Tools for ensuring effective communication with stakeholders and collaboration between boards are needed
- Legal and regulatory issues related to governance, decision rights, regulatory matters such as sunshine laws and required approvals need to be both understood and adhered to

MEET THE SPEAKERS



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Stroudwater is a leading national healthcare consulting firm specializing in mission-critical strategic, operational, and financial opportunities for healthcare leaders' most pressing challenges

Reed Clayman is one of Texas's leading law firms focused on serving health care clients. Reed Claymon offers deep expertise and trusted counsel to help organizations navigate a myriad of opportunities for expansion and diversification, all while managing the daily challenges of administrative and regulatory matters.

AGENDA

Strategic Context

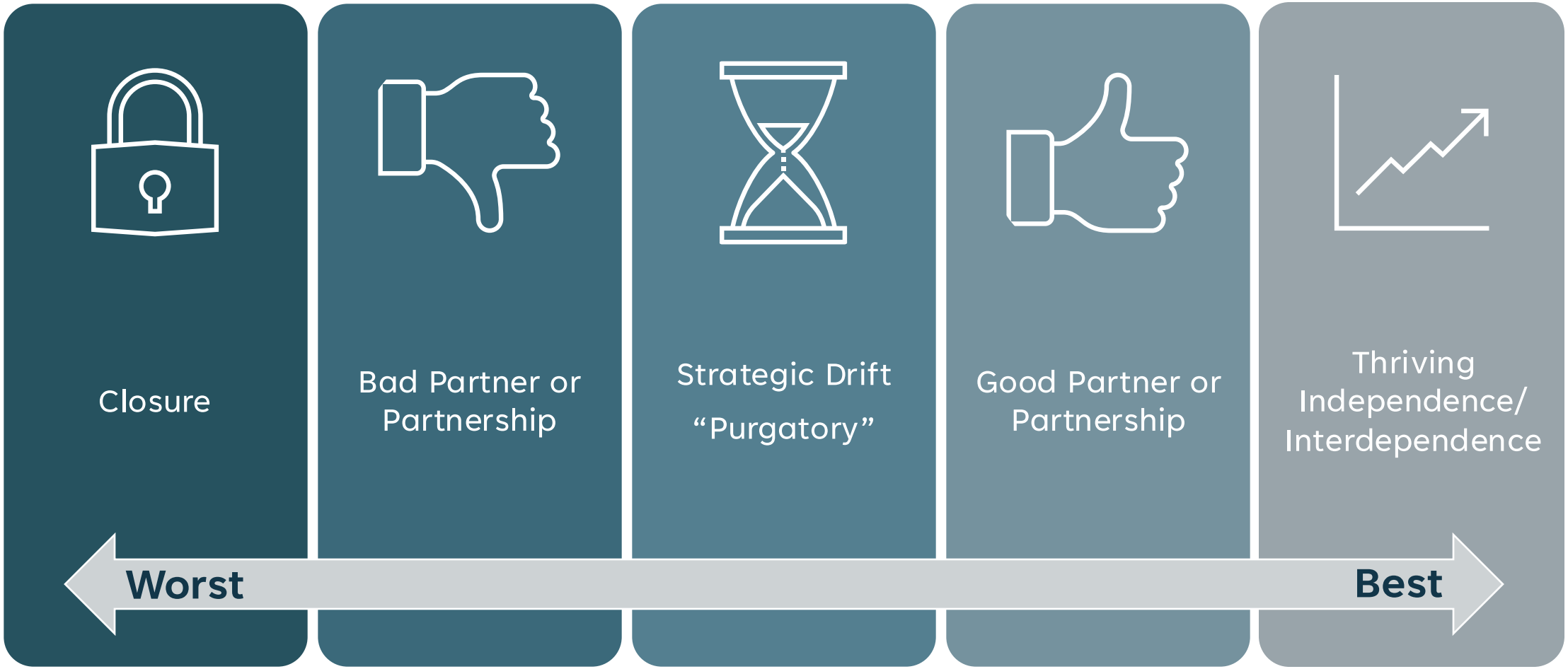
Why County and District Hospitals Are Different

Concluding Thoughts and Key Takeaways

Discussion

STRATEGIC CONTEXT

COMMON OUTCOMES FOR RURAL HOSPITALS

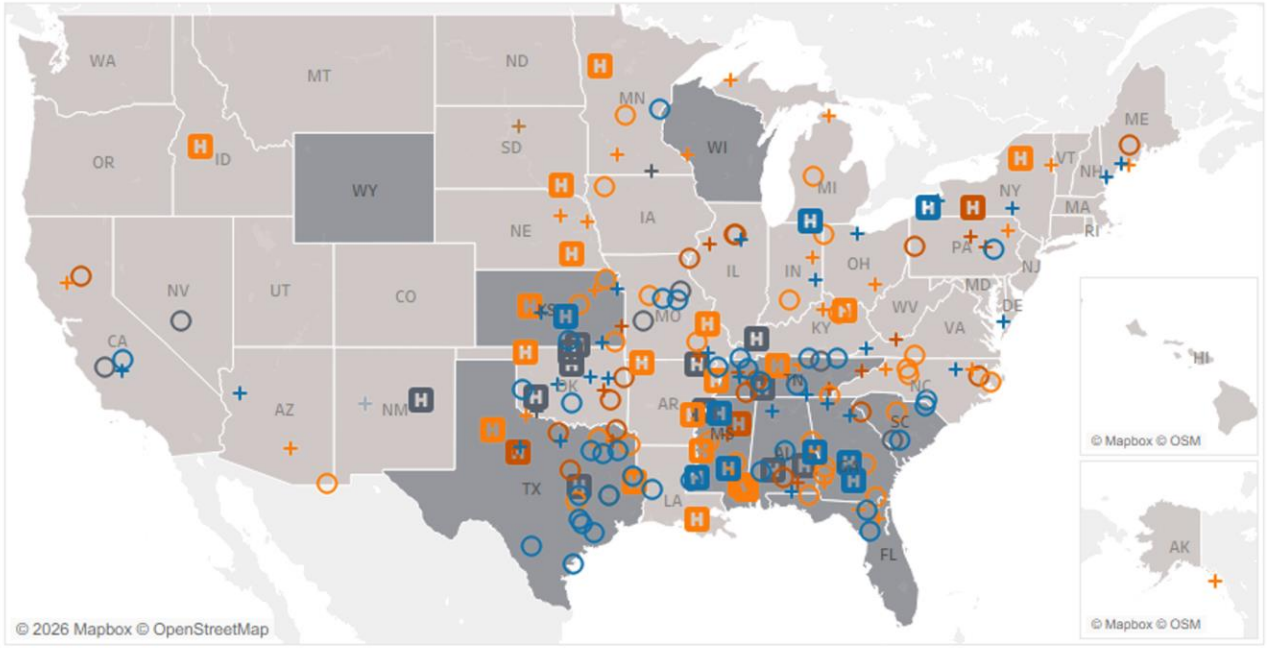


80%+/- of hospitals are within these three options

RURAL HOSPITAL CLOSURES SINCE 2010

200 Closed or Converted Rural Hospitals

There have been 200 Rural Hospital closures or conversions since 2010 and 243 since 2005, these numbers include **forty-three (43) REH Conversions since 2023**



Year	Hospital Name
2025	REH- Westfield Memorial Hospital-NY
	REH- Landmann-Jungman Memorial Hospit..
	Glenn Medical Center-CA
	Stilwell Memorial Hospital-OK
	REH- Fleming County Hospital-KY
	REH- Smith County Emergency Hospital-MS
	Northern Light Inland Hospital-ME
	Lawrence Medical Center-AL
	Mid Coast Medical Center - Trinity-TX
	REH- Ira Davenport Memorial Hospital-NY
	REH- J Paul Jones Hospital-AL

ST	Count
TX	27
TN	17
OK	13
KS	12
AL	11
MO	11
MS	11
GA	10
NC	8
NY	6
AR	5
CA	5
FL	5
KY	5
MN	5
PA	5
IL	4
ME	4
MI	4
SC	4
AZ	3
IN	3
NE	3
OH	3
IA	2
LA	2
NM	2
SD	2
VA	2
AK	1
ID	1
MD	1
NV	1
WI	1
WV	1

Year	Prospective Payment System	Critical Access Hospital	Medicare Dependent Hospital	Sole Community Hospital	IHS	Re-based Sole Community Hospital	Rural Referral Center	Total
2010	2					1		3
2011	3	2						5
2012	5	3	1					9
2013	5	6	2					13
2014	2	7	4	1				14
2015	9	5	1	1			1	17
2016	4	2	2	2				10
2017	4	5	1					10
2018	6	3	4	1				14
2019	6	5	4	2				17
2020	9	4	4					17
2021	1	2						3
2022	1	1	2	1	1			6
2023	5	9	5	6				25
2024	5	13	1	5				24
2025	5	4	3	1				13
Total	72	71	34	20	1	1	1	200

Medicare Payment Type
- Prospective Payment System
- Critical Access Hospital
- Medicare Dependent Hospital
- Sole Community Hospital
- Re-based Sole Community Hospital
- Rural Referral Center
- IHS

Current Status
- REH
- Complete Closure
- Convert to Other

Current Status of Medicaid Expansion Decision
- Adopted the Medicaid Expansion
- Not Adopting the Medicaid Expansion at this Time

Updated:1/7/2026

Sources: The North Carolina Rural Health Research Program (NC RHRP) at the Cecil G. Sheps Center for Health Services Research & kff.org

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RATING AGENCIES' OUTLOOK FOR NFP HEALTHCARE

- **S&P: U.S. Not-For-Profit Acute Health Care 2026 Outlook - Resilient For Now, With Increased Credit Risks On The Horizon**
- Moody's has upgraded the outlook for nonprofit hospitals to stable
- Fitch Ratings expects median operating margins to remain between 1% and 2% with robust balance sheets supporting credit stability
- Fitch: "Systemwide operating margins may never recover to pre-pandemic levels" amid macroeconomic pressures and the longer-term threat of the One Big Beautiful Bill Act's (OBBBA's) changes to reimbursement and coverage.
- Fitch: "Elevated macroeconomic pressure could revert the sector outlook to 'deteriorating,' especially if there is a decline in profitability and payer mix erosion," according to the report.

KEY INDUSTRY TRENDS

Continued margin compression and payer mix deterioration

Workforce shortages compounded by public-sector constraints

Increased competition

Increased scrutiny from regulators, media, and the public

Economies of scale and skill

Growing reliance on:

- Supplemental payments and Intergovernmental transfers
- Tax revenue
- Public-private partnerships

Consolidation pressures vs. political resistance to affiliation

WHY COUNTY AND DISTRICT HOSPITALS ARE DIFFERENT

STATUTORY & REGULATORY ENVIRONMENT

- Creation, authority, and limitations under state law
- Powers vs. practical constraints
- Tension between statutory mission and financial reality
- In some cases, a government owned hospital system may have constraints preventing expansion outside of the county/parish/district boundary
- In some jurisdictions, authority-owned hospitals cannot file bankruptcy

POLLING QUESTION #1

GOVERNANCE & DECISION-MAKING STRUCTURE

- Board composition and appointment mechanisms
- Fiduciary duties in a public context
- Multiple layers of governance and responsibility result in blurred lines of accountability
- The blurred line between governance and operations
- Public conflict dissuades talented and capable board nominees, providers, and staff
- Tax support can mask the actual financial and operational struggles of the hospital
- Eroding operating performance creates financial exposure for taxpayers and compromises a public asset

TRANSPARENCY, REPORTING & SUNSHINE LAWS / PUBLIC NOTICE, APPROVAL & PROCESS REQUIREMENTS

- Open meetings and public records obligations
- Executive session limitations
- When and why public approval is required
- Timing, sequencing, and deal risk
- Political agendas, poor communication, and lack of transparency can undermine effective board oversight functions
- The County/District hospital is everyone’s business: a complicated business and critical community resource becomes a source of division
- Common traps in transactions and affiliations

THE ROLE OF PUBLIC ACRIMONY AND MEDIA

- Actual local newspaper headlines:
  - **COUNTY AND HOSPITAL TO SETTLE BEEFS**
  - **TAXPAYERS WILL PAY FOR HOSPITAL BOARD'S MISTAKES**
  - **OPAQUE LEGAL STRUCTURE INCLUDES TWO BOARDS**
  - **RED FLAG: GRAND JURY FINDS THAT HOSPITAL CANNOT ACCOUNT FOR TAXPAYER DOLLARS**
  - **HOSPITAL BOARD ADDRESSES COMMUNITY CONCERNS**
  - **ATTORNEYS' FEES GROW WITH HOSPITAL, COMMISSIONERS' DISPUTE**
  - **MEMORIAL HOSPITAL BOARD MEMBERS AND COUNTY COMMISSIONERS COLLABORATE TO APPROVE SALES TAX INITIATIVE**
  - **COUNTY COMMISSIONERS CAN PROCEED WITH HOSPITAL TRUSTEE REMOVAL EFFORT**

POLLING QUESTION #2

BUILDING TRUST AND ALIGNMENT IN A PUBLIC SYSTEM

1. INITIATE REGULAR COMMUNICATION BETWEEN LEADERSHIP ON BOTH BOARDS

2. ESTABLISH A SHARED VEHICLE/TASK FORCE FOR WORKING TOGETHER

3. BRING IN OUTSIDE, EXPERT FACILITATION

4. DEVELOP A COMMON FACT BASE

5. DEVELOP A SHARED VISION

6. CREATE A COMMUNICATION PLAN

7. STAY FOCUSED ON FUNDAMENTALS

POLLING QUESTION #3

STRATEGIC AND OPERATING FUNDAMENTALS

1. Assess and update strategic and operating risk profile annually	Examine five-year trend on key metrics annually
	Quantify gaps
	Define cash run rate
2. Identify growth opportunities	
3. Performance improvement as an essential tool	
4. Vet strategic options	Recognize that all options have inherent risk, then…
	Select the strategic option that provides the best opportunity and risk/reward ratio for a
5. Avoid decision/analysis paralysis	Recognize that all options have inherent risk, then…
	Select the strategic option that provides the best opportunity and risk/reward ratio for achieving

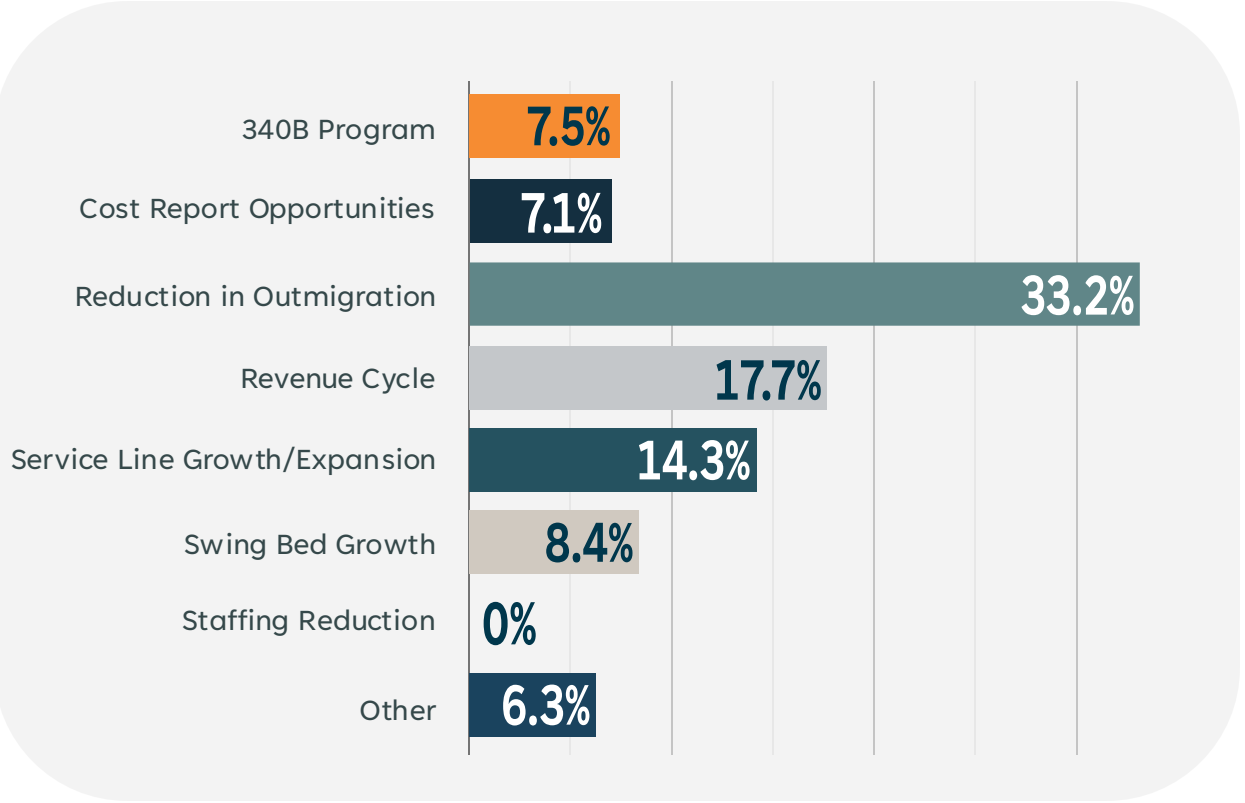
RISK MITIGATION VIA IMPROVED PERFORMANCE

- Nearly 30 rural performance improvement projects led by Stroudwater over 30 months delivered a median of $1.7M in financial improvement per organization, equating to nearly 8% of net patient revenue per organization

Total Estimated Impact		
25th	$	1,300,000
Median	$	1,700,919
75th	$	3,727,000

Impact % of Net Pt Revenue	
25th	4.1%
Median	7.8%
75th	11.1%

- These engagements spanned an array of functional areas, with the average share of total improvement realized broken out as follows:



LEGAL & GOVERNANCE FUNDAMENTALS: AVOIDING PREVENTABLE FAILURE

Where public hospitals most often get into trouble:

- Process errors
- Documentation gaps
- Board role confusion

OTHER UNIQUE RISK FACTORS

CONFLICTS OF INTEREST

POLITICAL TURNOVER RISK

LONG-TERM STRATEGIC COMMITMENTS VS. ELECTION CYCLES

POLLING QUESTION #4

CONCLUDING THOUGHTS & KEY TAKEAWAYS

A TALE OF TWO COMMUNITIES

"There is no perfect strategic decision. One always has to pay a price. One always has to balance conflicting objectives, conflicting opinions, and conflicting priorities. The best strategic decision is only an approximation - and a risk."

– Peter Drucker

Pottersville	Bedford Falls
• Each Board has their advisor • No shared process or working relationship between boards • Distrust and conflict continue • No shared vision for the future • The District "wins" • Hospital bankruptcy • Continued controversy • Closed clinics • Terminated services • New partner at "fire sale" terms	• One advisor for both boards • Shared process, joint committee • Consensus in place of conflict • Buy-in instead of controversy • Arrive at shared vision for the future • Focus on achieving objectives • Able to attract an Internationally renown partner • Commitment to invest $250M • Community confidence soars • District able to allocate tax proceeds to other pressing health needs

RESULT: WHAT BEDFORD FALLS FEELS LIKE

"I am thrilled that the Boards and stakeholders were able to overcome lots of history to do the right thing for the community. We got here because we had shared process with the boards, alignment via a single advisor, a single set of objective analyses and findings and we gained community trust by engaging with the public throughout".

- *Chairman of the Hospital Board*

"It is really gratifying to see the end result. The hospital district has been able to do more for the community as we reduce our contribution to the hospital as agreed to with the new partner. The hospital is on very sound footing and we are redirecting district resources to address mental health needs and put patient advocates in homeless shelters. I sometimes wonder how all of this happened given the challenges".

- Chairman of the Hospital District Board

DISCUSSION

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THANK YOU

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