Sustaining the Financial Viability of Critical Access Hospitals

Rural Health Care Leadership Conference

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February 2013
Presentation Agenda

• Critical access hospital (CAH) background
• Quality’s role in financial performance
• 2012 CAH Financial Leadership Summit lessons
• Interventions for improved financial performance – present and future
• Questions?
Sources of Information

- 2012 CAH Financial Leadership Summit
- 2011 CAH Quality Leadership Summit
- Louisiana CAH Summit
- Technical Assistance & Services Center (TASC) CAH Knowledge Center
- Rural Hospital Performance Improvement Program (RHPI)
Number of U.S. Critical Access Hospitals, 1999-2010

- 1999: 41
- 2000: 139
- 2001: 341
- 2002: 563
- 2003: 722
- 2004: 875
- 2005: 1,055
- 2006: 1,280
- 2007: 1,283
- 2008: 1,291
- 2009: 1,302
- 2010: 1,306
Brief History

• 1997: CAHs born in the Balanced Budget Act (BBA) after hundreds of rural hospital closures

• 2006 research shows CAHs improve significantly financially

• 2012: 41% of CAHS now losing money
Promise of PPACA

Patient Protection and Affordable Care Act

• More primary care physicians
• Enhanced payments
• Medical homes/accountable care organizations (ACOs)
• Cost containment
Form Follows Financing

Current health business model is based on **volume**

The more you do, the more money you make
New System Based on Value

Patient Value = \frac{\text{Quality + Service}}{\text{Cost}}
Value = Triple Aim

- Better care
- Better health
- Lower cost
Medicare Shared Savings Program

- Accountable care organizations (ACOs)
- Value Based Purchasing (VBP)

Improved quality
+ Improved patient experience
+ Reduced costs

= Incentive Payments
CAH Formula for Success

Currently...

Revenue

Profit Zone

Cost

Loss Zone

Dollars

Service Volumes
CAH Challenges

- Demonstrating value
- Generating patient volume/loyalty
- Becoming efficient
- Identifying a role in the new reform models
- Managing complexity and change
Even small health care institutions are complex, barely manageable places...large health care organizations may be the most complex organizations in human history.

- Peter Drucker
CAH Leadership Challenges
2011 Quality Leadership Summit
And Impacts for Financial Performance
Rural health quality leaders convened in Minnesota to:

- Generate a comprehensive list of lessons learned
- Explore business frameworks to manage culture change and performance improvement
- Examine the relationships between leadership and quality excellence
- Share the gathered knowledge with others
Assembling a Blue Print for Quality

- Quality improvement initiatives require a systems-based framework
- Baldrige Performance Excellence Framework was proposed by Summit leaders as a good way to manage quality initiatives
- Baldrige Framework should extend to Financial Performance as well
Baldrige Performance Excellence Framework

1. Leadership
2. Strategic Planning
3. Focus on Patient, Other Customers, and Markets
4. Measurement, Analysis, and Knowledge Management
5. Workforce Focus
6. Process Management
7. Results
Strategic Planning

• Should be dynamic, specific, quantifiable
• Should be understood by all hospital staff
• Should represent a convergence between mission, operations, and budget
• Requires funding support, leadership attention, and feedback information loops
Strategic Planning

“If you don’t know where you are going, any road will get you there.”
- Lewis Carroll, Author
Patients, Customers, Communities

- Continuously monitor patient satisfaction
- Treat physicians as primary customers
- Communicate with service area residents and assess community needs and wants
- Look for networking and partnering opportunities with others
Why Migration Happens

- Physician referrals out of areas
- Negative perception of local hospital
- Lack of knowledge/understanding of local services
- Inconsistent customer service and quality
- Lack of innovative ways to engage the community

- Out-migration is the number one factor in poor financial performance!
Migration Reversal Strategies

• Community health assessment
• Physician/hospital partnerships
• Proactive plan to change community perceptions
• Strategic community alliances
• Customer service programs
• Upgraded marketing/communication tools and messages
Patients, Customers, Communities

“Learning, networking, and best practices all need to become hardwired within an organization.”

- Jennifer Lundblad
  Executive Director
  Stratis Health
Measurement, Feedback, Knowledge Management

• Find an appropriate strategic framework to ensure a holistic focus
• Build in feedback loops to enable timely process improvements
• Make the framework and scorecard understandable and relevant to all staff
Process Management and Quality Reporting

• Quality excellence requires continuous performance improvement

• Process mapping and process redesign will be necessary for electronic health records

• Quality information should be specific, relevant, actionable, and reportable

• Best practices and lessons learned should be captured and shared with other

• In the new system: **Quality impacts finance!**
2012 CAH Financial Leadership Summit Lessons
Summit Participants

Eide Bailly (Consulting)  Stroudwater (Consulting)
BKD (Consulting)        Wipfli (Consulting)
McClure and Associates, Inc. Mountain States Group
Louisiana Hospital Association  Utah Hospital Association
Georgia State Office of Rural Health
North Pine Area Hospital
National Rural Health Resource Center
HRSA Office of Rural Health Policy
Rural Health Research Center, Univ. of North Carolina
Top 10 Financial Strength Indicators

1. Days of gross revenue in gross accounts receivable
2. Days of net revenue in net accounts receivable
3. Days cash on hand (all sources including non-restricted)
4. Total margin
5. Operating margin
Top 10 Financial Strength Indicators

6. Personnel expense as a percentage of operating revenue
7. Payer mix
8. Average age of plant
9. Long-term debt to capitalization (important to lenders)
10. Debt service coverage ratio (important to lenders)
CAH Financial Interventions

1. Revenue cycle management (RCM)
   • Chargemaster/revenue cycle review
   • Pricing review
   • Charge capture/coding review
   • Denial management
CAH Financial Interventions

RCM Value
• Bottom line financial improvement
• Enhanced liquidity
• Improved processes hospital wide
CAH Financial Interventions

2. Strategic, financial, and operational assessments
   • Benchmarks
   • Market analyses

Assessment value
   • Identifies and prioritizes needs
   • Provides big picture perspective
   • Aligns leadership and strategies
CAH Financial Interventions

3. Cost report reviews and strategies
   • Opportunities for additional revenue
   • A second review is beneficial
CAH Financial Interventions

4. Physician practice management assessments

- Clinics often loses money
- Understanding “tolerable loss”
- Major opportunities for efficiencies
- Need to manage relative value units/changes
CAH Financial Interventions

5. Lean training and implementation

Value

• Savings in money, time, and resources
• Higher patient satisfaction
• Greater value in ACOs
CAH Financial Interventions

6. Financial education
   • CAH board, department managers, and C-team
   • Topics: CAH 101, budgeting, financial strategies, benchmarks
2012 Louisiana CAH Summit

• Louisiana Hospital Association
• Stroudwater and Associates
• 14 CAH leaders participated

Four Critical Factors

- Payments based on value
- Quality reporting and pay for performance
- Reduced payments
- Regulatory changes

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