

Garfield County Hospital

2010 – 2011

Financial Strategic
Assessment Summary



Purpose

- The assessment was Funded by Washington State Office of Rural Health – Flex Grant
- Grants were provided to support facilities that are most vulnerable
- Our proposal
 - Develop a comprehensive economic assessment
 - To better inform strategic planning & operational decision making

18 Areas of Influence Reviewed...

- Medical Home Concept
- Medical Home Reimbursement Pilot
- Accountable Care Organizations (ACOs)
- Merger with Larger Health System
- Capital Planning
- Statutory Debt Ceiling
- Commercial Lines of Business
- Electronic Health Record (EHR) Reimbursement
- Nursing Home Sustainability

18 Areas of Influence Reviewed...

- Service Line Expansion (CT, MRI, Therapies)
- Community Health Center Model (FQHC)
- Expansion of Clinic Services
- Economic Impact of Windmills
- Physician Supervision Rules
- Missing Charge Opportunities
- Small Rural Hospital Strategies
- Other Items
- Management Letter Comments

Medical Home Concept

A concept that facilitates partnerships between individual patients & their provider team.

- Personal Physician (Medical Provider)
- Physician Directed Medical Practice
- Whole Person Orientation
- Care is Coordinated & Integrated
- Quality & Safety are Hallmarks
- Enhanced Access
- Payment Recognizes the Value Added

National Committee for Quality Assurance (NCQA)

Medical Home Concept

- Concerns
 - Could contribute to over-staffing based on traditional care models
 - Requires complete commitment to Medical Home practice principles
 - Information and communication intensive
 - Requires re-thinking how care is delivered
 - Reimbursement mechanisms are lagging

Medical Home Concept

Recommendations...

- Need to be conscious of limited resources
- Mindful of the tradeoff between improved care and cost
- Any further continuation of Health Home concept should be budget neutral
- Expansion of Health Home services should be preceded by cost-benefit analysis

Medical Home Concept

Where we are...

- Migrating to medical home concept for over 5 years
- Participated in a number of collaborative
- Understanding and practice of the basic principles
- Working on embedding the principles in our practice
- Implementing Health Home Strategic Plan as core strategy

Medical Home Reimbursement Pilot

State of Washington is implementing a Medical Home reimbursement pilot project with the support of several payers.

The goal of the pilot is to partially shift payment from the current fee for service model toward payment for improved outcomes. Through reduction of preventable emergency room visits and hospitalizations.

Medical Home Reimbursement Pilot

Concerns...

- Program would pay a capitated enhancement of \$2.50 PMPM limited to the participating payers
- The number of eligible enrollees is limited
- The program has a requirement of at least 5000 covered lives to participate
- Incentives are not really designed for cost-based providers such as GCHD
- Minimum requirements = increased cost

Medical Home Reimbursement Pilot

Recommendations...

- The program does not appear to benefit the district the way it is structured
- Continue to monitor the development of these reimbursement models for potential future adoption

Where we are...

- Continue work on Health Home forming the foundation for any future reimbursement model
- Participate in CAH Network ACO project

Accountable Care Organizations (ACOs)

An organization of healthcare providers that agrees to be accountable for the quality, cost and overall care of Medicare beneficiaries who are enrolled in the traditional fee-for-service program who are assigned to it.

- Centers for Medicare and Medicaid Services

Medicare believes by making entities accountable for cost & quality the Medicare program will experience significant decrease in cost which in turn they can share savings with providers.

Accountable Care Organizations (ACOs)

Concerns...

- Uncertainty if organizations will be required to participate
- Uncertainty regarding performance metrics
- Jeopardy of current payment methods (CAH)
- Structure of joint ventures must be equitable

Recommendations...

- Too early to tell
- Skeptical about benefit to the district due to limited number of eligible enrollees in area
- Continue to monitor development of ACOs

Accountable Care Organizations (ACOs)

Where we are...

- Participating in Rural ACO development effort with Critical Access Hospital Network
 - The ACO must protect our rural health systems from threats to sustainability and assure we are able to continue to meet the needs of our local communities
 - The ACO must support improved quality and facilitate coordinated transitions in care throughout the health system
- Continue with Health Home implementation efforts

Merger with Larger Health System

Many small health systems consider mergers with larger systems as a means of gaining greater stability, creating economies of scale, leveraging management talent and gaining access to capital.

Merger with Larger Health System

Concerns...

- Experience dictates little satisfaction with these relationships
- May have to give up some local autonomy
- Could contract for management services but not likely to be an attractive candidate due to our small margins and small service area
- Sharing resources can lead to competing interests between facilities

Merger with Larger Health System

Recommendations...

- Continue to consider shared service arrangements on a case-by-case basis
- Access to capital is best achieved through tax levy initiatives
- Continue to promote referral relationships (swing-bed program) that contribute to sustained use of service but are cost neutral
- Consider revenue enhancement programs carefully against cost reporting implications

Merger with Larger Health System

Where we are...

- Management has considered merger in the past but have not actively pursued it
- Engaged in CAH Network, RHQN, and Associations; these relationships have provided reliable access to shared resources and knowledge
- Tax levy strategy is difficult but has been reasonably reliable source of capital for specific initiatives
- Could benefit from more marketing of SB
- ACO development may influence the future relationship of the district with larger urban systems

Capital Plan

Financial capital is necessary for repair and replacement of facilities and equipment. Healthcare systems and equipment are highly specialized and very costly to purchase and maintain. The district must have a reliable source of capital and a specific plan for both routine replacement and purchase of capital assets; facilities and equipment.

Capital Plan

Concerns...

- District has limited resources and aging infrastructure
- Capital items are prioritized according to need and routinely utilized past the common “useful life” of the asset
- Need for significant investment in EHR
- Eventual need for facility replacement must be determined

Capital Plan

Recommendations...

- Limited competitive environment for core services provided by the district may not require complex acquisitions
- Cost allocation tool should be used for all purchases
- Expense as much as possible and depreciate as quickly as possible
- Develop a comprehensive capital investment strategy (Facilities, EHR & Equipment)

Capital Plan

Where we are...

- Targeted levy strategy for capital projects has worked in recent years
- Significant number of projects completed or nearing completion
- Accumulating small reserve for CR&R
- Have developed a capital planning document
 - Need to expand our effort to include sources and uses
 - Need to develop capital strategy and communicate it to stakeholders

Statutory Debt Ceiling

The Washington State Constitution imposes debt limitations on municipalities. The debt capacity is based the assessed valuation of all property in the hospital district.

Currently the district has non-voted debt capacity of approximately \$1M and total debt capacity of just under \$5M.

Statutory Debt Ceiling

Concerns...

- Community is very sensitive to levy needs and high per capita tax rate due to small population and relatively low property values

Recommendations...

- Suggest the district leave a cushion of at least half a million dollars
- Estimate the financial impact of windmill development on the tax basis

Statutory Debt Ceiling

Where we are...

- District can petition voters to allow temporary increase in levy rate
- County wide aggregate can not exceed statutory limits
- Total levy rates for the county are close to statutory limits
- Windmill development will add to the tax basis without a lid lift
- Special levy or UTGO bonds may provide additional sources of funds

Commercial Lines of Business

Healthcare organizations only receive direct payment for services from a small percentage of clients. For GCHD this number is less than 7%.

Typically payment for services is contracted with a third party including government and commercial payers. Government sources represent nearly 68% of our business. Approximately 25% of business is from commercial sources.

Commercial Lines of Business

Concerns...

- Commercial lines of business offer the greatest opportunity to produce contribution margins.
- Limited discounting
- Few commercial product offerings in the service area
- High fixed cost of operation means little opportunity for discounting

Commercial Lines of Business

Recommendations...

- Continue to limit discounting to commercial carriers
- Negotiate contracts carefully be very aware of the needs of the local market
- Recognize the strength the district has in being the local provider

Where we are...

- Need to have a better assessment of local commercial utilization
- Need to focus on earning loyalty of these commercially insured individuals

Electronic Health Record Reimbursement

Hospitals must "possess" electronic health record technology certified against all 24 meaningful use objectives, and "demonstrate" meaningful use of 19 objectives in order to qualify for Medicare and Medicaid incentive payments and avoid future payment penalties.

Electronic Health Record Reimbursement

Concerns...

- The district may adopt a certified EHR system and certify any year from 2011 to 2015
- The district must achieve meaningful use by 2013 or risk losing reimbursement progressively up to 1%
- The process of acquiring and adopting new technology is very time intensive and demanding of resources

Electronic Health Record Reimbursement

Recommendations...

- Cost related to implementation will be reimbursable
- Work with vendor to incorporate as much of the acquisition cost as possible into the purchase price
- Move quickly toward adoption

Where we are...

- Joined the WIREC for technical assistance
- Hired Network Administrator
- Identifying members of the implementation team
- Considering the alternatives; Healthland, Soapware or other product

Nursing Home Sustainability

Over the years the hospital district has visited the issue of nursing home sustainability on a number of occasions. Although reimbursement for services does not meet the cost of providing this service, nursing home services are perceived to be important to the community and utilization of the nursing home remains strong.

Nursing Home Sustainability

Concerns...

- Volumes – smaller nursing homes have difficulty due to higher fixed cost of operating
- Payor mix – nearly 60% Medicaid
- Reimbursement gap – the cost per day for a LTC resident is \$270, Medicaid pays less than \$150. This results in a loss of \$432,000 per year
- The district must subsidize the nursing home in order to sustain the service
- A reduction in capacity would have to be significant in order to realize any tangible savings

Nursing Home Sustainability

Recommendations...

- Keep the nursing home full to minimize losses due to underutilized capacity
- Always utilize skilled Swing-beds for Medicare certified stays
- Consider a special levy targeted solely to subsidize the nursing home
- Conduct a market rate analysis to determine if charges are sufficient
- Conduct an efficiency analysis to determine if we can/should change our approach to care

Nursing Home Sustainability

Where we are...

- Expanded use of swing-beds to improve utilization of space
- Work session with staff with emphasis on appropriate swing-bed utilization
- Improved hiring and retention results to limit staffing cost and use of agency
- Closely manage variable operating expenses
- Maintain rate increases annually to avoid growth in loss margin

Service Line Expansion

Hospitals and healthcare systems can sometimes increase revenue by adding new lines of service. This is true only if the cost of adding the service is less than the net revenue generated by the service.

This “traditional” formula is not necessarily the same for facilities that receive cost-based reimbursement. The addition of any service line needs to be carefully evaluated against the expected Payor mix for the service to determine its potential net contribution to profitability.

Service Line Expansion

Concerns...

- Small population in the service area makes it unlikely to attract new business
- Small population also makes sustainability of some specialty services less likely
- Volumes would have to be significant for some services to cover the higher fixed cost of the service

Service Line Expansion

Recommendations...

- Interview provider staff and look at referral patterns to determine potential for new services

Where we are...

- We have had a number of discussions on the merits of adding new imaging services (CT)
- We have had some discussion about using the Pataha House to accommodate visiting specialists
- We have added some diagnostic services

Community Health Center Model (FQHC)

A federally qualified health center (FQHC) is a type of provider defined by the Medicare and Medicaid statutes. FQHCs include all organizations receiving grants under Section 330 of the Public Health Service Act, certain tribal organizations, and FQHC Look-Alikes.

FQHCs must provide primary care services for all age groups. FQHCs must provide preventive health services on site or by arrangement with another provider. Other requirements that must be provided directly by an FQHC or by arrangement with another provider include: dental services, mental health and substance abuse services, transportation services necessary for adequate patient care, hospital and specialty care

Community Health Center Model (FQHC)

Concerns...

- FQHC reimbursement is less than RHC
- Would require reorganization of District Board to accommodate FQHC
- FQCH received grant funding that requires costly annual federal audits
- Grant revenue available for FQHC is not likely to offset the additional cost associated with operating under this model

Community Health Center Model (FQHC)

Recommendations...

- Considering conversion to an FQHC is not in the best interests of the District
- Cost-based reimbursement model for the hospital contributes to sustainability at this time FQHC would jeopardize the hospital

Where we are...

- Remove this option from consideration

Expansion of Clinic Services

Hospitals and clinics are paid differently for providing similar services. Depending on the procedure the reimbursement for the service may be greater (or less) when the service is provided in the hospital and not the clinic.

Expansion of Clinic Services

Concerns...

- Currently some Rural Health Clinic Services may not be billed properly
- The service experience may be impacted by a change
- Patients may have certain expectations related to where services are delivered and may be discontent if referred to another location for service
- Providers have an expectation to be able to provide services in one encounter when appropriate
- The logistics of referring patients to another location could be difficult if not planned properly

Expansion of Clinic Services

Recommendations...

- Evaluate charge capture protocol to assure proper charge capture
- Conduct revenue and billing analysis
- Determine what services should be performed at the hospital
- Consider the cost-benefit of retrofitting the house to accommodate clinic services and the potential revenue which is limited solely to the value of rental income at this point

Expansion of Clinic Services

Where we are...

- Conducted an analysis of charges and met with a cross functional team to discuss
- Have agreed to refer some appropriate procedures and injection therapies to hospital
- Discussing the development of a procedure room at the hospital to accommodate these services

Economic Impact of Windmills

Garfield County is expecting significant wind farm development over the course of the next few years. Windmill development is likely to increase the net property valuation of the county. Real property values are utilized to calculate the tax revenue to the district. An increase in valuation is expected to increase net tax proceeds retained by the district.

Economic Impact of Windmills

Concerns...

- Tax proceeds lag behind new construction. As new windmills come on line they will be added to the tax rolls
- The state establishes the valuation as of January 1 each year for collection the following April
- Most significant valuation will come on line January 1, 2012 for collection later that year
- Difficult to determine the exact revenue to the district because it may fluctuate

Economic Impact of Windmills

Recommendations...

- Based on the experience of Columbia County we could reasonably expect net tax proceeds to the District of as much as \$40,000

Where we are...

- We have met with officials from PSE. The turbines in Garfield County are larger and more expensive, adding to the net valuation
- Tax levy in 2012 for collection in 2013 would spread greater burden to the windmill project

Physician Supervision Rules

CMS proposed stricter physician supervision policies which threaten the availability of outpatient services, particularly in rural areas. The original rule would have made it nearly impossible for rural hospitals with limited physician coverage to meet the standard. With a strong lobbying effort by the association and members CMS loosened its expectations and agreed to review the rule in the coming year.

Physician Supervision Rules

Concerns...

- Could significantly impact the ability of the hospital to provide therapeutic services that require physician supervision.
- Restricts the movement of on-call providers from off campus

Recommendations...

- Continue to work with the state and national associations to lobby for legislative and regulatory fix

Physician Supervision Rules

Where we are...

- The final rule makes several significant changes:
 - The moratorium on critical access hospital enforcement of services provided by critical access hospitals has been extended to calendar year 2011 and now includes all rural hospitals with 100 or fewer beds.
 - CMS will establish in the CY2012 an independent review process to determine the appropriate supervision level for specific services.
 - All reference to physical location is removed from the CMS' definition of "Direct Supervision". In cases of direct supervision the attending physician or non physician provider will need to meet the requirements of being "immediately available". In cases of pulmonary or cardiac rehabilitation, the direct supervision must be provided by a physician.

Missing Charge Opportunities

The hospital relies on a timely, accurate and effective charge capture process in order to generate revenue for the district. Although we are largely funded through cost-based reimbursement, charge capture assures that we receive revenues as quickly as possible for cost-based payors and that we get paid for non-cost-based payors such as commercial and self-pay clients.

Missing Charge Opportunities

Concerns...

- Some concern that we are not meeting our charge capture goals

Recommendations...

- Undertake chargemaster and/or coding review

Where we are...

- Although the last charge capture process was very effective it may be time to audit these processes again

Small Rural Hospital Strategies

- Efficiency, efficiency, efficiency
- Payor mix and use of the “tool”
- Attention to reimbursement trends
- Only provide services the community will use
- Build cash reserves
- Limit use of contract employees (agency)
- Utilize providers for ER coverage
- Break even with operational revenue
- Watch your step

Other Items

- Director of Nursing (DNS) change in cost reporting standards
- Evaluate the fragmenting of Administrative and General cost on the cost report

Management Letter Comments

- Skilled nursing patients should be seen in skilled swing-beds
- Medicare cross over bad debts
- When agency staff is necessary utilize in Acute Department
- Time studies for emergency room provider coverage
- Maintain Rural Health Clinic Productivity Standard



Thank you