The Situation
When the Southwest Health System (SHS), in Cortez, Colorado, contacted Community Hospital Corporation (CHC) early in 2018, the hospital had violated various bond covenants associated with its $30 million expansion and renovation project. In fact, the organization had failed to meet the 80 days-cash-on-hand requirements for four consecutive quarters. This violation triggered technical default, which could have led to hospital bankruptcy and closure.

Lenders concerned with the financial situation communicated with the board directly and required an outside consulting firm to evaluate the situation and develop a plan of action.

Although the situation at SHS was dire, it is not uncommon. Community hospitals across the country are facing serious financial distress. As of May 2019, the North Carolina Rural Health Research Program reported 106 rural hospitals have closed since 2010.

The Plan
After receiving the serious news, SHS board members immediately acted. First, they removed the administrative team. Next, they engaged CHC Consulting to develop a plan to turn around the hospital.

“When I joined the organization, we had a little over 15 days cash-on-hand. In addition, SHS was spending about $20,000 a day more than it was bringing in. At that rate with the current cash balance, we would run out of cash in 111 days.”

Anthony Sudduth, SHS CEO

“During our first conversation, we immediately realized this was a facility in crisis,” said Craig Sims, CHC Senior Vice President of Hospital Operations. “With the change in leadership, rumors were swirling. Employees were wondering about their paychecks.”
CHC’s first step was conducting a comprehensive operational assessment. This involved a deep dive into financial and operational processes. SHS performance was benchmarked against other similar hospitals across the country to identify opportunities for immediate and long-term improvement. Several prospects were identified in the 237-page report, including:

1. **Recruiting new leadership.** The hospital needed an executive team with expertise in finance and experience working in a small rural community on the double. CHC recruited Anthony Sudduth to serve as the new CEO for SHS. He was tapped for the position because of his CFO experience and calm demeanor. After Sudduth joined, CHC worked with him to solidify the administrative team.

2. **Enhancing staff productivity.** The largest challenge identified at SHS was its higher staffing ratios and more expensive benefits as compared to other hospitals with similar size and volume. The assessment documented that between 2015 and 2018, 78 additional full-time equivalent (FTE) positions had been added with no corresponding increase in net revenue.

CHC and hospital leadership quickly realized that productivity evaluation was needed. They also knew transparency was important and immediately communicated with employees about the likelihood of reducing the workforce.

> “We let everyone know reductions were going to happen. We completed a careful analysis so there would be only one round of layoffs. It was important for us to get it right the first time.”

Anthony Sudduth, SHS CEO

By August, the productivity analysis was complete. SHS had already lost 38 employees through attrition, which meant the organization needed to remove an additional 42 to get to national benchmarks.

The workforce reduction was handled with additional communication to employees, physicians and the community. At each opportunity, hospital leadership conveyed the importance of this move to sustain the hospital. Leadership also committed to re-hiring qualified staff as positions became available. To date, they have re-hired 17 previous employees.

> “We feel it is important to rehire from our pool of previous employees when opportunities are available because it shows that we meant what we said,” Sudduth said. “This reduction was position-driven, and qualified previous employees are still welcome back when positions open up.”

3. **Repairing physician, employee, community and hospital district relationships.** CHC and hospital leaders held meetings with physicians and community forums to inform stakeholders about the situation and turnaround plan.
4. **Reducing supply costs.** CHC determined that significant financial gains could be made by converting SHS to CHC Supply Trust, a GPO that specializes in granting Tier 1 pricing to smaller community hospitals, pricing that is typically reserved for large health systems.

5. **Evaluating the hospital’s cost report.** A cost report assessment identifies whether the hospital had been underpaid for reimbursable services. The impact of a hospital’s cost report can be far-reaching, influencing not only its current but future reimbursement levels.

**RESULTS**

A few months after the operational assessment was finalized, the SHS board signed a five-year management contract with CHC Consulting. Several recommendations were immediately put into practice. Others followed through the end of the year. Significant improvements impacting the hospital’s bottom line include:

- SHS had a $3.7 million performance improvement in 2018. The downsizing of staff, bringing benefit packages to competitive levels, and reducing contract labor removed $5.3 million in annual expense from the organization and put the hospital back in the black.
- The cost report reconciliation indicated the hospital had been underpaid for reimbursable services an amount more than $419,000.
- Patient satisfaction scores reached a six-year high.
- SHS met the ‘40 days or greater by June 2019’ cash-on-hand threshold as required in the forbearance agreement, and is on track to meet financial covenants.
- Switching to CHC Supply Trust identified $2 million in savings on supplies while creating opportunities for supply chain optimization.
- Since completion of a Medical Staff Development Plan, SHS hired three providers early in 2019.
In addition to the measurable financial improvement, gains are also seen in increased communication with the SHS and hospital district boards, physicians, staff and community. As a result, these important stakeholders are stepping up to support the hospital. Gains can be seen in new activities such as the SHS and hospital district boards joining SHS administration to host a well-attended community forum. The hospital also hosted an open house and donor recognition reception attended by 150 community members.

Looking to the Future
While the situation is vastly improved, SHS leadership remains focused on improvement needed to meet long-term financial targets. Current initiatives include physician recruitment, infrastructure improvement, outmigration reduction, referral development, community relations, service line expansion and legislative involvement. Administration and the hospital board are also working to build a more collaborative relationship with the hospital district.

“Our vision is to offer a beautiful facility with outstanding physicians who provide excellent healthcare to our community,” Sudduth said. “We are well on track, but the hard work isn’t over.”

About Community Hospital Corporation
Community Hospital Corporation owns, manages and consults with hospitals through three distinct organizations – CHC Hospitals, CHC Consulting and CHC ContinueCARE, which share a common purpose to guide, support and enhance the mission of community hospitals and healthcare providers. Based in Plano, Texas, CHC provides the resources and experience community hospitals need to improve quality outcomes, patient satisfaction and financial performance. For more information about CHC, please visit www.communityhospitalcorp.com.