Community Hospital 2.0
Redesigning Community Healthcare for the Next Generation
ABSTRACT

In times of crisis, scarcity can have a crippling effect. That has certainly been the case for community hospitals that have struggled in the face of declining inpatient volume, reduced reimbursements and other market constraints.

Over time, as constraints persist, they can incite action that leads to innovation. Charles Eames, the modern furniture visionary, said design is about innovating around constraints. For years, community hospitals have been in crisis, with limited control over their situation. Maybe the next move is bold innovation. The guiding question: In a changing world, how should a hospital serve its community? This white paper maps out possible paths forward including sustainable models of operation.

The alternative to closure is adaptation. The answer to challenge is change.

INTRODUCTION

If challenges give rise to innovation, then the current healthcare climate is a veritable incubator in which a range of challenges await innovative solutions. Hospital executives must judiciously use limited resources to find solutions to myriad challenges, including:

- **Population.** Declining rural population with low incomes and high unemployment.
- **Payer mix.** High percentage of Medicare, Medicaid and uninsured. The situation is worse in states that refused Medicaid expansion.
- **Service mix.** Low volumes and lower-complexity patients limit revenue growth opportunities.
- **Physician coverage issues.** Inadequate specialist coverage drives patients elsewhere.
- **Deteriorating facilities.** Insufficient capital for necessary updates.
- **Out-of-date technology.** Not keeping pace with medical and IT advances.
- **Management challenges.** Many leaders have not fully grasped what their hospital is up against.
- **Debt.** The burden of bad debt and overleveraging.

These challenges have forced scores of community hospitals across the United States to close. Not every hospital will meet the same fate. It’s time to turn the page and write a new chapter for the community hospital of the future.
A New Direction
The landscape is altogether different for community healthcare than in years past. It’s appropriate, then, for community hospitals to take a different approach to doing business.

First, hospitals should identify cost savings and optimize revenue to put themselves in the best possible position for whatever comes next.

The next step – after assessing the situation – is to accept it.
• Closure is inevitable for some facilities. Across the United States, 700 rural hospitals are in danger of closing, according to the National Rural Health Association.*
• Bankruptcies are on the rise. While often the beginning of the end, bankruptcy in some cases marks the start of a new beginning.

With acceptance comes the awareness that “business as usual” isn’t working. Gaining a true understanding of the constraints is critical to inventing a solution.

WHERE TO INNOVATE

1. **Who to serve**
2. **What services to provide**
3. **How to get compensated**
4. **What new methods can be used to deliver health services**
5. **What processes can drive efficiency**
6. **What organizational models make sense**
7. **How to influence healthcare’s future**
8. **How to collaborate beyond the hospital’s walls**

CASE STUDY

Restructuring Offers New Lease on Life
North Texas Medical Center, Gainesville, Texas

Restructuring of North Texas Medical Center by the Gainesville Hospital District (the District) and CHC was a complex matter involving months of advance strategizing. With $40,000,000 of debt to restructure, the District entered into Chapter 9 bankruptcy in a bid not only to survive but to succeed in the long run. The District also secured debtor-in-possession financing and filed a bond validation suit to enhance the attractiveness of its bonds as investments. Bankruptcy afforded the District legal protection and the time it needed to craft a plan of adjustment and to secure a contract management agreement with CHC to identify and implement operational improvements.

The District beat the odds and emerged from bankruptcy, becoming a more attractive investment or partner in the process. Ultimately, the exit strategy was the creation of a new CHC organization to lease and operate the hospital. “With CHC, we are on a path of renewal that allows us to advance on many levels – from operational and financial performance to quality of patient care,” says Andy Anderson, board president of Gainesville Hospital District (NTMC’s umbrella organization). **Though not the right move for every hospital, for this organization, bankruptcy was a paving stone on the path of renewal.**

Creating the Future
Historically, most hospitals have been better executors than innovators, improving less often through major change than by optimizing their existing business model. But in today’s healthcare climate, innovation is imperative. Opportunities to innovate abound in these eight areas, for starters:

**1. Who to serve?**
The population of rural America is declining. This fact makes it more important than ever to understand your market demographics, community needs and competitive environment.

---

** IDEAS FOR INNOVATION  

- Hospital-run outpatient clinics may host a variety of specialty physicians on a limited but regular schedule. By sharing these resources across a broader geographic area, the community gains access to more specialized care.

- Review closures in adjacent markets. Reduced competition may open up an opportunity to expand, such as opening a clinic in a neighboring community.

- Consider offering virtual physician visits to residents in outlying areas or those who lack transportation.

---

“The gulf between rural hospitals’ available beds and daily admissions widens every year, causing the facilities to scale down, repurpose or close.”

~ Modern Healthcare, June 11, 2018 *

---

2. What services to provide?
Rural hospitals are modifying their services and structure to be sustainable into the future. This shift will accelerate as community hospitals take on value-based care initiatives.

IDEAS FOR INNOVATION

- Use market demographics and payer mix data to drive a strategic approach to new services and program offerings. Consider whether your market demographics create an opportunity for a niche service such as wound care, geriatric counseling or pulmonary rehabilitation.

- Analyze market volumes to determine where outmigration occurs and whether the outmigration is due to lack of a service offering or referral patterns. This information may help identify potential services and the need for discussion with physicians.

- Consider service saturation. Are there some service lines that your hospital needs to close in order to redirect resources toward growth in other areas? For example, some community hospitals are transforming into freestanding emergency departments or extended stay clinics.

- Connect and collaborate with other community organizations’ healthcare providers in order to embrace population health. Clinical affiliations and mergers should be considered as viable options.

CASE STUDY

Hospital Space Becomes Freestanding ED
Piedmont Mountainside Hospital Emergency Services, Ellijay, Georgia

North Georgia Medical Center in Ellijay, Ga., had long been losing money and patients. Many residents were seeking hospital care elsewhere, and the mass defection left NGMC treating an average of only six patients per day in the year before it closed in 2016. After completing renovations and a 20-week approval process, Piedmont Mountainside Hospital leased space (the emergency department and medical office building) from NGMC and opened one of the state’s first freestanding emergency departments. Once the space was fully leased, NGMC sold its buildings. In its first year, there were more than 11,000 visits for emergency services. Clearly, the new model filled a need unmet by the hospital. Nationwide, these facilities are gaining traction as the need for hospitals in certain towns dries up but the need for local emergency care persists.
3. How to get compensated?
When it comes to receiving payment for services rendered, hospitals are squeezed by lower patient volumes, declining reimbursement rates, lack of Medicaid expansion (in some states), and higher deductibles that shift payment responsibility to consumers who may not be able to pay, which in turn forces hospitals to write off more unpaid bills. These pressures mean it’s more important than ever for hospitals to identify, monitor and collect each and every dollar they are due.

IDEAS FOR INNOVATION

Evaluate alternative compensation models that may benefit the hospital. Keep in mind that these ideas don’t yet apply to Critical Access Hospitals, which are paid on a reasonable cost method (RCM) which is based on the actual cost of providing services.

- Value-based reimbursement is favored by government and payers over fee-for-service reimbursement. Although value-based care and population health have been slower to reach community hospitals, now is the right time to begin restructuring your hospital’s business model to work within these parameters.

- Global budgeting for a hospital across all payers provides a guarantee of revenue in advance, no matter the volume of admissions and other hospital services. The approach provides hospitals with incentive and autonomy to improve operational efficiency. A global budget does not guarantee hospital solvency, but it does provide a path to sustainability that is independent of inpatient volume. A global budget is relatively straightforward for the hospital to administer and allows the hospital to do well by doing right by the community.

- Bundled payment models pay providers a single, comprehensive payment for all the services involved in an episode of patient care.

Three Key Areas for Revenue Cycle Improvement:

1. **Front-End**: Opportunities to make progress here include renegotiating health plan contracts and adjusting patient registration processes.

2. **Mid-Cycle**: In this phase, gains can be made in charge capture, pricing, medical record coding audits, coding and documentation, and chargemaster.

3. **Back-End**: Key indicators for improvement in this phase include billing and collection metrics, such as accounts receivable, percent of collections and denial rate, with a goal of streamlining billing for faster payments and efficient use of staff time.

Global Budgeting:
A global budget provides a fixed amount of funding over a fixed period of time (typically one year) for a specified population, rather than fixed rates for individual services or cases.

~ Urban Institute
4. What methods for care delivery should we consider?
Technology is a driving force in alternative care delivery, and many cash-strapped community hospitals find it difficult to allocate budget to IT investments.

Forward-thinking community hospital leaders use an enterprise-wide lens to look at IT costs and ask, “What is best for the organization from a cost, care, and risk perspective?” Regardless of the size of your organization, an enterprise IT mindset will be more efficient and better enable the delivery of quality patient care.

IDEAS FOR INNOVATION

• Take advantage of federal funding such as the Universal Service Administrative Company’s (USAC) Rural Health Care (RHC) Telecommunications Program to reduce telecommunications services costs, which may be reallocated for IT or other investments.

• Consider offering virtual office visits – doctor/patient interactions via secure web-based communication technology to patients in remote areas.

• Invest in telehealth solutions to increase inpatient and outpatient services. This broad category of solutions can assist with everything from chronic disease management to speeding stroke diagnosis.

• Establish alternative clinic locations such as pop-up clinics inside of a pharmacy or other retail establishments.

TREND REPORT

Telehealth Use Grows Among Hospitals, Patients

More than half of U.S. hospitals use some type of telehealth, according to the American Telemedicine Association. They turn to telehealth for a number of reasons: to fill physician gaps during nightshifts; manage patient volume surges; keep intensive care units from losing money when a patient must be transferred elsewhere because subspecialists are lacking; provide post-stroke and post-operative care; and, for physicians themselves, as a tool to help prevent burnout. As for patients, their use of telehealth rose by 53% between 2016 and 2017, outpacing growth in the use of urgent care centers, retail clinics, ambulatory surgery centers and emergency rooms, Healthcare Dive reports. That’s because the shift to value-based care has helped shift treatment of lower-acuity conditions to less costly settings.

Resource: Telehealth Resources Center
For help with the ins and outs of reimbursement policies for telehealth by Medicare, Medicaid and private payers, connect with a regional Telehealth Resource Center (TRC), interactively mapped on the National Consortium of Telehealth Resource Centers’ website, www.telehealthresourcecenter.org/.
5. What processes can drive efficiency?
The transition to value-based care has required hospitals to improve patient experiences and outcomes, all at a lower cost. In this model, hospitals are responsible for the cost differential, so the urgency around improvement has intensified.

Often the first step to improving a hospital’s prospects is an operational assessment to evaluate strategy, operations, staffing, supply chain, revenue cycle and leadership with the aim of reducing costs and increasing revenue – the tried-and-true formula for financial solvency.

IDEAS FOR INNOVATION

- **Optimizing productivity** – the right number and mix of all staff – can make a big impact because labor is a hospital’s greatest expense. According to industry data, community hospitals that do not have a productivity tool can typically find savings of 15 to 20 percent in salaries and benefits, and in those hospitals where there is some productivity monitoring, implementing a more effective tool or improving processes can result in 5 to 10 percent savings.

- **Supply costs** are the second highest expense for a hospital and is another important area of focus for cost reduction as well as savings. Industry benchmarks show that many community hospitals have an opportunity to reduce costs by as much as 20 percent in this area.

Community hospitals have been critical to their towns.

However, demographics are changing in many areas and it’s time hospitals retaliored their services and operational model to the needs of the community.
6. What other operational models should we consider?

At times, a hospital’s structure limits its success. When it’s time to evolve, which organizational structure makes sense? Board and stakeholder education and buy-in are needed to make the right call.

<table>
<thead>
<tr>
<th>Partnerships</th>
<th>Partnership or relationship options abound and are described in more detail on the following page.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multi-hospital system</td>
<td>The number of hospitals that are part of systems has been rising as more independent hospitals move in this direction.</td>
</tr>
<tr>
<td>Hospital district</td>
<td>Creating a taxing district is a possible approach to create a cash infusion. Some communities are more tax-averse than others.</td>
</tr>
<tr>
<td>Non-profit to for-profit</td>
<td>Often this happens when an investor or other for-profit entity acquires a not-for-profit hospital.</td>
</tr>
<tr>
<td>Micro-hospitals</td>
<td>Micro-hospitals with a minimum number of inpatient beds could prove to be an effective healthcare delivery model for underserved areas.</td>
</tr>
<tr>
<td>Emergency medical centers (EMCs)</td>
<td>One of several models that does away altogether with inpatient beds. This approach is distinct from freestanding Emergency Departments.</td>
</tr>
</tbody>
</table>

Several proposed alternative hospital models eliminate inpatient services but keep outpatient and emergency services.

- Community Outpatient Hospital (COH) is a provider type proposed in multiple years through the Save Rural Hospitals Act.
- Rural Emergency Medical Center (REMC) is a proposed new rural facility designation under the Medicare program offering 24/7 emergency care.
- Rural Emergency Acute Care Hospital (REACH) Act would allow critical access hospitals to phase out beds and convert to rural emergency hospitals.

7. How can we influence healthcare’s future?

Hospitals leaders are joining forces to lobby for regulatory relief and help pass innovative legislation. Many proposed alternate models for rural healthcare depend on state and federal policy changes. There are several organizations that can help hospital leaders get more involved in designing the future of healthcare:

- The American Hospital Association (aha.org)
- Rural Health Information Hub (ruralhealthinfo.org)
- State hospital associations and/or their rural subgroups
8. How can we collaborate beyond the hospital’s walls?
For hospital executives, community involvement and giving back should be year-round priorities. This is especially true for hospitals serving small, tight-knit communities. Each connection leads to others and develops synergies that benefit both the hospital and the community.

There are times when a situation dictates partnering with another entity. In that case, there are different types of partnership arrangement options available, on up to total acquisition.

IDEAS FOR INNOVATION

Consider a Variety of Relationship Options

- **Affiliation**: Transfers neither risk nor governance. The benefit to smaller hospitals is that it allows them to leverage the larger organization’s purchasing power and use its facilities and physicians.

- **Clinical Affiliation**: Allows the smaller facility to offer specialty care through telemedicine or access to specialty physicians who rotate. In return, the smaller hospital transfers its more complex cases related to that specialty to the larger clinical affiliate partner.

- **Merger**: A merger of equals occurs when the parties combine assets to form a new company. Mergers also take place that afford a lesser ownership stake, such as 20 percent, to the party that brings less to the partnership.

- **Management Relationship**: The local hospital board may want to maintain governance and control over the hospital while abdicating day-to-day management responsibility to an outside third party.

- **Corporate Member Substitution**: For privately held, not-for-profit hospitals, a larger entity becomes the corporate member of the local community hospital board in order to maximize the benefit that the local hospital can obtain as a result of being part of a larger organization. Such partnerships often are noncash deals in which the larger hospital provides clinical resources and takes on the financial liabilities of the smaller hospital, which is still overseen by the local hospital board.

- **Acquisition**: Sometimes finding a buyer vs. a partner is the best course of action. Acquisitions involve selling all assets to the buyer who assumes full responsibility for the hospital’s performance. When missions are compatible, acquisition can help a hospital continue to serve its community.
MAXIMIZE YOUR PARTNERSHIP POTENTIAL

Before looking for a partner, take time to ensure the hospital is in the best possible operational and financial position.

- Assess market position.
- Assess finances and profits by conducting an operational assessment.
- Involve the board and stakeholders from the onset.
- Know what the hospital needs and is prepared to give up to make a suitable match.

CONCLUSION

A tightly lidded box can be stifling. It can also prompt a search for ways to break free of its constraints or succeed despite them. Thinking outside the box in this manner leads to wiser resource allocation and the discovery of more cost-effective methods. A spacious, well-supplied box does not always spark that way of thinking. Although constraints are challenging, they can lead to innovation and breakthroughs.

All hospitals of the future will look different than they do today. Evolution is survival. There are, however, different evolutionary paths.

The model will vary for each facility due to:

- THE NEEDS OF THE COMMUNITY
- THE RESOURCES AVAILABLE
- COMPETITION IN THE AREA
REDESIGN FOR THE TIMES

Community Hospital Corporation helps hospitals across the country evaluate their situation and evolve for a more successful future.

Learn more at http://www.communityhospitalcorp.com/services.

Contact David Domingue, Senior Vice President of Business Development at ddomingue@communityhospitalcorp.com or (972) 943-6400.

www.communityhospitalcorp.com
7800 N. Dallas Parkway, Suite 200
Plano, TX 75024
Phone: 972.943.6400
Fax: 972.943.6401

Community Hospital Corporation owns, manages and consults with hospitals through CHC Hospitals, CHC Consulting and CHC ContinueCARE, with the 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.