Rural Hospital Closures and Recent Financial Performance of Critical Access Hospitals in the Carolinas

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Agenda

- 2010-14 rural hospital closures: where, when, what, which, how, and why
- Financial performance and condition of hospitals in the year before they closed
- Life after closure
- Recent financial performance of CAHs in NC and SC
- What do the data show about CAHs in NC?
- Team activity and discussion
What is a hospital closure?

- Sometimes difficult to identify because:
  - Open, closed, open, closed
  - No media coverage because it is a community non-event or part of a system reconfiguration
  - Inpatient stays open but ER closes, inpatient closes but ER stays open, and other permutations
  - Hospital is being replaced by a new facility

- For this study, we defined closure as permanent cessation of acute inpatient care.
Historical Patterns: 1990’s Research

Increased Odds of Closure
• Competition
• Poor Financial Performance
• Safety Net Status
• Low need (Low Occupancy, Small Population)

Decreased Odds of Closure
• Diversification of Services
• Membership in a multi-hospital system
• High need (Large Medicare population High case mix index)
2010-14 rural hospital closures: Where were they?
2010-14 rural hospital closures: When did they close?

Rural Hospital Closure Timeline

Quarter

Q4-2010 Q1-2011 Q2-2011 Q3-2011 Q4-2011 Q1-2012 Q2-2012 Q3-2012 Q4-2012 Q1-2013 Q2-2013 Q3-2013 Q4-2013 Q1-2014 Q2-2014 Q3-2014
2010-14 rural hospital closures: What types of hospital were they?

Metro or Micro Designation
- Neither: 60%
- Metro: 11%
- Micro: 29%

Ownership
- Not Government Owned: 69%
- Government Owned: 31%
2010-14 rural hospital closures:
How far away is the next closest hospital?

Distance to Next Closest Hospital

Miles

0 5 10 15 20 25 30

Distance to Next Closest Hospital
2010-14 rural hospital closures: Why did they close? (As reported by news media)

**Market Factors**
- Small or declining populations
- High unemployment (as high as 18%)
- High or increasing uninsured patients
- High proportion of Medicare and Medicaid patients
- Competition in close proximity

**Hospital Factors**
- Low daily census, as low as 2.3 patients a day
- Lack of consistent physician coverage
- Deteriorating facility
- Fraud, patient safety concerns, and poor management

**Financial Factors**
- High and increasing charity care and bad debt
- Severely in debt
- Insufficient cash flow to cover current liabilities
- Negative profit margin
2010-14 rural hospital closures: Summary

- Most closures in South
- Annual number of closures increasing
- Most are CAHs and PPS hospitals
- Most are in states that have not expanded Medicaid
- Patients in affected communities are probably traveling between 5 and 25 more miles to access inpatient care
- Most hospitals closed because of financial problems
Financial performance and condition of hospitals in the year before they closed:

Financial ratios (CAH benchmark in red)
Profitability: Total Margin

Outlier: -215.04%
Liquidity: Days Cash on Hand

Cash + Marketable securities + Unrestricted investments
(Total expenses – Depreciation) / Days in period
Utilization: Average Daily Census Acute Beds

Inpatient acute care bed days
Days in period
FTEs
Financial performance and condition of hospitals in the year before they closed: Summary

- Financial performance and condition far below benchmark for most hospitals
- Most hospitals were unprofitable, illiquid, and unable to service debt
- Most had less than:
  - 150 FTEs, $10 million in salary expense, and 30% occupancy rate
  - Most had already closed obstetrics
- Date in appendix also shows most had:
  - Negative or close to zero net income and net assets
Life after closure
“...Medical center offering a range of medical services tailored to the health care needs of the people in the community. It will offer primary care, disease management, walk-in after hours care, rotating specialty care and will be a convenient place for people to get post-discharge and follow-up care. The medical center will have on-site lab and x-ray.”

If you hear of an actual or probable closure...

- You can get up-to-date data and information
- Submit information for possible inclusion in our database
Recent Financial Performance of CAHs in NC and SC
2013 Total Margins vs. National Median 2.4%
2013 Operating Margins vs. National Median 0.87%
2013 Current Ratios vs. National Median 2.3
2013 Days in AR vs. National Median 53 days
2013 Outpatient to Total Revenue vs. National Median 74%
Outpatient Revenue from Medicare vs. National Median 38%
Inpatient Days from Medicare vs. National Median 72%
2013 FTEs per Bed vs. National Median 6.0
2013 Acute ADC vs. National Median 3.3
2013 Swing Bed ADC vs. National Median 1.5
What do the data show about affiliation in NC?

Profitability

- Operating Margin
- Total Margin
- Cash Flow Margin

- Affiliated
- Unaffiliated
What do the data show about affiliation in NC?

Revenue Sources

Outpatient Revenue to Total Revenue
Inpatient Days from Medicare
Outpatient Revenue from Medicare

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Affiliated</th>
<th>Unaffiliated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outpatient Revenue to Total Revenue</td>
<td>70%</td>
<td>60%</td>
</tr>
<tr>
<td>Inpatient Days from Medicare</td>
<td>60%</td>
<td>80%</td>
</tr>
<tr>
<td>Outpatient Revenue from Medicare</td>
<td>40%</td>
<td>50%</td>
</tr>
</tbody>
</table>
What do the data show about affiliation in NC?

Census and Staffing

- Acute ADC
- Swing ADC
- FTEs per Bed

Affiliated  Unaffiliated
What do the data show about RHCs in NC?

Profitability

- Operating Margin
- Total Margin
- Cash Flow Margin

[Graph showing profitability metrics for RHC and No RHC]
What do the data show about LTC in NC?

Profitability

- Operating Margin
- Total Margin
- Cash Flow Margin

Legend: LTC, No LTC
What do the data show about LTC in NC?

Census and Staffing

- Acute ADC
- Swing ADC
- FTEs per Bed

LTC vs No LTC
Team discussion

Given what you have just heard, what do you think are the top financial challenges facing rural hospitals in NC and SC over the next three years?

1) Please discuss with people at table.

2) Please go to http://wp.me/P3X0hi-2Av and enter single words that you think describe the challenges small hospitals will face: e.g. Medicaid, Obamacare, payment, baddebt, costs, technology, capital, elderly, volume, boring-academics.

3) Feedback and discussion.
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