

The Cook County Health and Hospital System

Robert B. Steele
Commissioner, 2nd District
Cook County, Illinois

CCHHS

- 3RD Largest Public Health Hospital System in the United States
- Dr. Jay Shannon, Chief Executive Officer

CCHHS (Continued)

- 2 Hospital Locations
 - John H. Stroger, Jr. Hospital
 - Cermak Hospital
- 2 Specialty Clinics
 - Oak Forest
 - Provident
- 16 Ambulatory Clinics
 - Serving 105,000 patients per year
- The CORE Center for HIV/AIDS
 - Receives more than 80,000 patient visits per year

John H. Stroger, Jr. Hospital



- 464 Bed Facility
- 300 Attending Physicians
- 400 Medical Residents
- Level 1 Trauma Center
Treating
 - 110,000 adults/year
 - 45,000 children/year

Strategically Navigating the Business Side of County Health Facilities



Supervisor Orlando Trainer
Oktibbeha County, Mississippi

Key Strategic Considerations for County Hospitals

In order to assess long-term viability of hospital, a county official needs to understand not only how the hospital is currently operating from a financial metrics perspective, but also what are management's strategic initiatives to address both current and evolving healthcare environment demands

Do More with Less

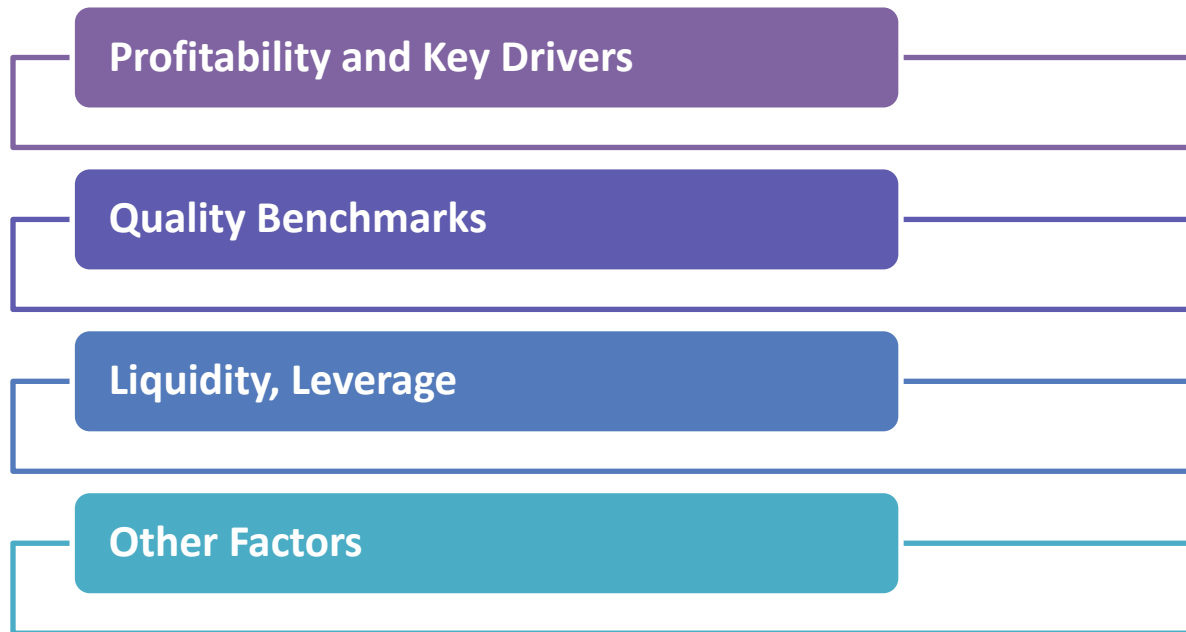
- The successful hospital/health system of the future will have to **“Do More with Less”**
 - **More:** Patients, payment risk, demonstration of quality care, collaboration across sub-sectors, supply expense, capital expenditures for IT and provider network development/ physician integration
 - **Less:** Unit reimbursement from all payors, profitability, credit strength and access to capital on favorable terms

What is Your County doing in regards to...

- The emerging success model will require transformational change and impose new risks on hospitals. What is your hospital doing in regards to acquiring or developing the following?
 - An “essential” market position and growth strategies to drive revenues and achieve critical mass?
 - Integrated physicians to support quality and cost initiatives?
 - Ability to demonstrate value proposition (measurable quality and cost effectiveness) to employers and payors?
 - Preparing for Value-Based vs. Volume-Based reimbursement?
 - Population health management?
 - Operations, facilities and/or alignment with other providers to enable patients to be managed seamlessly across multiple care sites?
 - Sophisticated IT and care management infrastructures?
 - Cost-effective operations? Lean management?
 - Active business portfolio management?
 - Effective management and governance?

Financial Health of Hospitals

In order to keep a handle on the financial health of the hospital organization, it is helpful to generate a consistent performance “dashboard” to measure hospital performance vs. industry averages and to better understand trends in the business.



Profitability and Key Drivers

General profitability

- **Is the hospital making money and generating cash flow to sustain the ongoing operations and reinvest in valuable resources (e.g., physician recruitment, physical plant, and outpatient network)?**

Profitability and Key Drivers: Questions to Ask

- What are the operating margins?
 - EBITDA, Operating Income, Net Income as percentage of Operating Revenue
- What is the Revenue Mix comprised of?
 - Inpatient vs. Outpatient revenue
 - What are the volume trends for inpatient discharges, outpatient and ED visits? How efficient is ED and how many admissions come through ED?
 - Payor Mix: Medicare, Medicaid, Commercial, Self-pay percentages (many community hospitals have an unfavorable payor mix, especially if viewed as “safety-net” hospital)
 - Government subsidies, such as Disproportionate Share Hospital (“DSH”) payments and UPL payments and how much does your hospital depend on these to generate profitability
 - DSH will be shrinking significantly due to Medicaid expansion
 - What is Medicare Case Mix Index (CMI) vs. Average Length of Stay (ALOS)

Profitability and Key Drivers: Questions to Ask

- Staffing efficiency?
 - Salaries, Wages and Benefits as % of Operating Revenue
 - FTEs / Adjusted Occupied Bed
- Other
 - Trends in Average Daily Census, Occupancy, Discharges?

Financial Health of Hospital: Quality Benchmarks

Will your hospital be *penalized or rewarded* in its reimbursement from Medicare?

- How is your hospital performing in its Clinical Process of Care Measures?
- Patient Experience?
- 30-Day Outcome Mortality and Readmission Measures?

Financial Health of Hospital: Liquidity, Leverage

How does your hospital rate compare to the medians of other Agency (S&P, Moody's, Fitch) Rated Hospitals and what kind of rating would it have on a stand-alone basis without the direct or indirect support of the County, if that is the case?

- What is the Cash / Debt%?
- How many Days Cash on Hand?
- What is Debt to Capitalization %?
- What is Debt to Cash Flow multiple?
- How many Days in Accounts Receivable?

Financial Health of Hospitals: Other Factors

- **How much is the hospital investing in its plant and equipment and HIT, and is it keeping them up to date?**
 - These investments are critical for recruiting and retaining physicians and other clinical staff and maintaining long-term viability of the hospital.
 - What is the Average Age of Plant? What is trend in Capital Expenditures / Annual Depreciation %?

Comprehensive Assessment of Financial and Operating Performance

Many hospitals and long-term care facilities are seeking the advice of independent parties to perform strategic options assessments, which include a full assessment of the hospitals strategic, financial and operating position currently relative to its short- and long-term goals, and results in a determination of what the optimal performance of the hospital would be if it retains its current organizational structure, given its current mission and goals and priorities for the community.

A Strategic Options Assessment is designed to help answer the following critical questions (1)

- What does the hospital want to achieve for the community near-term, long-term? What is its mission?
- What does it want to be in five years? In 10 years?
- What is its current position in its market, its strengths, its weaknesses?
- What opportunities does it have to strengthen its position within its market?
- What threats do competitors pose?

A Strategic Options Assessment is designed to help answer the following critical questions (2)

- What is the financial position of the hospital?
 - historical performance as a whole and along service/business lines
 - impact of healthcare reform on reimbursement
 - opportunities for productivity improvements and expense efficiencies
 - capital needs – including strategic investment
 - funding sources for capital needs and determine credit impact

A Strategic Options Assessment is designed to help answer the following critical questions (3)

- Can hospital survive and prosper as an independent entity? If so, for how long? If not, why not?
- What needs/deficiencies exist?
- Are there opportunities for collaboration with other providers that can provide sufficient benefits to remain viable as an Independent (e.g., sharing of clinical programs/service lines, acute and post-acute; integrated medical staffs; higher reimbursement opportunities; revenue cycle, back office combinations, supply chain management efficiencies, technology sharing, etc.)

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July 13, 2014

Jim Rolfe

Partner



Strategically Navigating the Business Side



Healthcare Headwinds

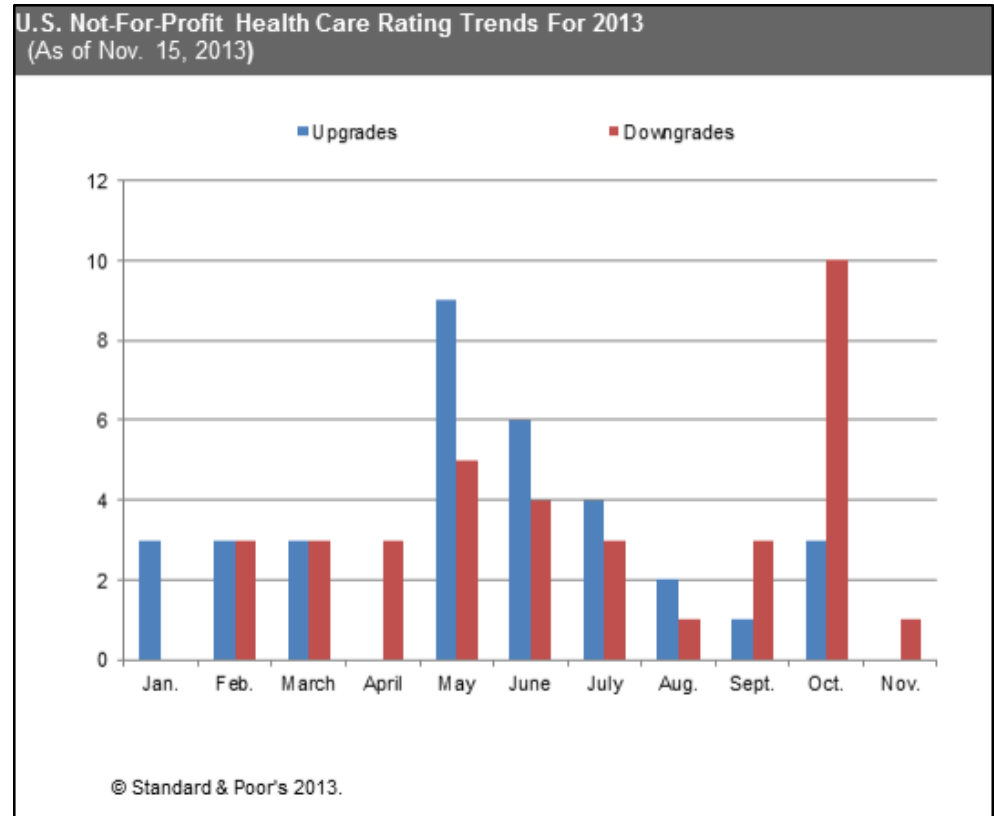
What challenges are healthcare facilities facing?

1. Sluggish economy
2. Patient volumes
3. Revenue shift from fee-for-service to quality/value based
4. Decreasing reimbursement
5. Decreasing government subsidies
6. Rising costs
7. Aging plant and equipment
8. Physician shortages
9. Patient consumerism
10. Competition

Healthcare Headwinds

Headwinds already drastically affecting the marketplace

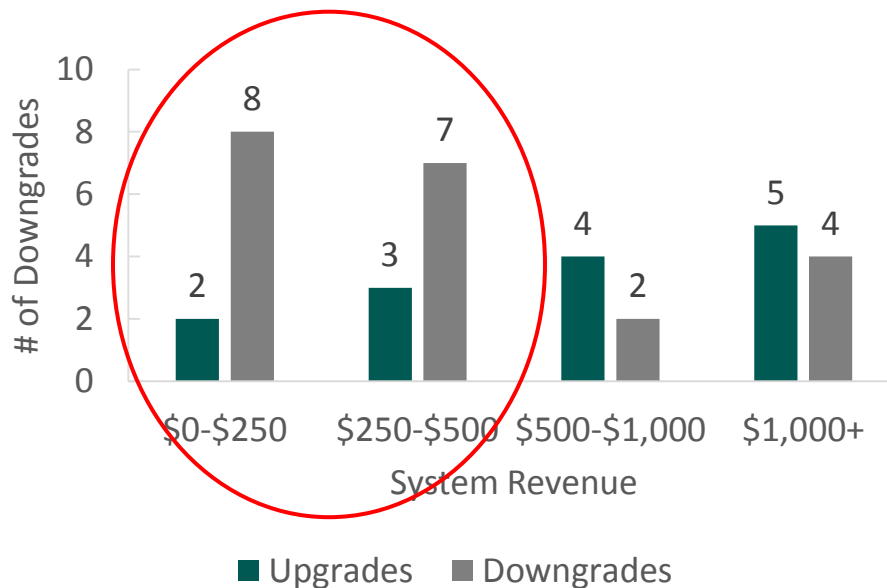
- In December 2013, S&P issued a **negative outlook** for U.S. not-for-profit health care providers due to a multitude of factors including:
 - Weaker revenue
 - Harder-to-find cost savings
 - Heightened competition for patients
 - Mounting capital needs
 - Reduced government subsidies
- Higher costs-of-capital in an environment with low returns on investment adds to an already tough operating environment



Healthcare Headwinds

71% of downgrades involved systems with <\$500 million in revenue

2013 Year-to-Date Hospital Downgrades *



Downgrade counts as of September 15, 2013

*Source: Moody's, Becker's Hospital Review, VMG Research

Quotes from Moody's Ratings

"Hospitals with less than \$500 million in revenues are in a weaker position to face upcoming challenges..."

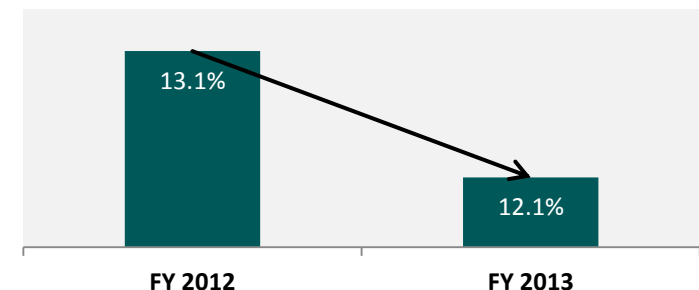
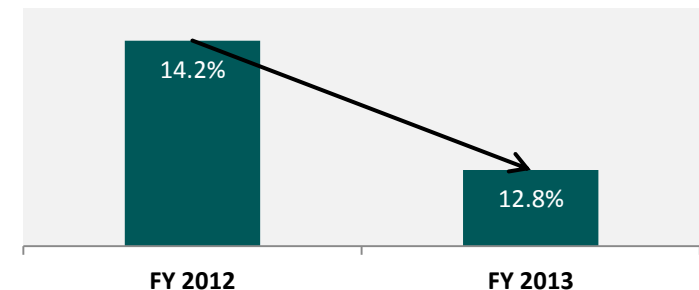
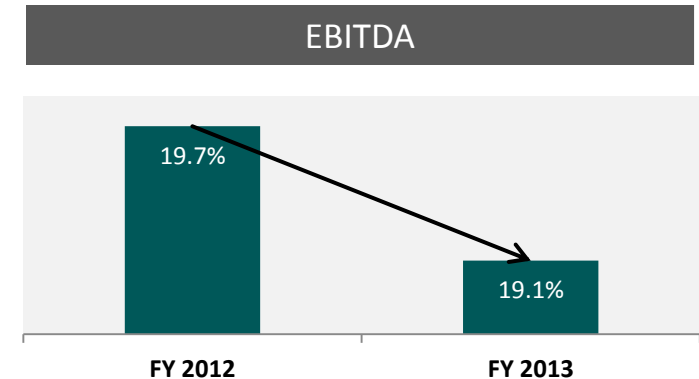
"11 of the 14 downgraded hospitals were small and may have been unable to respond quickly to inpatient volume declines."

Healthcare Headwinds

Headwinds impacting major for-profit systems, too

Downward EBITDA Pressure

- The need for increased operational efficiency is heightened, and can be found as size and economies of scale grow
- *Tightening of margins*
 - “No ‘Low-hanging fruit’ Left” – S&P NFP Outlook
 - Expense inflation vs. revenue growth
 - Continued revenue pressures



Healthcare Headwinds

New Healthcare Model

Ultimately, healthcare facility operators have been charged to:

- Deliver care to more people
- Increase the quality of care that is provided
- Provide this higher quality care at a cheaper price

As the current environment is one wrought with uncertainty and downward pressures, the only way to survive is to maximize revenue and operate efficiently.



So how do we combat these
headwinds?

What Can We Do?

Enhance Revenue

Revenue is the first place to enhance operations. While many of the headwinds affect revenue, there are ways to combat declining reimbursement rates.

- Billing and coding audits – are we billing for all services that are provided?
- Heightened focus on needed services – ***not necessarily highest revenue generators***
 - i.e. Pediatrics vs. Cardiac Surgery
- Clinical Quality
- **Physician Relationships & Satisfaction**
- **Employee Satisfaction**
- **Patient Satisfaction**

What Can We Do?

Contain and Trim Expenses

After revenue has been analyzed, an expense analysis presents another avenue to improve operational efficiency.

Each facility should **benchmark** its operations relative to its competitors and/or the general market at least annually. Benchmarking allows the facility to identify areas of excess spending.

- ‘Trimming the fat’ – what areas are inflated and eat away at our margins?
 - Salaries and wages
 - Supplies
 - Services and equipment
 - Miscellaneous accounts

What Can We Do?

Explore Affiliations & Partnerships

Partnerships and affiliations provide a stand-alone facility the opportunity to leverage the knowledge of a larger facility and further enhance operations.



What Can We Do?

Maximizing profitability

In order to maintain viability, health facilities must have :

- Knowledgeable and involved commissioners
- Expert management teams who are held accountable
- Refined business strategies focused on strengths (programs, service lines) while eliminating loss leaders.

Each of these areas can be bolstered through affiliations and partnerships with local and regional operators, without giving up autonomy and/or control.

Summary

Action is Required

- Healthcare facilities face enormous headwinds and uncertainty
- Revenue must be maximized – expenses minimized
- Continued independence is possible, but affiliations and partnerships should be explored to strengthen profitability
 - Knowledge is power
 - Accountability and involvement are vital
- The greater level of involvement from the owners, the greater the chance the facility will not just survive, but thrive

County health facilities can quickly become a burden to the county. With all of the information, options and experts available, these facilities can go from a burden to a prized community asset but **action** must be taken.