



Tennessee Chapter

Perspectives on the Current State of the Healthcare Industry

March 21, 2019

Presenters



Blake Roth, Moderator
Partner
waller



Derek Pierce
Managing Director
 **HMP**



Jeff Parrish
State Counsel & Field Director
For Senator Marsha Blackburn

Take Aways for the TMA professional

The TMA Professional profile

As TMA professionals, we believe that we are uniquely qualified to take these entities through a restructuring process. TMA professionals:

1. ...are the who's who of legal, business and restructuring expertise;
2. ...resourceful;
3. ...capable of make tough decisions;
4. ...judge less on how the company got there, and more on how to fix it;
5. ...are healthy skeptics, challenging the business to address the tough issues.

Agenda

- Medpac release
- Industry Update, specific to the 2 large sectors of the Healthcare industry
 - Hospitals
 - Nursing Homes
- Healthcare Policy Update
- Q&A
- If time permits, case study for using Data to Measure Success
- If time permits, the trailer from documentary coming out this Sunday

Highlights of MedPAC's recommendations to Congress

- Positive payment updates in 2020 for:
 - hospital,
 - long-term care hospital, and
 - dialysis;
- Zero updates for three systems:
 - physician,
 - skilled nursing facility, and
 - ambulatory surgical center; and
- Negative updates for three systems:
 - home health,
 - inpatient rehabilitation facility, and
 - Hospice

The State of the Hospital sector

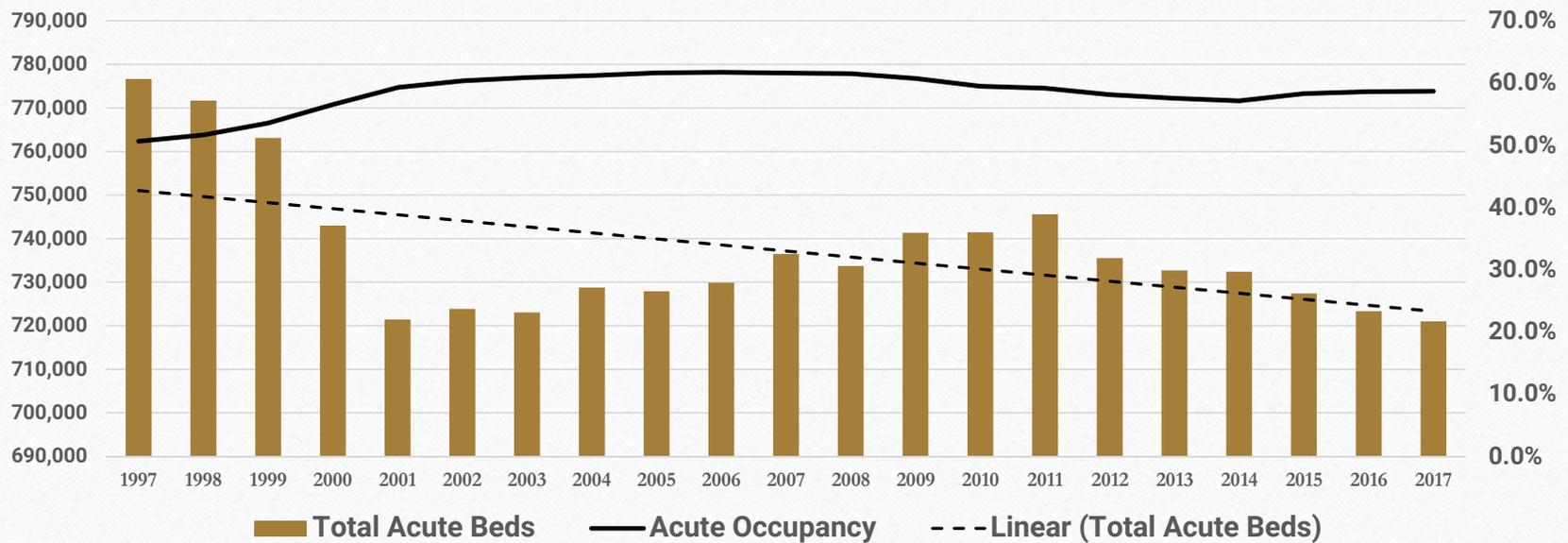
Decline of Independent Hospitals

- In 2017 the Weighted Average Operating Profit Margin of System Owned Hospitals was a full 7.4 Percentage Points higher than that of stand-alone hospitals
- Struggling stand-alone hospitals are increasingly seeking system affiliation; however, not all hospitals are being acquired by systems due location and poor performance

Decline of Independent Hospitals

- Governments are getting out of the hospital business
- More than 4 in 10 critical access hospitals still remain independent
- Financial performance at independent hospitals is deteriorating rapidly
- Key indicators at independent hospitals are deteriorating faster than at their system owned competitors

Total Acute Beds Compared to Acute Occupancy



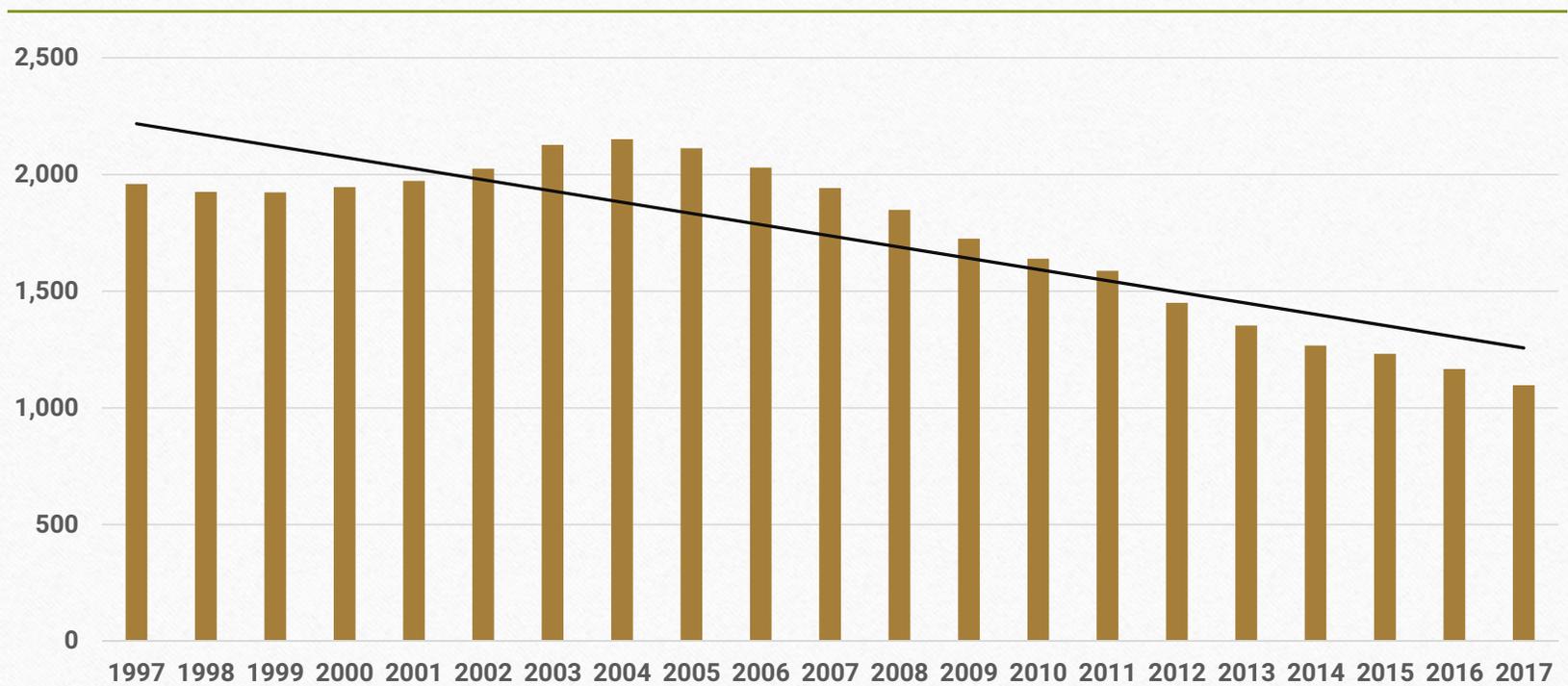
Decline of Independent Hospitals

- While outpatient growth can help, ambulatory care is a highly competitive market, where independent hospitals often compete with their own medical staff who might have ownership in a neighboring ASC
- Stand-alone critical access hospitals do considerably worse than those owned by systems
- Not-for-profit hospitals within systems (think Ascension) are closing the operating margin gap with investor owned hospitals and systems (think HCA)
- **Government-owned, stand-alone hospitals are the most at risk**

Overcapacity

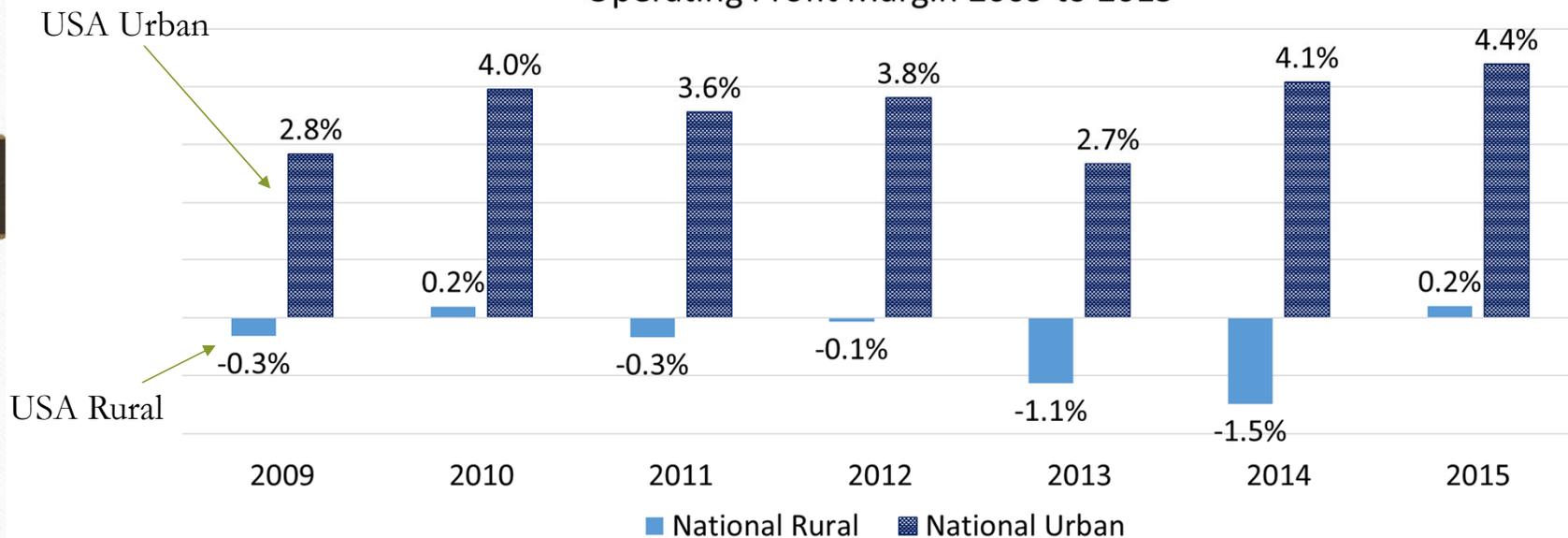
- Hospital utilization is falling faster than hospital capacity, leaving the sector with a growing overcapacity problem
- The length of a typical hospital stay has remained remarkably stable of the past two decades
- Older Americans are less likely to wind up in the hospital today than at any other time in recent history and their use of hospitals is falling much faster than the population as a whole

Medicare Acute Days per 1,000 Population >65



Distress in rural, more than urban hospitals

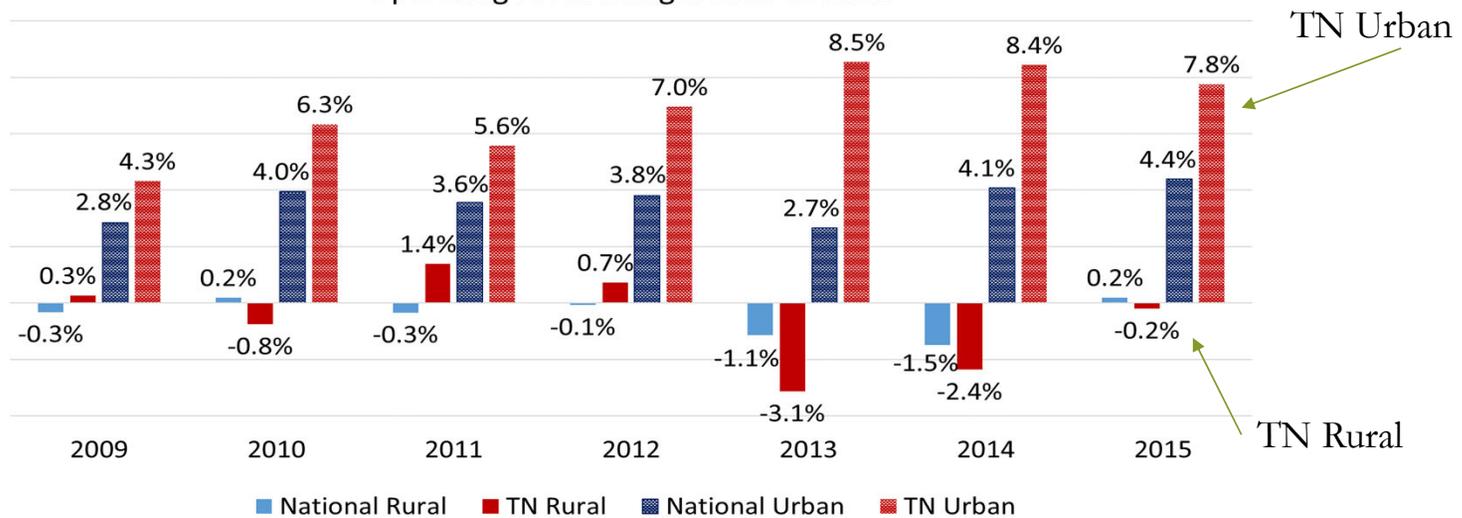
General Acute Care Hospitals, Nationally, Rural & Urban
Operating Profit Margin 2009 to 2015



Source: HCRIS cost reports, excluding teaching hospitals

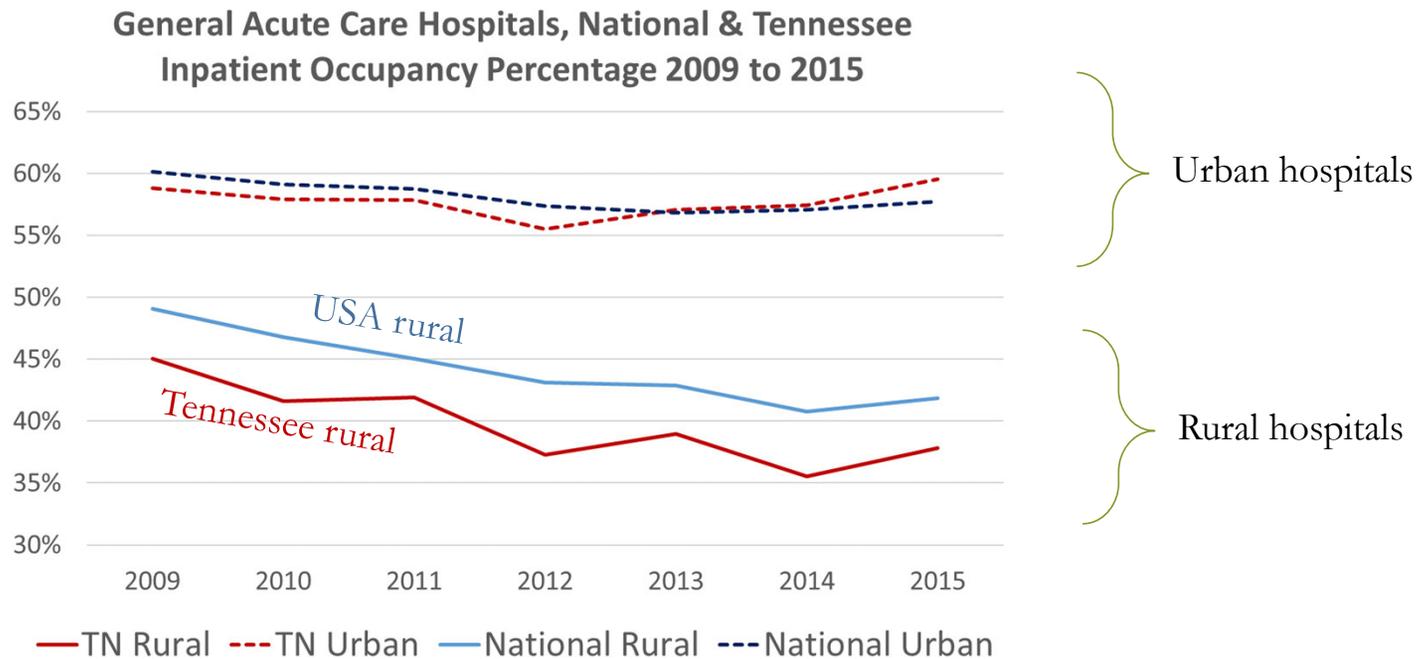
TN's urban hospitals doing relatively well, rural hospitals struggling

General Acute Care Hospitals, Nationally & Tennessee, Rural & Urban
Operating Profit Margin 2009 to 2015



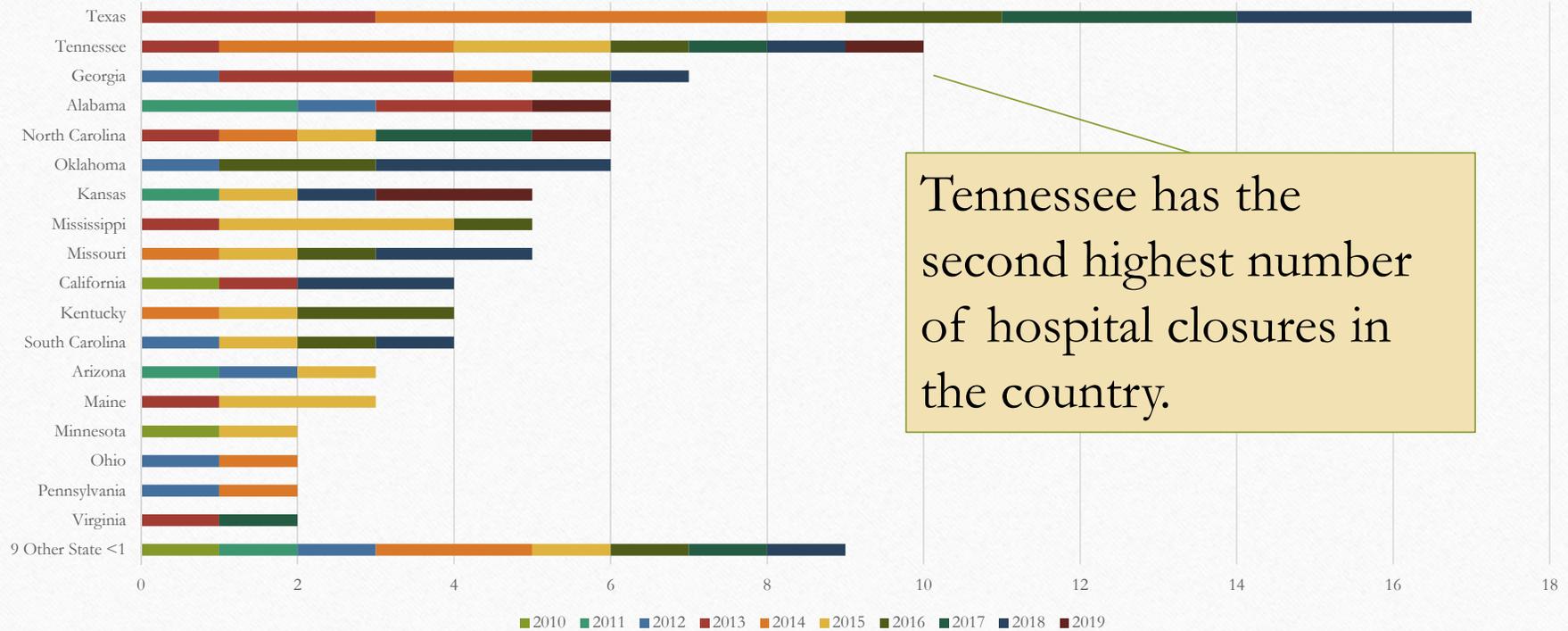
Source: HCRIS cost reports, excluding teaching hospitals

Avg. occupancy in TN's rural hospitals is less than 40%



Source: HCRIS cost reports, excluding teaching hospitals

Rural Hospital Closures Since 2010 by State



Tennessee has the second highest number of hospital closures in the country.

State of Government-owned Hospitals

Major forces affect the ability of government-owned hospitals both to meet the healthcare needs of their communities and to remain financially self-sustaining without direct taxpayer-funded operating subsidies. We believe that the key drivers of the current financial and operating challenges are the following:



Decline in Demand for Inpatient Services



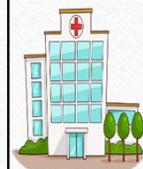
Significant and Growing Excess Inpatient Capacity



Healthcare Has Become a Knowledge Business



Hospital Payment System Largely Based on National Average Cost



National Payment Policies Favor Hospitals in Multihospital Systems



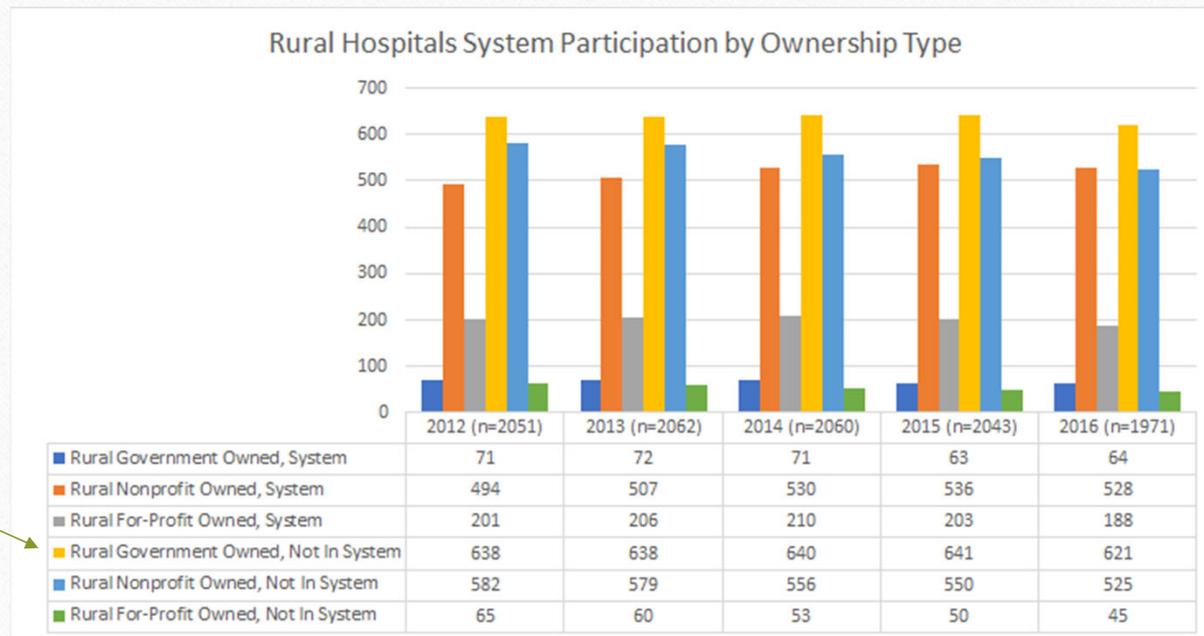
Gov Hospitals Structurally Disadvantaged in Ability to Compete with Systems

The Trifecta for Defining Distress

1. Governmental Owned (vs non-Gov't)
2. Rural (vs Urban)
3. Stand-alone (vs System)



Rural Hospitals System Participation by Ownership Type



Case Study - Rural Hospital Stakeholders

Elected
Officials

Competition

Patient

State and Federal
Surveyors

Physicians &
Providers

Taxpayers

CEO

Volunteers

Employees

Hospital
Board

Vendors

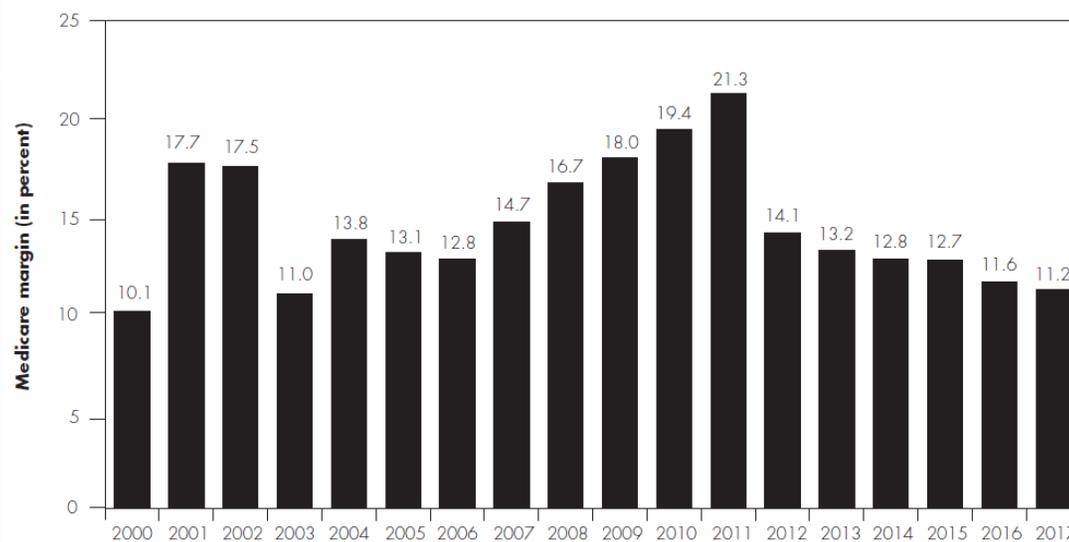
Lender

The State of the Nursing Home sector

State of Nursing Home sector: Good News

Medicare Margin have been above 10% since 2000

FIGURE 8-2 Aggregate freestanding SNF Medicare margins have been above 10 percent since 2000



Note: SNF (skilled nursing facility). Medicare margin is calculated as the sum of Medicare payments minus the sum of Medicare's costs, divided by Medicare payments.

Source: MedPAC analysis of freestanding SNF cost reports, 2000–2017.

State of Nursing Home sector: Bad News

- Medicare is the Nursing Homes best payor
- Medicare is transitioning later this year to a new payment methodology called PDPM, which not longer reward Nursing Homes based on the level of therapy provided to the Medicare patient.
- State Medicaid programs which were already a marginal payor are turning long-term services over to Managed Care Organization leading to:
 - More complexity billing;
 - Slower collection cycle;
 - More denials;
 - Lower lengths of stay;
 - Fewer admissions;
 - Eventually, lower payments.

State of Nursing Home sector: the Result

- **Nursing Homes are in significant distress**
- **Recent Bankruptcy Filings and Receivership Appointments**
- **Operators (Tenants) are either renegotiating leases with landlords or giving them the keys**

The State of the Senior Living sector

State of Nursing Home sector: the Result

- **Nursing Homes are in significant distress**
- **Recent Bankruptcy Filings and Receivership Appointments**
- **Operators (Tenants) are either renegotiating leases with landlords or giving them the keys**

Healthcare Policy Update



Next Steps

How to get involved

1. Join a non-profit board;
2. Set a meeting with the stakeholders;
3. Mine the data to find those entities that are distressed;

Q & A

Using Data to Measure Distress Success

Case Study – Complex Teaching Hospital

Hospital of Interest

- Located in a Large Urban Market
- Flagship of Large Regional Multi-Hospital System

Benchmarked Against

- Four large urban teaching hospitals in the region – selected by management
- State and National Peer Groups for Short Term Acute Care Hospitals
- All Short Term Acute Care Hospitals with over 500 beds

Case Study – Complex Teaching Hospital

Operations - Financial Metrics	Facility of Interest	Peer A	Peer B	Peer C	Peer D	National Benchmark National GAC All Bed Sizes
Operating Profit (Loss) Margin	0.46%	12.41%	10.47%	2.74%	4.51%	2.99%
Total Profit (Loss) Margin	0.55%	13.10%	11.50%	3.02%	4.52%	4.98%
Total Gross Square Feet of Facility per Bed	-	-	** 5.32k	2.35k	2.31k	3.42k
Total Operating Revenue per Gross Sqft	-	-	\$0	\$0	\$0	\$9
Operating Expense Per AOB	\$3,953	\$4,227	\$4,094	\$2,594	\$2,416	\$2,737
Operating Revenue Per AOB	\$3,971	\$4,826	\$4,573	\$2,667	\$2,530	\$2,793
Outpatient Charges as a Percentage of Total Charges	62.30%	56.35%	72.33%	45.71%	53.57%	47.62%
Non-Operating Revenue as a Percentage of Total Net Patient Revenue	6.60%	10.63%	** 25.94%	6.81%	3.53%	4.71%
Average Mark-up	231.67%	264.74%	293.50%	347.80%	272.19%	356.52%
Cost to Charge Ratio	43.16%	37.77%	34.07%	28.75%	36.74%	27.56%
Portion of Adults and Peds Patient Days Billed to Medicare	29.11%	25.77%	29.56%	26.51%	31.03%	31.91%
Proportion of Adults and Peds Patient Days Billed to Medicaid	7.16%	5.08%	4.83%	11.33%	7.80%	10.91%
Proportion of Adults and Peds Patient Days Billed to Other	63.72%	69.15%	65.61%	62.16%	61.17%	56.83%

If there's time....

Link to 'One Nation under Stress'

<https://youtu.be/x2hDEz1bW9k>