

Hospital Conversions: Issues and Lessons Learned

Health Management Associates

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Overview

- Introduction to HMA
- Governance Change: Drivers and Issues
- Case Studies/Discussion
- Florida Landscape
- Broward Specifics
- Future Direction
- Wrap Up/Discussion

Introduction to HMA

National firm with Florida presence,
specializing in health care finance,
policy, and administration

Seasoned senior staff including hospital
executives and senior executives from
States and CMS

Staff also includes CPAs, researchers,
attorneys, physicians, nurses, HR
professionals

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HMA/Staff Selected Experience

- Maricopa: First Strategic/Operation Plan after conversion
- Interim CFO, Maricopa
- Ongoing work with Nebraska Medical Center
- Currently assisting a public hospital in determining conversion options
- Major hospital conversion study for Kaiser Family Foundation

Experience (cont.)

Additional related areas of expertise include:

- Assisting with conversions of clinics to FQHC status
- Multiple due diligence efforts
- Business plan development
- Analysis of CMS and state reimbursement implications of governance and other changes

Why Pursue a Governance Change?

Health care reform, managed care expansion drive debate

Perennial reasons for privatization remain applicable:

- Access to capital
- Relief from onerous contracting, hiring rules
- Ability to change direction, adopt innovations more readily

At What Cost? Issues to Consider

Protecting financing/funding - relationship
of hospitals to taxing district

Ability to continue/increase IGTs if
necessary

Assurance IGTs will be provided on behalf
of same providers

Issues (cont.)

Special Programs:

- Low Income Pool (LIP)
- Disproportionate Share Hospital (DSH) -
Current program may be limited to public providers
- Hospital Exemptions
- Hospital Buy-Backs

Broward Health - Hospitals

Summary of payments under LIP-DSH-Exemptions and Buybacks State Fiscal Year 2010-2011

Hospital	Low Income Pool	Disproportionate Share Hospital	Hospital Exemptions	Hospital Buybacks	Total
BROWARD GENERAL MEDICAL CENTER	\$90,598,796	\$26,168,701	\$18,329,856	\$3,455,879	\$138,553,232
CORAL SPRINGS MEDICAL CENTER	\$9,256,380	\$2,297,264	\$0	\$1,362,999	\$12,916,643
IMPERIAL POINT HOSPITAL	\$7,938,048	\$2,925,626	\$1,360,040	\$602,902	\$12,826,616
NORTH BROWARD MEDICAL CENTER	\$19,478,425	\$10,054,359	\$3,466,824	\$1,090,838	\$34,090,446
Total	\$127,271,649	\$41,445,950	\$23,156,720	\$6,512,618	\$198,386,937

Forms of Conversion

Public hospital conversions can take many forms, each with their own advantages

- Lease
- Merger
- Sale
- Management Contract
- Consolidation

Forms of Conversion (cont.)

- Closure
- Joint Venture
- Public/Private Partnership
- Affiliation

Selected Case Studies

- Truman Medical Center
- Maricopa Integrated Health System
- Grady Memorial Hospital
- University Medical Center Brackenridge
- Nebraska Medical Center

Truman Medical Center

One of the earliest conversions; city in 1964
and county in 1973

- Continues to enjoy broad community support – tax levies continue to support the institutions
- State continues to treat as a public hospital for reimbursement purposes

Truman (cont.)

Truman enjoys the “best of both worlds” in its governance

- Human resources and procurement are independent of government
- Financing support is similar to a public institution
- County owns physical assets which allows for issuing of revenue bonds when capital is needed

Maricopa Integrated Health System

Change driven by financial results that were preventing investments in plant, and were creating financing issues for county

Voters approved both the new organization and a new tax to support it

Financial results demonstrate strong turnaround

Reinvestment in plant and strengthened cash position

Maricopa Integrated Health System

Problems continue based on remaining requirements relating to being a governmental entity

Competitive disadvantage

Management focus distracted to deal with legislative interference

Grady Memorial Hospital

Conversion was prompted by threat of closure - facility was \$55m in the red

Non-profit Grady Memorial Hospital Corporation was created in response to pressure from business community, Legislature

Conversion has resulted in more capital, renegotiation of debt

Grady (cont.)

Grady is not only now in the black, but also receiving recognition for quality of its medical services

Future concerns include cuts to Medicaid rates, budget woes of counties providing subsidies (Fulton-DeKalb Hospital Authority)

University Medical Center/Brackenridge

The City of Austin leased the hospital to
Seton Healthcare Network in 1995

Operating losses had been mounting

City rules (including personnel policies)
hindered effective hospital operations

The conversion was a lengthy process and
numerous options were considered

Nebraska Medical Center

The conversion was in the form of a merger

One of the chief challenges was bringing together medical staffs of two institutions

The center is the third largest employer in the state and has received numerous awards

Florida Medicaid Program Overview

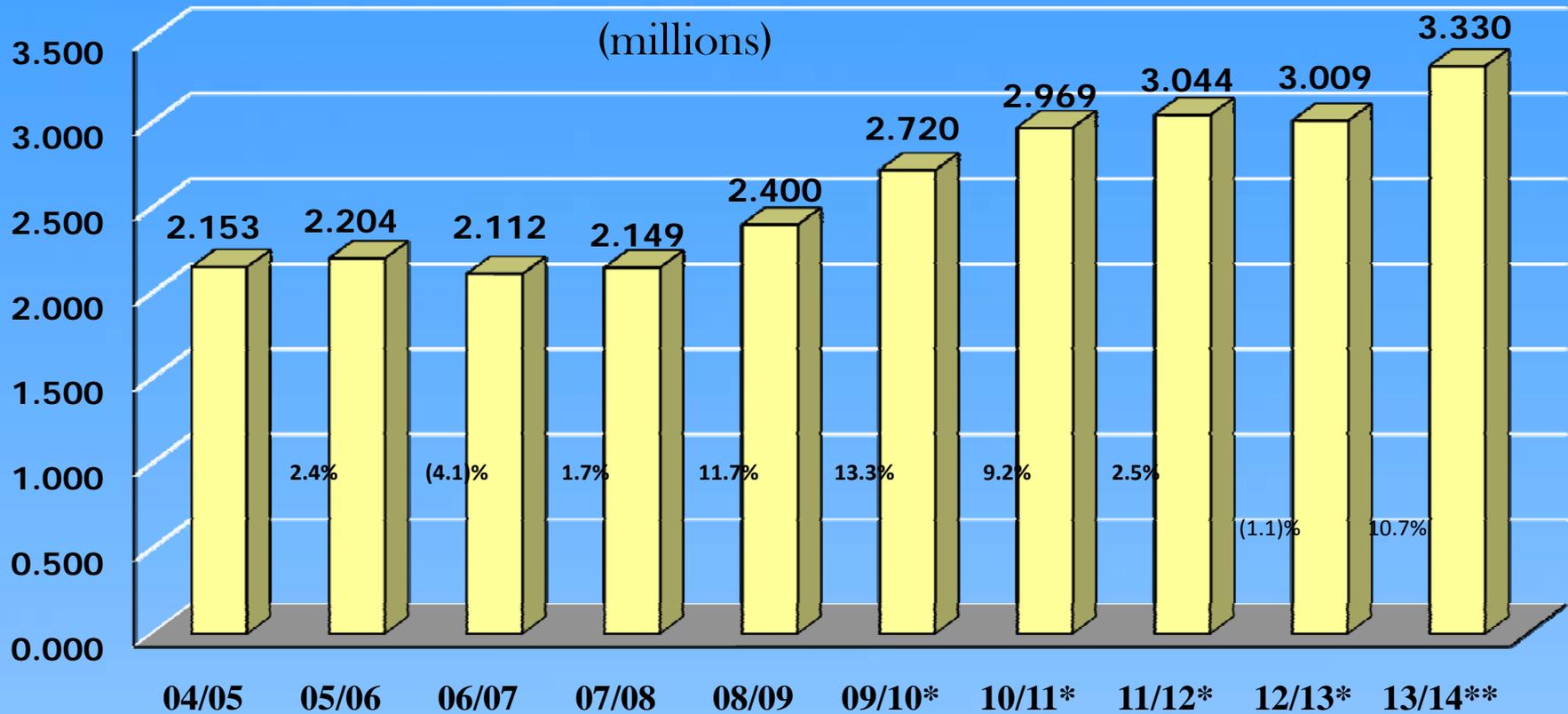
Source: Agency for Health Care Administration

<p><i>Expenditures</i></p>	<ul style="list-style-type: none"> • \$20.2 billion estimated spending in Fiscal Year 2010-11 • Federal-state matching program – 64.83% / 35.17% • Florida will spend approximately \$6,730 per eligible in Fiscal Year 2010-2011. • 45% of all Medicaid expenditures cover hospitals, nursing homes, Intermediate Care Facilities for the Developmentally Disabled (ICF/DD's); Low Income Pool and Disproportionate Share Payments. • 10% of all Medicaid expenditures cover drugs. • Fifth largest nationwide in Medicaid expenditures.
<p><i>Eligibles</i></p>	<ul style="list-style-type: none"> • 2.9 million eligibles. • Elders, disabled, families, pregnant women, children in families below poverty. • Fourth largest Medicaid population in the nation.
<p><i>Providers/Plans</i></p>	<ul style="list-style-type: none"> • Approximately 80,000 Fee-For-Service providers; 25 Medicaid Managed Care plans (18 HMOs and 7 PSNs).

Florida Medicaid Quick Facts

- Medicaid represents the largest share of federal revenues in the state budget.
- Medicaid represents an estimated 28% of the FY 2010-11 state budget and 16% of state general revenue funds.
- Half of Medicaid enrollees are children, but most Medicaid spending is for the elderly and disabled.
- Florida Medicaid covers the most vulnerable populations:
 - 27% of children
 - 51.2% of deliveries
 - 63% of nursing home days
 - 868,000 adults - parents, aged and disabled

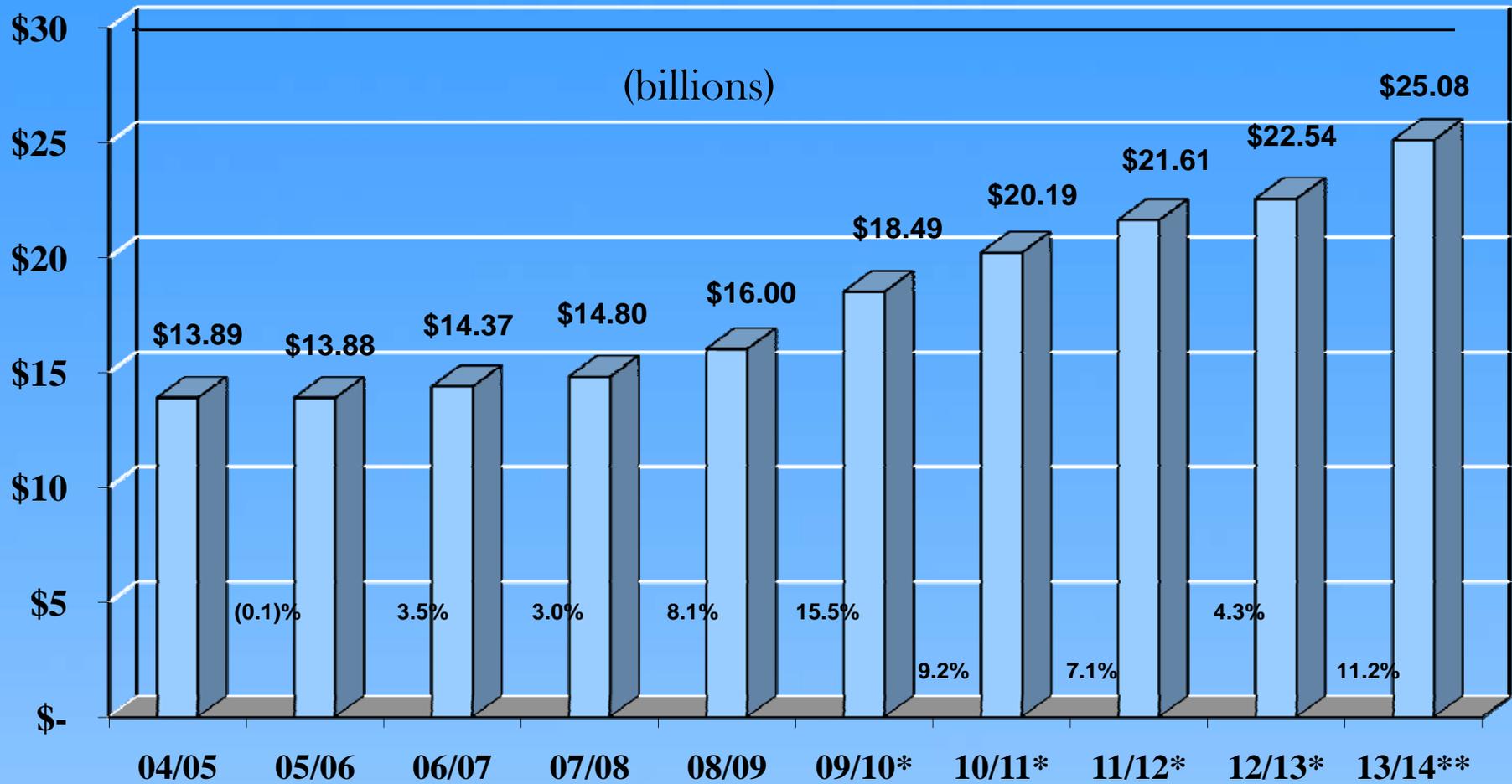
Growth In Medicaid Average Monthly Caseload



*Estimates based on July 2010 Social Services Estimating Conference

** Estimated increases resulting from Federal Health Care Reform

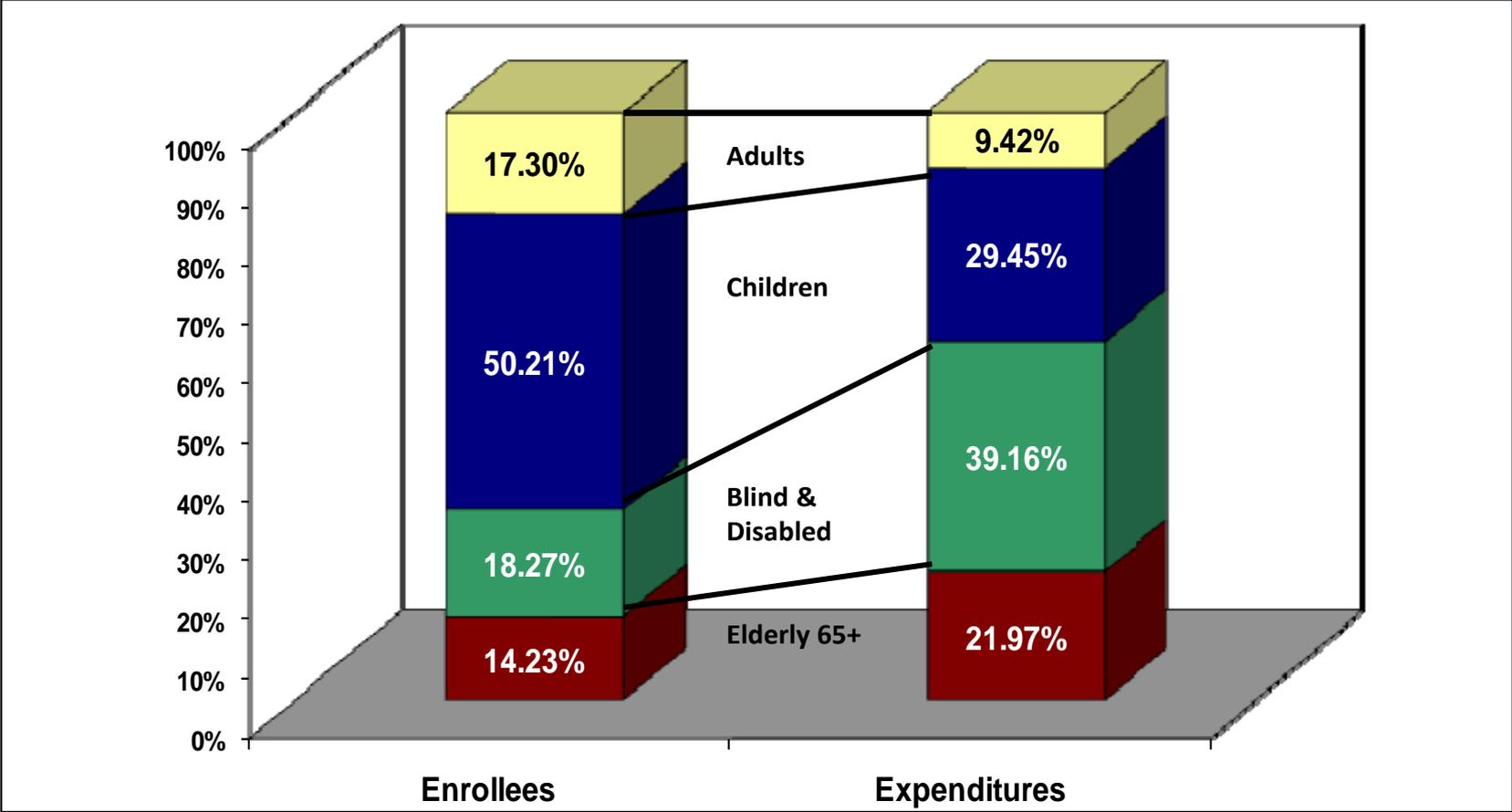
Growth in Medicaid Service Expenditures



*Estimates based on August 2010 Social Services Long Term Medicaid Forecast

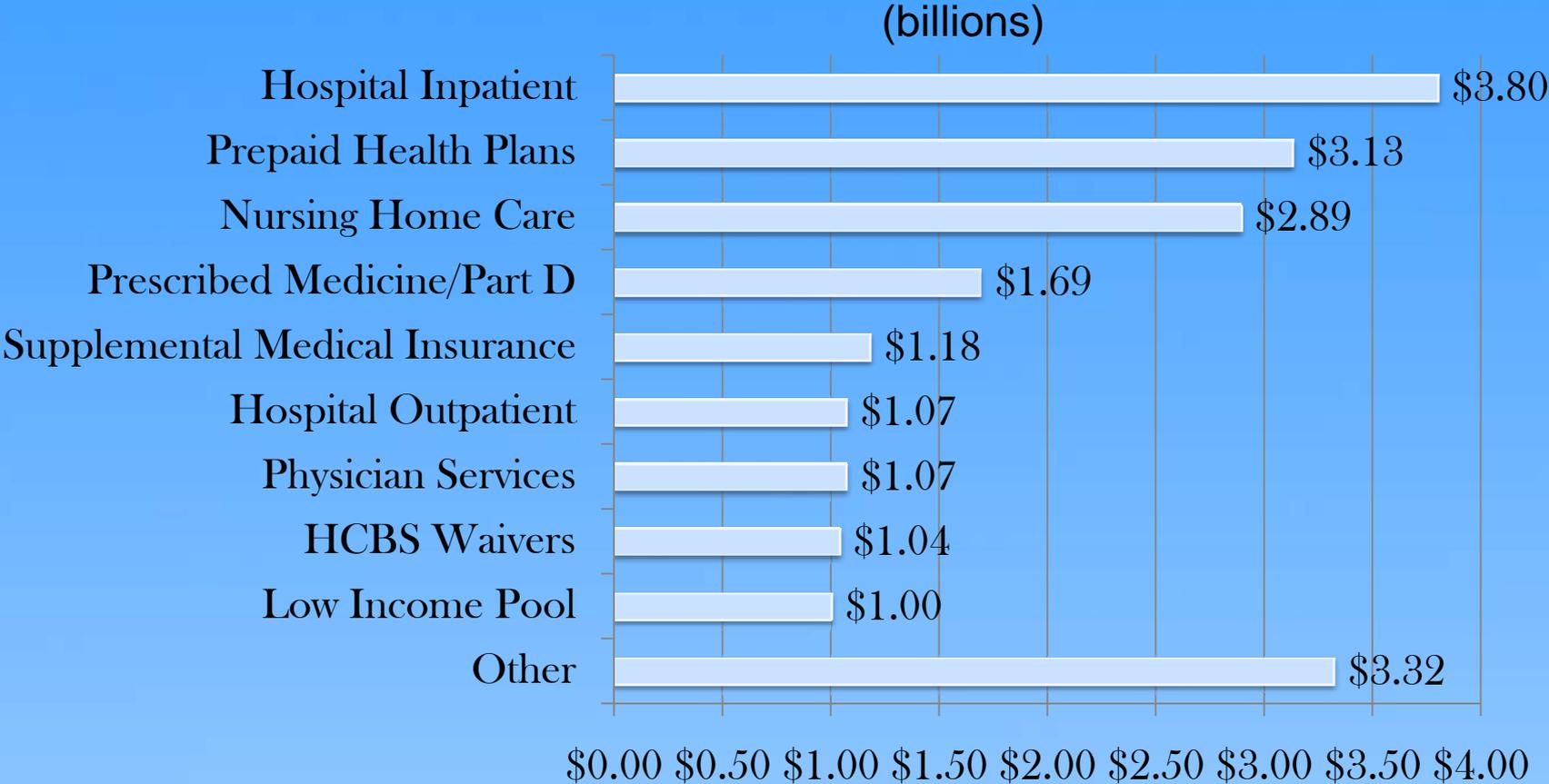
**Estimated increase resulting from Federal Health Reform

Florida Medicaid Budget: How it is Spent FY 2009-10



Source: Agency for Health Care Administration

Medicaid Expenditures by Service Categories, FY 2010-11



Estimates based on August 2010 Social Services Long Term Medicaid Forecast

Florida Medicaid Enrollment

January 2011

Source: AHCA Website - Medicaid Enrollment Reports

	Statewide		Broward County	
	Enrollment	% of Total Enrollment	Enrollment	% of Total Enrollment
Health Maintenance Organizations (HMOs)	1,107,471	39.0%	81,565	35.6%
Provider Service Networks (PSNs)	192,986	6.8%	68,563	29.9%
Primary Care Case Management	608,964	21.4%	2,274	1.0%
Nursing Home Diversion	17,669	0.6%	2,087	0.9%
Fee For Service	914,441	32.2%	74,910	32.7%
Total Medicaid Enrollment	2,841,531		229,399	

Medicaid Services - General Revenue Need

	FY 2010-11* GAA	FY 2011-12 Estimate	Difference Need
<i>Enrollment</i>			
Caseload	2,968,660	3,044,418	75,758
<i>Expenditures</i>			
General Revenue	\$3,431,430,814	\$5,442,102,292	\$2,010,671,478
Trust Fund	\$15,077,555,534	\$16,177,706,547	\$1,100,151,013
Total	\$18,508,986,348	\$21,619,808,839	\$3,110,822,491
Caseload/Utilization			\$449,361,606
Price			\$259,338,807
FMAP			\$1,301,971,065
Total			\$2,010,671,478

Source: Expenditures from August 2010 Social Services Estimating Conference; Caseload from the July 2010 Social Services Estimating Conference.

* Base budget adjusted for nonrecurring funds and annualizations.

Broward Health

Medicaid Inpatient and Outpatient Rates

Source: AHCA Website - Medicaid Institutional Provider Cost Reimbursement

January 1, 2011								
Medicaid Number	Provider Name	Inpatient Rate	Outpatient Rate	Inpatient Days	Outpatient Claims	Inpatient Revenue	Outpatient Revenue	Total Revenue
100129	Broward General Hospital	\$1,557.52	\$212.73	38,387	59,699	\$59,788,520	\$12,699,768	\$72,488,289
100218	North Broward Medical Center	\$1,445.63	\$148.86	5,173	18,737	\$7,478,244	\$2,789,190	\$10,267,434
108219	Imperial Point Hospital	\$1,159.64	\$126.54	3,129	5,526	\$3,628,514	\$699,260	\$4,327,774
120405	Coral Springs Medical Center	\$1,522.93	\$123.95	6,537	21,986	\$9,955,393	\$2,725,165	\$12,680,558
Total						\$80,850,671	\$18,913,383	\$99,764,054

Future Direction in Florida

Florida Legislative direction regarding Medicaid managed care

- Last Session Senate and House proposals
 - Senate: expands Medicaid reform to 19 additional counties - little impact on Broward County
 - House: expands managed care statewide - major impact
 - Competitive bid
 - Six regional areas

Wrap-Up

Conversions are prompted by the related issues of financing and operating efficiency

Because of the number of stakeholders, the ultimate governance structure is not always what was contemplated at the outset of discussions

Wrap-Up (cont.)

Despite bumps in the road, conversions tend to achieve their stated goals

Numbers, sources, and term length and staggering are all important considerations for the new board

If done properly, conversions give institutions the “best of both worlds” while continuing to serve the community