Why Do Public Hospital Systems Restructure?

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Overview

- Overview of NAPH
- Challenges of a Changing Healthcare Environment
- What is a “Typical” Public Hospital System?
- Why Do Public Hospitals Restructure?
- What are the Advantages of Public Status?
- Broward Health in Context
- Case Studies of Other Public Safety Net System Restructurings
NAPH...

- Represents 140 hospitals with a shared mission – access to all
- Advocates at the federal level on issues of concern to safety net hospital systems
- Provides networking and educational experiences with other hospital systems
- Conducts health services research on issues you care about (quality, emergency preparedness, obesity, ED throughput)
- Communicates your value to policymakers and the public
Major Impact Across the Country

- Just 2% of all hospital beds
- One out of four emergency room patients
- One out of four babies born
- One-third of all outpatient visits
- One out of five people hospitalized
- Half of all Level 1 trauma centers
- Two-thirds of burn care beds
- Train 20% of all medical residents
NAPH Florida Members

- Lee Memorial Health System
- Jackson Memorial Hospital
- South Broward Hospital District
- North Broward Hospital District
- Health Care District of Palm Beach County
- Halifax Health System
- Tampa General Hospital
- Shands Healthcare
- Orlando Health
- Safety Net Hospital Alliance of Florida
Challenges of a Changing Healthcare Environment

• Economic Pressures

• Payer Mix

• Market Pressures
  – Pay for Performance
  – Consolidation of Providers

• Health Care Reform
Reform-Specific Challenges & Opportunities

• Coverage Expansion
  ▪ Health Insurance Exchanges (29 Million New Members by 2019)
  ▪ Expands Medicaid (16 Million New Enrollees by 2019)

• Delivery System Pressures
  ▪ Value-based Purchasing
  ▪ Hospital Readmissions
  ▪ Hospital-Acquired Conditions
  ▪ Payment Bundling
  ▪ Accountable Care Organizations & Medical Homes
  ▪ Primary Care Reimbursement

• Payment Reductions
Threats to Public Hospitals

- Reliance on governmental funding sources
- Lower income patients without insurance or unable to afford co-payments
- Cost growth – labor, technology; pharmaceuticals
- Workforce shortages
- Ability to update health information technology
- Limited access to capital
- Increased consumer attention to quality of care
- Too much bureaucracy in purchasing, human resources, general decision-making
What is “Typical” Public Hospital?

- Direct governance by elected/appointed officials
- Advisory board or commission
- Freestanding board with some autonomy
- State University
- Hospital District
- Hospital Authority
- Public benefit corporation
- Private non-profit corporation
- Public/private partnership
Governance and Structure of NAPH Members

- In 1981, half of NAPH members were traditional City or County owned hospitals
- Less than 10% retain that structure today
- Many have restructured to address problems
- Public hospitals have formed authorities, taxing districts, public benefit corporations and non-profit corporations
- Some have entered into mergers, acquisitions or public-private partnerships
- Most have also become integrated health networks
- Government oversight is retained through board appointments, lease terms, service agreements, approval of budgets and other means
Why Do Public Hospitals Restructure?

- **Financial pressures**
  - Demand for uncompensated care
  - Public need for money-losing services
  - Increased demand, reduced funds when economy slows
  - Disproportionate impact of Medicaid “reforms”
  - Aggressive competition for reimbursed services
  - Drain on local government resources

- **Lengthy budget & decision-making process**
- **Limited control over revenues, expenditures**
- **Personnel & procurement constraints**
- **Under-funded medical education role**
- **Access to capital**
- **Ability to partner or compete**
Advantages of Public Status

- Access to county tax revenues
- Access to general obligation bonds
- Ability to make Medicaid transfers and receive supplemental payments
- OSHA, Social Security, labor, antitrust, tax and other federal and state exemptions
- Availability of cross subsidies for prevention & public health
- Sovereign immunity and eminent domain
- Access to municipal support services – pension, benefits, self-insurance fund, etc.
Benefits of Restructuring
(It’s no panacea - but....)

• More rational budgeting for revenues and expenditures
• Improved access to capital
• Ability to engage in partnerships and joint ventures
• Improved access to information technology
• Better coordination of care among providers
• Ability to provide care in most cost-effective setting
• Ability to develop disease management programs
• More effective use of evidence-based medicine
• Improved ability to recruit and retain staff
• Economies of scale in purchasing
• Improved patient satisfaction
• Etc.
Broward Health Compared to Other NAPH Members
# Statistics for Broward Health

### Broward Health

<table>
<thead>
<tr>
<th>Hospital/Health System Name</th>
<th>Staffed Beds</th>
<th>Discharges</th>
<th>Inpatient Days</th>
<th>Outpatient Visits</th>
<th>Births</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broward Health¹</td>
<td>1,362</td>
<td>62,290</td>
<td>333,464</td>
<td>713,883</td>
<td>5,949</td>
</tr>
</tbody>
</table>

### Peer Group

<table>
<thead>
<tr>
<th>Hospital/Health System Name</th>
<th>Staffed Beds</th>
<th>Discharges</th>
<th>Inpatient Days</th>
<th>Outpatient Visits</th>
<th>Births</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver Health</td>
<td>370</td>
<td>21,291</td>
<td>101,431</td>
<td>931,959</td>
<td>3,669</td>
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<tr>
<td>Harris County Hospital District</td>
<td>891</td>
<td>41,355</td>
<td>243,670</td>
<td>1,440,334</td>
<td>9,939</td>
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<tr>
<td>Hennepin County Medical Center</td>
<td>465</td>
<td>25,845</td>
<td>129,887</td>
<td>551,800</td>
<td>2,570</td>
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<tr>
<td>Jackson Memorial Hospital</td>
<td>1,871</td>
<td>73,866</td>
<td>493,984</td>
<td>579,440</td>
<td>8,963</td>
</tr>
<tr>
<td>Maricopa Integrated Health System</td>
<td>571</td>
<td>22,681</td>
<td>157,572</td>
<td>635,526</td>
<td>4,218</td>
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<tr>
<td>Memorial Healthcare System ²</td>
<td>1,640</td>
<td>80,316</td>
<td>376,567</td>
<td>961,435</td>
<td>12,022</td>
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<tr>
<td>Parkland Health &amp; Hospital System</td>
<td>795</td>
<td>41,475</td>
<td>222,382</td>
<td>1,174,738</td>
<td>15,632</td>
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<tr>
<td>Shands HealthCare-Shands Jacksonville Medical Center</td>
<td>596</td>
<td>27,413</td>
<td>172,012</td>
<td>401,572</td>
<td>3,746</td>
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<tr>
<td>Tampa General Hospital</td>
<td>958</td>
<td>36,983</td>
<td>247,265</td>
<td>257,392</td>
<td>5,566</td>
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<tr>
<td><strong>Average</strong></td>
<td><strong>906</strong></td>
<td><strong>41,247</strong></td>
<td><strong>238,308</strong></td>
<td><strong>770,466</strong></td>
<td><strong>7,369</strong></td>
</tr>
</tbody>
</table>

Note: Averages are for hospitals that have the service, e.g., if no births are reported, that hospital is not included in the average.

¹ Comprised of 4 Broward Health hospitals including Broward General Medical Center, Coral Springs Medical Center, Imperial Point Medical Center, and North Broward Medical Center.

² Comprised of 4 MHS hospitals including Memorial Hospital Miramar, Memorial Hospital Pembroke, Memorial Hospital West, and Memorial Regional Hospital.
Discharges by Payer Source, FY 2008

Source: NAPH Hospital Characteristics Survey, 2008

*Uninsured Discharges are attributed to patients that are considered Self Pay, Charity Care, or covered by a State or Local Indigent Care Program.
Outpatient Visits (including ED Visits) by Payer Source, FY 2008

Source: NAPH Hospital Characteristics Survey, 2008

* Uninsured Outpatient Visits are attributed to patients that are considered Self Pay, Charity Care, or covered by a State or Local Indigent Care Program.
Gross Revenues by Payer Source, FY 2008

Source: NAPH Hospital Characteristics Survey, 2008

*Uninsured Revenues are attributed to patients that are considered Self Pay, Charity Care, or covered by a State or Local Indigent Care Program.
Net Revenues by Payer Source, FY 2008

*Medicaid Net Revenues include base Medicaid payments and net Medicaid DSH payments.

**Uninsured Revenues are attributed to patients that are considered Self Pay, Charity Care, or covered by a State or Local Indigent Care Program.

Source: NAPH Hospital Characteristics Survey, 2008
Uncompensated Care Costs as a Percentage of Total Costs, FY 2008

Source: NAPH Hospital Characteristics Survey, 2008
Case Studies:
Restructuring Examples in Safety Net Systems
Creation of New Not-for-Profit Corporation

- Grady Health System
- Truman Medical Centers
- Regional Medical Center at Memphis
- Tampa General Hospital
Grady Health System

• Details: Lease and transfer agreement.
  • Until 2008, operated by the Fulton-Dekalb Hospital Authority.
  • Was on the brink of collapse.
  ▪ Grady Health System is leased to new nonprofit Grady Memorial Hospital Corporation; completed in 2008.

• Goal:
  • Autonomy from governmental authority.

• Results:
  • Major infusion of cash from private parties, Dekalb and Fulton Counties, and the State.
  • Obligated to continue operating as a safety net facility.
  • New autonomy in operations, personnel, and contracting.
Truman Medical Centers

• Details:
  • One of first public hospitals to restructure as a not-for-profit in early 1960s.

• Goals:
  • Desegregation of hospital facilities, streamlining purchasing procedures and improving the personnel system, while maintaining public mission.

• Results:
  • Truman Medical Centers now has broad support from the community; voters from City and County consistently approve local taxpayer support.
Tampa General Hospital

• Details:
  • Transfer of Tampa General Hospital (“TGH”) (operated by the Hillsborough County Hospital Authority) to new private, non-profit corporation.

• Goal:
  • To compete with private hospitals in the region for privately insured patients and selected Medicaid patients.

• Results:
  • Went from 29 days COH to 138 days COH.
  • Had ~340 census/800 beds and is now undertaking major capital expansion (up to ~950 beds).
  • Improved public image has led to better payor mix.
Regional Medical Center at Memphis

• Details:
  • Shelby County Health Care Corporation formed as a not-for-profit in 1981 to operate the Regional Medical Center ("The Med").

• Goals:
  • Depoliticization of the board, strengthening of hospital management, avoiding purchasing agreements, gaining access to capital, and delivering more efficient care.

• Results:
  • Generally met the goals of its restructuring.
  • Receives County appropriations for capital needs and as compensation for indigent care.
  • Independent access to capital markets through revenue bonds and joint ventures.
Merger or Affiliation with Existing Not-for-profit Corporation

- Boston Medical Center
- Great Lakes Health System of W. New York
- Shands Jacksonville
- UMass Memorial Health Care System
- Fresno County Valley Medical Center
- Brackenridge Hospital
- University of Arizona Healthcare
Boston Medical Center

• Details:
  • Merger of the public Boston City Hospital (“BCH”) with the private not-for-profit Boston University Medical Center.

• Goals:
  • Consolidation of operations, and relieving BCH of public obligations.

• Results:
  ▪ BMC maintains its status as a public hospital for Medicaid DSH adjustments.
  ▪ BMC must file an annual report to the city on its provision of health care services.
  ▪ BMC is no longer subject to civil service, ethics, or procurement rules.
Great Lakes Health System of Western New York

• Details:
  • Contractual relationship between Erie County Medical Center ("ECMC"), a public benefit corporation ("PBC"), and Kaleida Health, a non-profit corporation.

• Goals:
  • To address excessive bed capacity, duplication of services, and economic challenges in region.

• Results:
  • ECMC has largely maintained its status as a PBC, and remains subject to state ethics, personnel, and procurement policies.
  • Some operational integration has occurred, including creation of a new transplant unit which merges ECMC’s and Kaleida Health’s parallel programs.
Shands Jacksonville

- **Details:**
  - Part of Shands HealthCare, a private, non-profit system formed by the conversion of the University-owned hospital and clinics to a private non-profit system in Gainesville in 1980.
  - Previously operated as UMC, a private non-profit, almost collapsed.
  - Shands agreed to assume control.
  - Reorganization required $200 million cash infusion over 5 years.

- **Goal:**
  - Greater autonomy and managerial flexibility.

- **Results:**
  - Privatization has been successful; allows greater autonomy and greater managerial flexibility
  - Continues to rely on City and State support
UMass Memorial Healthcare

• Details:
  • Formed in 1998 following state legislation authorizing a merger of state teaching hospital with nonprofit health system.

• Goals:
  • Consolidation to be more competitive with other systems in Boston area.

• Results:
  • Successful merger of distinct cultures.
  • Became major regional medical center.
  • Avoided public requirements, including pensions (for new workers), open meeting and records laws, and procurement laws.
Fresno County Valley Medical Center

• Details:
  • Beginning in 1996, 30-year lease of Valley Medical Center, a county-run hospital to Fresno County to Community Hospitals of Central California, a private, not-for-profit health system.

• Goals:
  • Enhance access to capital and be more competitive in managed care.

• Results:
  • Largely successful, although lost ability to participate as a “public provider” for purposes of California Medicaid DSH, IGT and CPE programs.
Brackenridge Hospital

- Details:
  - Seton Healthcare Network ("Seton"), a non-profit, assumed management and control of the city-owned Brackenridge Hospital through a 30-year lease from the city of Austin, TX.

- Primary Goal:
  - To stem operating losses and limit burden of public entity regulations.

- Results:
  - Hospital was able to limit operating losses associated with burdens as a public entity.
  - Seton agreed to continue providing "essential community services."
University of Arizona Healthcare

• Details:
  • Formed in June 2010 under agreement to consolidate management of University Medical Center Corporation (UMCC), a non-profit operating a hospital under lease from the Arizona Board of Regents, and University Physicians Healthcare, a non-profit practice plan which also operates a leased county hospital. The two entities will maintain separate corporate structures.

• Primary Goal:
  • To maximize payer mix and consolidate contracting and purchasing.

• Results:
  • Operational goals TBD, as formation is still in infancy.
  • UMCC maintains some state-related obligations
Other Issues to Think About

- Models of Governance
- Ease of Implementation
- Board Organization
- Accountability and Transparency
- Budget and Appropriations
- Personnel
- Operations
- Procurement and Contracting
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