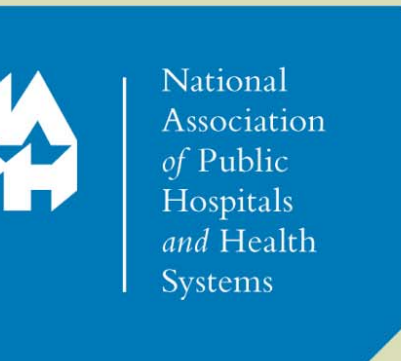# Why Do Public Hospital Systems Restructure?

Presentation of Charles Luband
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Fort Lauderdale, Florida
September 22, 2010

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

Hospital/Health System Name	Staffed Beds	Discharges	Inpatient Days	Outpatient Visits	Births
Broward Health[1]	1,362	62,290	333,464	713,883	5,949

Peer Group

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

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
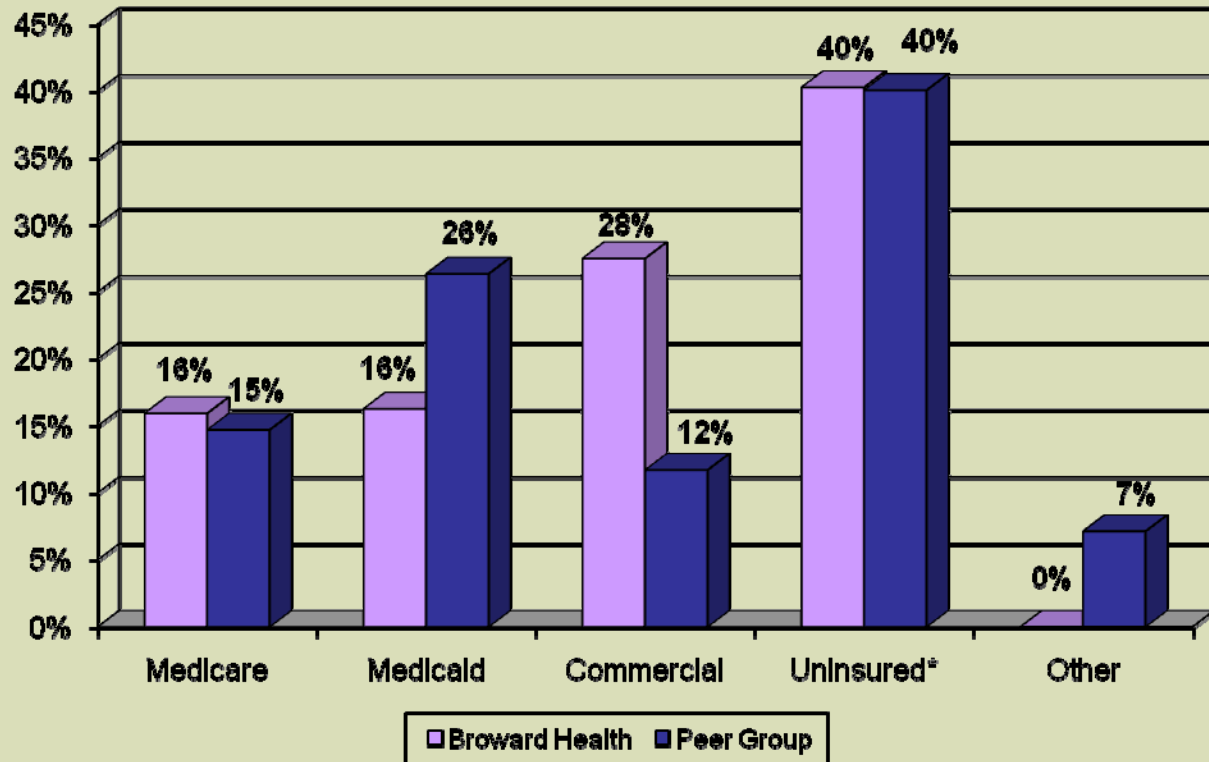
Source: NAPH Hospital Characteristics Survey, 2008
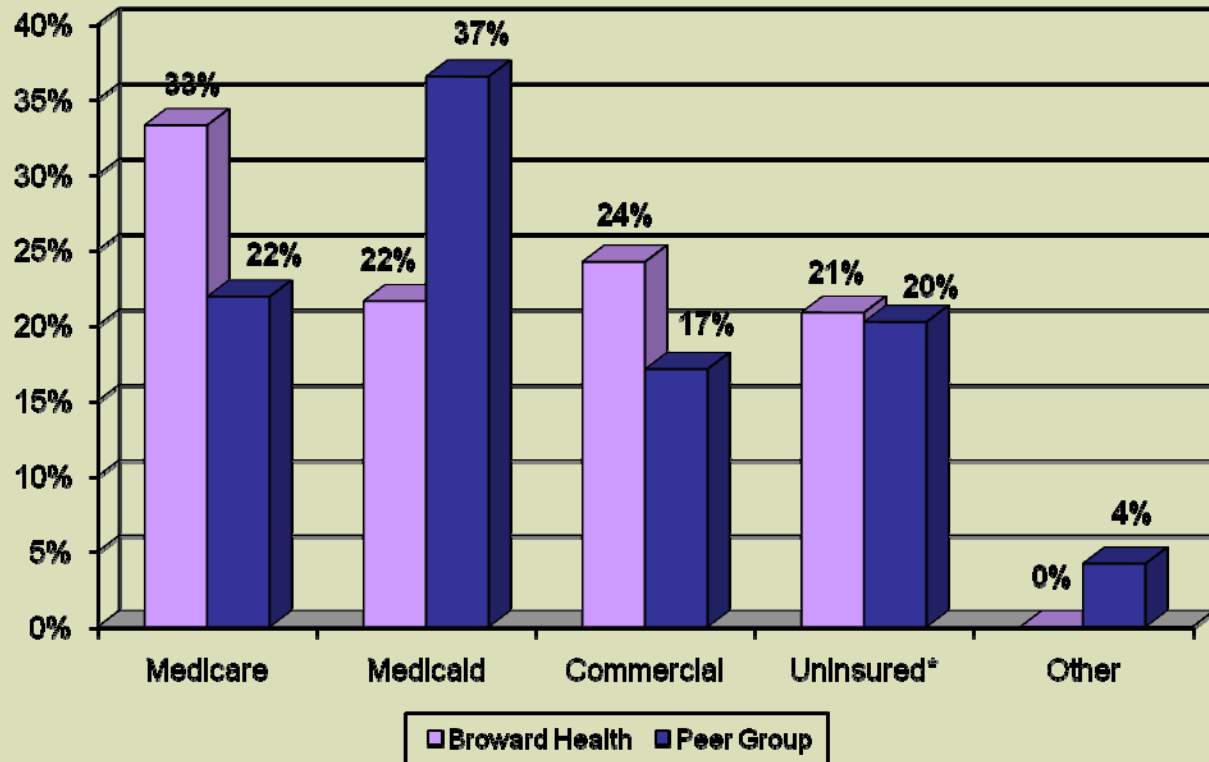
* Uninsured Discharges are attributed to patients that are considered Self Pay, Charity Care, or covered by a State or Local Indigent Care Program.

Outpatient Visits (including ED Visits) by Payer Source, FY 2008

National
Association
of Public
Hospitals
and Health
Systems

*Source: NAPH Hospital
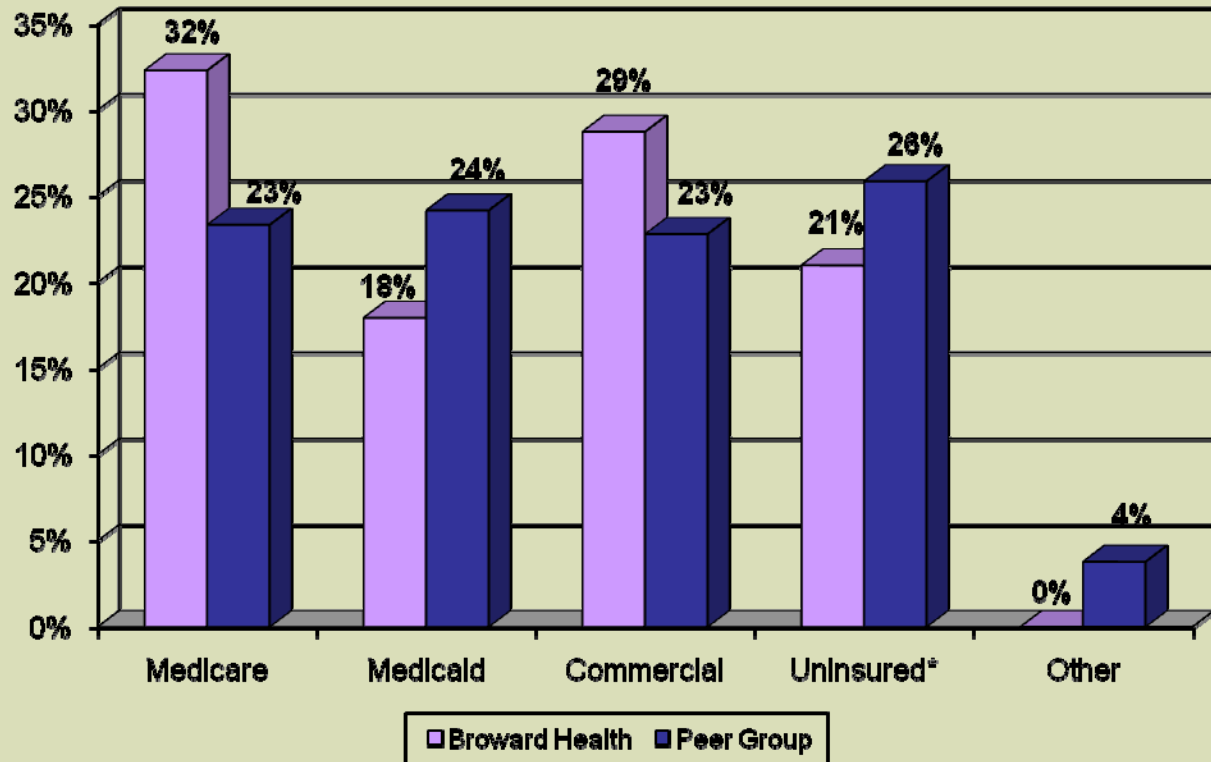Characteristics Survey, 2008*

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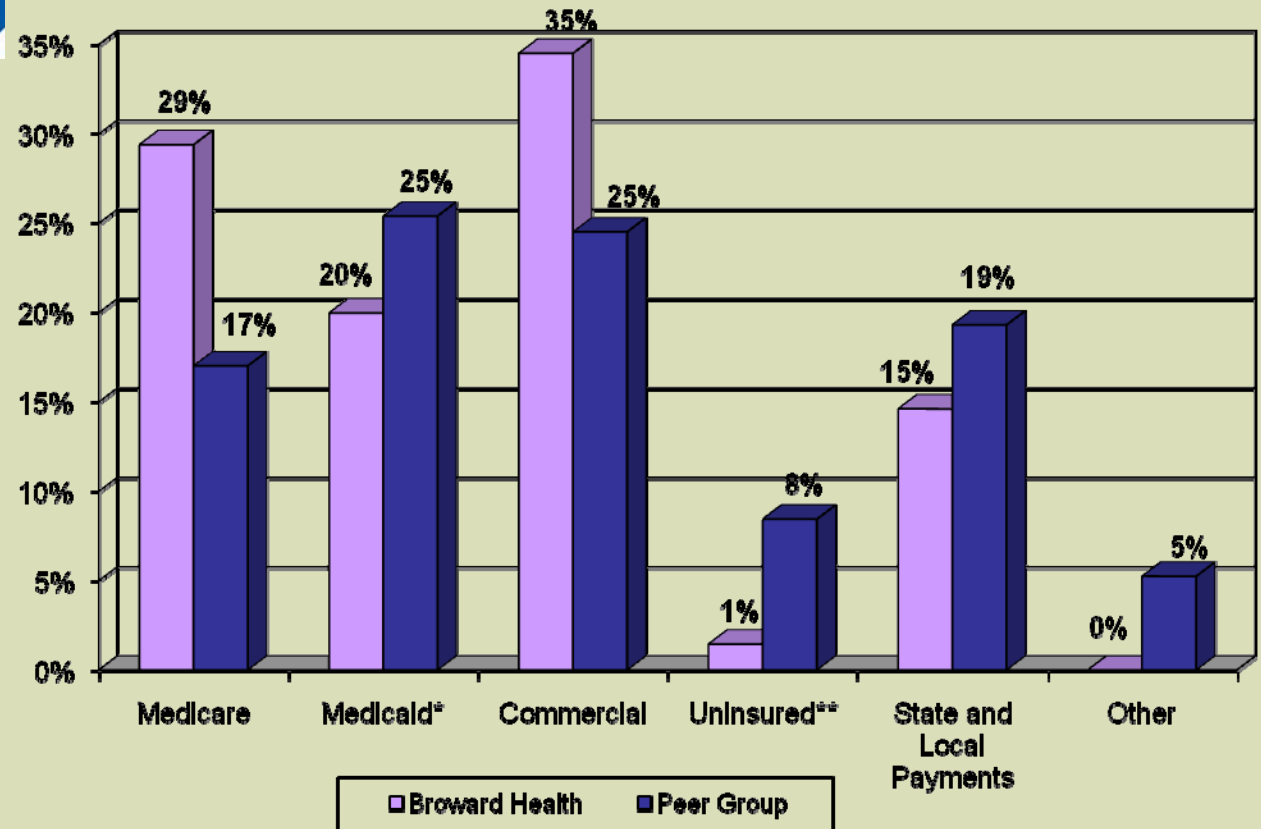
Gross Revenues by Payer Source, FY 2008

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

*Source: NAPH Hospital Characteristics Survey, 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.

Uncompensated Care Costs as a Percentage of Total Costs, FY 2008

Source: NAPH Hospital Characteristics Survey, 2008
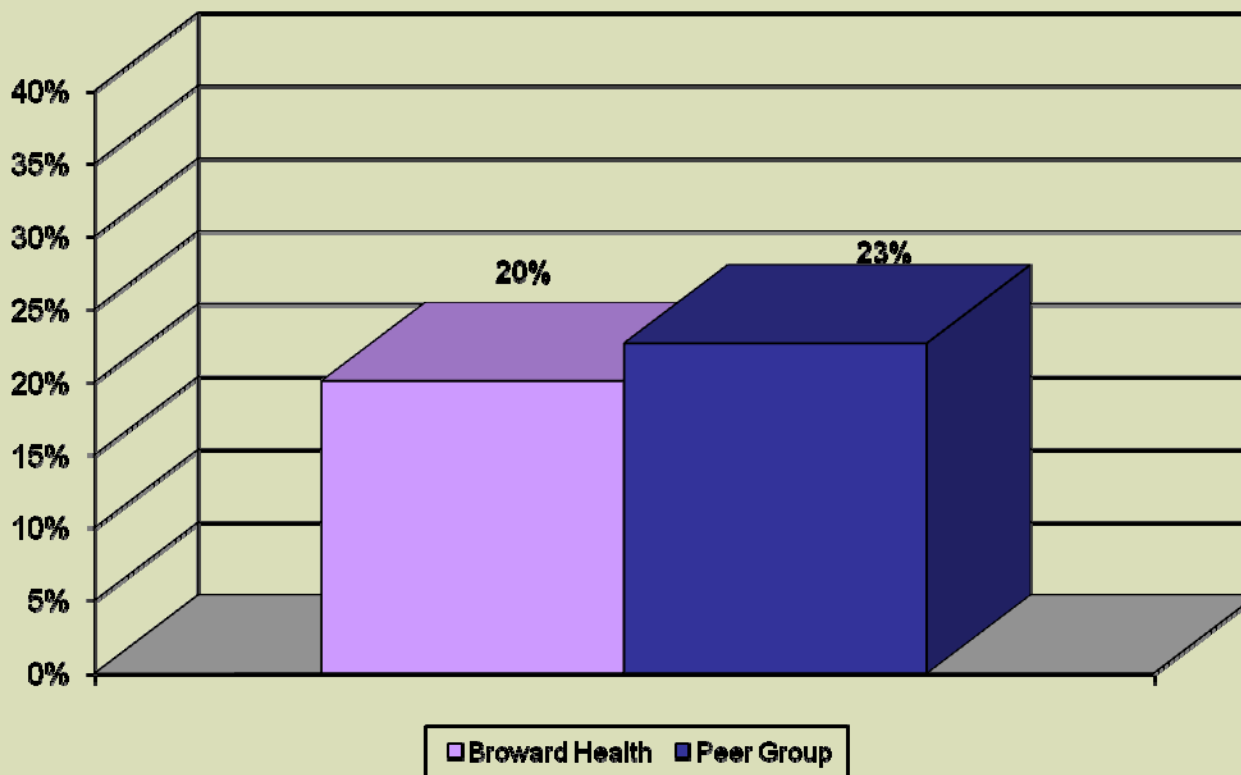
Case Studies:
Restructuring Examples in Safety Net Systems

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 Heath 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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