

Arkansas Rural Hospital Assessment

Final Report Overview

June 12, 2023



ALVAREZ & MARSAL

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Hospitals Reviewed



Hospitals Reviewed

While up to 26 hospitals were eligible¹ to participate in this review, only 18 agreed to participate.

Critical Access Hospitals

- Chicot Memorial Hospital
- Bradley County Medical Center
- Delta Memorial Hospital
- DeWitt Hospital
- Eureka Springs Medical Center
- Fulton County Hospital
- Howard Memorial Hospital
- Ozark Community Hospital
- Piggott Community Hospital
- South Mississippi County Regional Medical Center

Non-CAH Rural Hospitals

- Arkansas Methodist Hospital
- Baxter Regional Medical Center
- Drew Memorial Hospital
- Great River Medical Center
- Magnolia Regional Medical Center
- Mena Regional Health System
- North Arkansas Regional Medical Center
- Ouachita County Medical Center

1) The 26 eligible hospitals were selected by DHS on the basis that they are either: (1) Non-system CAHs (the “CAHs”); (2) non-system, non-Critical Access Hospitals located in counties with population of 50,000 or fewer (the “Non-CAH Rural Hospitals”, collectively with CAHs, the “Assessment Group Hospitals”).

Hospital Data Request and Reviews



Hospital Data Request

Data Category	Requested Data	Time Period
General	Organizational Chart: Executive chart and business structure chart (highest-level outlining legal entities and ownership structure, include leadership names/titles, if available)	Current
Financial	Existing Monthly Management Reports (Financial and Operational): Financial data, which includes EBITDA, operating margin, cash on hand, accounts receivable, etc. Operational data, which includes avg daily census, avg length of stay, patient days and discharges, annual Emergency Department visits, Case Mix Index (CMI), etc.	Last six months
Financial	Audited Financial Statements (AFS): For the last 2 years, including any audit adjustments to reconcile with internal financials. If applicable, specific audited details on reconciliation to a consolidated AFS	Last two full years
Financial	Monthly Financial Statements: Balance sheet, income statement, and cash flow statement	Last six months
Financial	Quick Ratio	Current
Financial	Payer Mix: Medicare, Medicaid, private, uncompensated care, etc.	Current
Financial	Current CAPEX Budget and 3–5-Year Projected Expenses	Current
Labor	Actual Total FTEs: Breakdown between Non-Clinical FTEs and Clinical FTEs	Current
Labor	Physician Productivity Reports (Work RVUs)	Last 6–12 months
Operational	Plans for Achieving Sustainability: along with a statement of steps taken to date to improve the Hospital’s business model and practices	Current
Physical Plant	Statement of Conditions or Average Age of the Plant / Facility	Current

- The initial data request included the trailing 6 months which ran from July 2022 – December 2022
- Initial data was reviewed across six core areas (general statistics, balance sheet metrics, payer breakdown, sustainability plan, income statement metrics, and quality indicators / other)
- Additional financial data was requested during on site reviews and included financial statements for January 2023 and February 2023
- A&M’s financial analysis in the final report does not include any data past February 28, 2023; financial status and operating pictures may have shifted since

Onsite Reviews

Informed by the analysis of the initial data request, the A&M team completed on-site reviews for each participating hospital.

- The A&M team met with the executive-level management of each hospital including the following or equivalent positions:
 - Chief Executive Officer (CEO)
 - Chief Financial Officer (CFO)
 - Chief Operating Officer (COO)
 - Chief Compliance Officer (CCO)
 - Chief Information Officer (CIO)
 - Chief Nursing Officer (CNO)
 - Chief Medical Officer (CMO)
 - Director of Human Resources (HR)
 - Chief Administrative Office (CAO)
- The A&M team also completed a facility tour with plan management as part of the onsite review.
- The goal of the onsite review was to:
 - Verify our understanding of the hospital provided data
 - Gather additional context related to the hospitals operating and financial condition and outlook
 - Understand the condition of the physical plan

Key Metrics



Metric Formulas and Operational Context

Metric & Formula	Metric Definitions & Context	AR Average ¹	US Average ¹
Quick Ratio = (Current Assets – Inventories – Prepaid Expenses) / Current Liabilities	An indicator of a hospital's short-term liquidity position that measures a hospital's ability to meet its short-term obligations with its most liquid assets. This metric should be looked at in conjunction with other financial indicators such as days cash on hand due to distortion that can occur a high accounts receivable balance.	N/A ²	N/A ²
Daily Cash on Hand = Cash & Cash Equivalents / Daily Expenditures Daily Expenditures = (Total Operating Expenses + Interest Expense – Depreciation Expense) / 365	The estimated number of days that a hospital can sustain its operations – i.e. pay its required operating expenses using only its cash on hand. The calculation assumes that there is no additional revenues being brought into the hospital at the time the calculation is performed.	73 days	192 days
Days in Accounts Receivable (A/R), Net = (A/R, Net * Days in the Period) / YTD Net Patient Revenue Days in the Period should equal the number of days included in YTD Net Patient Revenue figure	Counts the average number of days between the date an invoice is sent out and the date of collection for that invoice. A high Days in A/R, net could be an indicator that a hospital is billing for its services, but not collecting the cash for those invoices in a timely fashion.	40 days	47 days
Operating Margin = Operating Income / Total Operating Revenue	A measurement of what money a hospital makes on the strictly operational aspect of its hospital by measuring profit after paying for costs but before paying interest or taxes.	7.14%	3.62%
FTE / Adjusted Occupied Bed = Total FTEs / Adjusted Average Daily Census Adjusted average daily census is calculated by taking a hospital's total ADC and multiplying it by their adjustment factor	Staffing level as a measure of labor inputs per output day of care. While a low value for this metric is preferred, this should be balanced with the level of service being provided to patients and the quality of that services. By using the adjusted average daily census, this metric factors in both inpatient and outpatient services.	4.60	5.72
Labor Cost / Net Patient Revenue	The ratio of a hospitals Labor Cost to their Net Patient Revenue. A measure of the amount of labor incurred to generate each dollar of patient revenue. Agency usage may distort this ratio in comparison to other productivity metrics given the high labor costs associated with agency staff.	50% - 60% ³	50% - 60% ³

Notes:

1) Financial Indicators Report: Summary of 2020 Indicator Medians by State, May 2022

2) Current Ratio benchmarks for Arkansas are 1.70 - 2.74; US benchmarks for the current ratio are 1.87 - 2.26

3) Financial Indicators Report: Summary of 2021 Medians and Summary of 2021 Medians by state outline Salary Expense / Net patient Revenue benchmarks;
US Benchmarks = 44% - 47%; Arkansas Benchmarks = 50% - 53%

How to Read the Final Report



Report Structure

Each hospital section is structured in the same format outlined below:

- **Hospital Overview**
 - Overview of the facility, its licensure, and high-level operating metrics
- **Executive Summary**
 - High-level summary of key challenges, patient volume trends, financial status, labor and technology challenges, sustainability plan, and physical plant
- **Drive Time Analysis**
 - Graphic shows the 30-minute drive time a hospital in green and 30-minute drive times from the closest surrounding facilities in orange. Critical Access Hospitals (CAH) are designated in blue, and non-CAHs are designated in red
- **Observations Related to Operational Outlook**
 - Observations related to key operational metrics, trends, and staffing levels
- **Observations Related to Current Fiscal Condition**
 - Observations related to current cash position, debt, revenue, expenses, supplemental funding, a break-even analysis, and future capital considerations

Report Structure (continued)

Each hospital section is structured in the same format outlined below:

- **Sustainability Plan**
 - The sustainability plan section for each hospital includes a summary of the sustainability plan documents that were provided to A&M by hospital leadership
- **Key Tables / Charts**
 - Key Indicators – includes operating metrics and statistics that were reviewed by A&M as part of our analysis. Presents a picture of volume and labor indicators
 - Balance Sheet Metrics – includes a high-level summary of balance sheet line items as-of February 2023 and includes metrics that are calculated from a hospital's balance sheet (quick ratio, Days Cash on Hand, Days in Accounts Receivable, net, etc.)
 - Income Statement Metrics – compares a hospital's income statement metrics from the financial statements of the last completed fiscal year against annualized figures for Sept 2022 – Feb 2023
 - Supplemental Funding – summary of total supplemental funding amounts (CARES Act / Provider Relief Fund, State of Arkansas Grants, etc.) that were able to be identified through audited financial statements or other provided documents
 - Breakeven Analysis - based on the trailing 6 months of data (Sept 2022 – Feb 2023), break even figures the 12 month and 18 months periods. One-time events were included in the calculation but not annualized

Questions



