

Arkansas Rural Hospital Assessment

Final Report

Arkansas Department of Finance & Administration

Prepared by Alvarez & Marsal Public Sector Services, LLC

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Drew Memorial Hospital

Quick Facts

- Classification: Non-CAH
- Licensed Beds: 60
- Closest Facility: 17.5 miles
- Average Age of Plant: 11 years
- Average Daily Patient Occupancy Rate: 47%
- Average length of stay (ALOS): 3.4 days
- Total full-time employees (FTEs): 451

Location: Monticello, Drew County
County Population: 46,317 (2021)

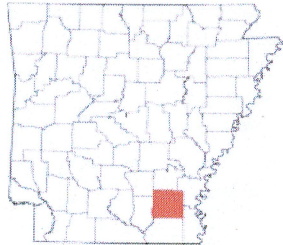


Table 47: Drew's Key Statistics

Operating Statistics	
C&C Equivalents	\$ 1.2 M
Current Assets	\$ 9.5 M
Net A/R	\$ 6.8 M
Total Assets	\$ 52.5 M
Days Cash on Hand	11.26
Quick Ratio	2.45
Current Ratio	2.84
Debt Service Coverage Ratio	-4.91
Days in Net AR	71.96
Average Age of Plant	11.05
Income Statement	
(Trailing 6 Months Annualized)	
Net Patient Service Revenue (NPSR)	\$ 34.0 M
Other Revenue	\$ 0.4 M
Total Revenue	\$ 34.4 M
Salaries, Wages & Benefits	\$ 20.6 M
EBITDA	\$ (4.3 M)
Operating Income	\$ (7.0 M)
Non-Operating Income/(Expense)	\$ (0.7 M)
Net Income	\$ (7.7 M)
Operating Margin %	-21%

Executive Summary

Key Challenges

- Volume reduced from previous year, Cash tight, non-performing RCM vendor/process, high staff turnover, physical plant requires HVAC update

1

Patient Volume Trends

- Volume reduced from prior year (based on annualized stats from July 2022 – Feb 2023 vs FY 22)
- Annualized adjusted discharges FY23 (5,386) were 21% less than FY22 (6,775)
- Annualized adjusted patient days FY23 (18,458) were 26% less than FY22 (24,902)

2

Financial Status

- Days cash on hand (DCOH):
 - 27.7 (Dec. 2022)
 - ~11 (Feb. 2023)
- Reported A/R, net days at 68.11; calculated at 71.96 (Feb. 2023)
- Quick Ratio: 2.4 (Feb. 2023)
- Operating margin: Annualized Net income (based on September 2022 through February 2023 financials) is a net loss of (\$7.7M)
- Supplemental funding bolstered FY21 and FY22 financial position

3

Labor Challenges

- Stopped using travel nurse contracts and switch to in-house contracts
- High staff turnover
- Competition from neighboring hospitals
- Not enough cash to adjust pay rates, decrease nurse to patient ratios, etc. which is creating staffing shortages that are impacting the ability to take patients and increase census

4

Technology Challenges⁶⁹

- Delayed Cerner implementation to July 2023
- Cerner implementation may not align with possible downstream partnership with Baptist Health
- While the Cerner implementation may improve RCM in the long-run, improvement will not be immediate and may also require a change in RCM vendors

5

Sustainability Plan

- Revenue enhancement: Many new services / programs proposed (*i.e.*, chemical dependency)
 - New programs will require costs to establish, and likely to have incremental revenue grow with delayed financial impact
- Expense Reduction: Many expense reduction actions have already taken place (\$1.1M impact)
 - Additional expense reductions plans exist (\$2.1M impact), but no actions taken pending decision to move forward with plan (*e.g.*, bring RCM in house, decision on partnership, etc.)

6

Physical Plant

- \$4.4M in Capital improvements/Medical Equip in next three years

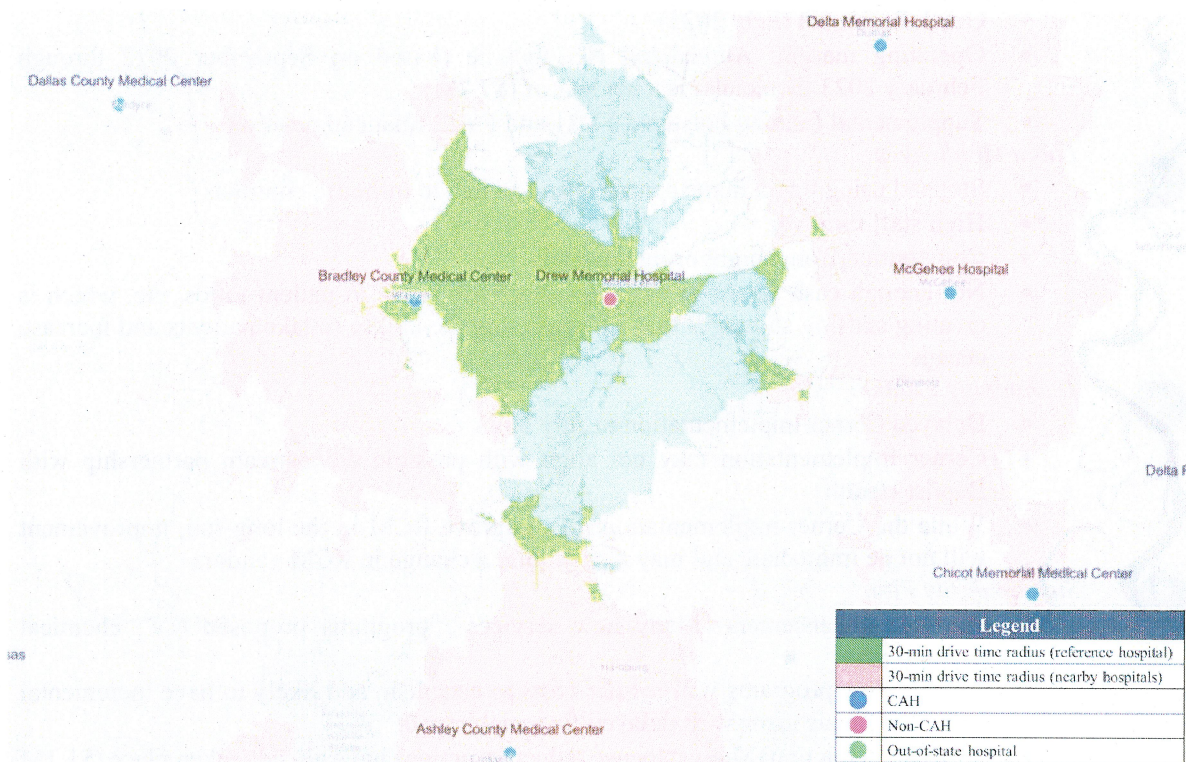
⁶⁹ The A&M Team was not engaged in a formal Information Technology (IT) assessment across the hospital's technology stack, platforms, cybersecurity, data infrastructure and reporting. This would be considered separate work and as such, does not reflect consolidative findings captured within this report as it impacts financial budget and operations.

- Aging air handlers/HVAC not able to always maintain temp in facility in hotter months – require portable A/C. 2 operating rooms are closed due to failed air handler. No plans to replace or repair given current liquidity challenges

Drive Time Assessment - Alternatives in the Surrounding Community

A population estimated at 66,743 is located within a 30-mile radius of Drew Memorial.⁷⁰ Drew Memorial is the only hospital within Drew County (population roughly 17,000). The three closest alternative hospitals to Drew Memorial are on average 21 miles away: Bradley County Medical Center is 17.5 miles to the west in neighboring Warren County; McGehee Hospital is 30 miles to the east in McGehee County; and Delta Memorial is 33 miles to the northeast in Dumas County. Additional alternatives lie beyond a 35-mile or 45-minute drive. Ashley County Medical Center is located 40 miles away and may serve as an alternative hospital to populations living south of Drew Memorial. There are no reasonably close alternative hospitals to the north.

Figure 14: Drew's Drive Time Assessment



Observations Related to Operational Outlook

The YTD average length of stay was 3.4 days, and the average daily census (ADC) was 15.4 (Acute only) and 28.4 (including Psych and Observation) while the occupancy rate for the year was 47%.

⁷⁰ "Hoosiers by the Numbers." Large Area Radius Tool: Hoosiers by the Numbers. Accessed April 28, 2023. https://www.hoosierdata.in.gov/big_radius/radius.asp.

For comparison, the national benchmark average LOS for non-CAH facilities is 5.4 days and average occupancy rates range widely from 40 to 60% depending on location (*i.e.*, rural vs urban). For rural hospitals in Arkansas, in 2016, average occupancy rates hovered around 30%.⁷¹

In 2022, Drew Memorial reported 1,759 annual inpatient discharges with an adjustment factor of 3.05 resulting in total adjusted discharges of 5,357. Month-on-month volumes during the year remained relatively consistent with slight variation.

Although month-on-month stats remained relatively consistent, there was decrease in acute patient days towards the end of the year (766 in Jan 2022 versus 603 in Dec. 2022) and a rise in swing bed patient days (31 days in Jan 2022 versus 98 days in Dec 2022). This trend would contribute to the 2022 average acute length of stay being less than state benchmarks and occupancy rates being at or above benchmarks. Overall, all key metrics were lower than the previous year and fell below expectations.

Total FTEs were 451. The total clinical FTEs count was not provided. FTEs per each adjusted occupied bed (also called “FTEs per adjusted ADC”) was 5.2. The state benchmark for FTEs per adjusted ADC was 4.6-5.72.⁷² Labor cost per net patient revenue was at ~61% compared to the benchmark of 50% - 60% for rural non-CAHs.⁷³

FTEs per adjusted ADC was in line with benchmarks and labor cost per net patient service revenue was slightly above benchmarks, which is indicative of a change in workload that contributes to net patient service revenues and would correlate to a slight rise in swing bed patient days seen towards the end of 2022 (26 in February 2022 and 98 in Dec 2022). While there appears to be enough inpatient and outpatient volume to justify the number of FTEs, the revenues generated by that volume seems lower than one would typically expect. Increases in reimbursement from payers for

Table 48: Drew's Operational Indicators

Key Indicators - Operational Outlook	
(Apr 22 - Feb 23)	
Total Inpatient Discharges	1,768
Adjustment Factor	3.05
Total Adjusted Discharges	5,386
Hospital Patient Days	6,060
Adjusted Patient Days	18,458
Average Daily Census (Acute)	15.5
Average Daily Census (including Psych + Obs)	28.4
Average Length of Stay	3.3
Emergency Department Visits	9,661
Occupancy Rate	47.3%
Total FTEs	451
Total CFTEs	Not Provided
Case Mix Index	1.15
Labor Cost / Net Patient Revenue	61%
FTEs per Adjusted Occupied Bed	5.2

Table 49: Drew's Balance Sheet Metrics

Balance Sheet Metrics	
(as of Feb. 2023)	
C&C Equivalents	\$ 1,217,882
Inventory and Prepaid Expenses	\$ 1,322,327
Current Assets	\$ 9,500,461
Total Assets	\$ 52,459,398
Current Liabilities	\$ 3,342,603
Total Long-Term Debt	\$ 25,352,648
Total Liabilities	\$ 28,695,251
Net Position	\$ 23,764,147
Daily Expenditures	\$ 108,200
Days Cash on Hand	11.3
Quick Ratio	2.4
Current Ratio	2.84
Debt Service Coverage Ratio	(4.91)
Average Age of Plant	11.05
Days in Net Accounts Receivable	71.96
Debt to Operating Revenue	74%

⁷¹ Acute Care and Critical Access Hospital Occupancy Rate Variability by Location (2016, HFMA). <https://www.hfma.org/finance-and-business-strategy/analytics/61098/>

⁷² See Figure 4: Comparison of FTE / Adjusted Average Daily Census by Hospitals.

⁷³ See Figure 3: Comparison of Labor Cost to Net Patient Revenue Across Hospitals.

services may assist with getting labor costs as a percentage of NPSR back under the benchmark, which is an initiative Drew has focused on as part of their sustainability plan. This is further described in the sustainability plan section below.

Observations Related to Current Fiscal Condition

Assessment and observations related to the current fiscal condition are based on the latest data received from hospital leadership (Feb. 2023). Based on the initial data received, A&M's on-site review, and 2023 data, Drew Memorial's cash position has been deteriorating since March 2022, with a gradual decrease in cash and cash equivalents from \$12.6M to \$1.22M in Feb 2023. Daily expenditures range between \$106k–\$119k with 11.3 days cash on hand as of Feb 2023. With the deteriorating cash position, especially in the context of the current daily expenditures, the sustainability plan's expense reduction efforts will be highly valuable as these actions are more likely to yield rapid impact.

Cash Position

Understanding the Days cash on hand (COH) in conjunction with trends in accounts receivables will give insight into revenue cycle management inadequacies. COH has decreased 60% from December 2022 to February 2023 while accounts receivable (A/R) has slightly increased. Additionally, days in A/R has increased approximately 11 days in six months (from 60.2 in Sept 2022 to 72 in February 2023). When asked about A/R days and cash position, Drew's leadership noted repeated difficulties working with their revenue cycle management (RCM) vendor; recounting pain points around denials, coding issues and authorizations. Cash flow runout analysis was forecasted based on data received from May 2022 through February 2023. As seen in the cash flow runout table below, unfavorable cash flow has continued. These trends clearly align with the concerns voiced by leadership and further emphasize the need to address RCM challenges as a part of the sustainability plan.

Table 50: Drew's Cash Flow Runout

	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
Beginning Balance	\$ 6,112,182	\$ 5,197,298	\$ 4,503,261	\$ 3,603,094	\$ 3,082,375	\$ 1,868,620
Patient Receipts ⁽¹⁾	2,541,567	2,811,286	2,385,254	2,017,580	1,983,296	2,558,291
UPL Receipts ⁽²⁾	1,008,323	-	-	1,125,799	-	1,125,799
Transfer from Money Market	956,376	924,827	1,155,126	554,128	1,006,989	1,175,950
Other	70,151	25,665	85,019	285,321	16,517	16,139
Total Receipts	4,576,417	3,761,778	3,625,399	3,982,828	3,006,802	4,876,179
Disbursements	2,468,243	2,070,157	2,232,116	2,571,977	1,970,346	3,216,234
Long Term Debt P&I Payments	119,644	119,644	119,644	119,644	119,469	119,469
Medicare Recoupment	310,368	327,275	11,526	45,869	104,265	-
Payroll Net	1,467,314	1,003,477	996,720	1,062,025	1,006,110	1,004,829
Transfer to Money Market	956,376	924,827	1,155,126	554,128	1,006,989	1,175,950
Other	169,355	10,434	10,435	149,904	13,378	10,435
Total Disbursements	5,491,300	4,455,814	4,525,567	4,503,547	4,220,557	5,526,917
Ending Balance	\$ 5,197,298	\$ 4,503,261	\$ 3,603,094	\$ 3,082,375	\$ 1,868,620	\$ 1,217,882
Net Increase (Decrease)	(914,883)	(694,036)	(900,168)	(520,719)	(1,213,755)	(650,738)

Debt

Drew Memorial's current debt profile consists of debt service obligations and long-term revenue bonds secured by real estate mortgage and hospital revenue. In summary, there were three bonds issued in 2010

(Series 2010A, 2010B, and 2010C) secured by real estate mortgage, a 2017 “Hospital Revenue Temporary Bond”, and two bonds issued by the USDA in 2018 that were used to satisfy the 2017 bond and is secured by hospital revenue and a mortgage on the facility on a parity basis with the Series 2010 Bonds. See Appendix: Exhibit A for details on current debt structure, including debt service requirements as of March 31, 2021, and details related to the hospital’s existing long-term revenue bonds.

Revenue

With deteriorating cash on hand, uncertainties regarding revenue cycle management, and required debt-service liabilities, revenue trends will help provide a year-over-year understanding of the current fiscal condition from a “top-line” perspective. Using annualized Sept. 2022 through Feb. 2023 financials, Drew Memorial appears to be facing a 19% drop in net patient service revenue (NPSR) from the prior year. This seems to be consistent with the hospital’s reported service volume decline as compared to the previous year. Large amounts of supplemental support (*e.g.*, CARES Act, PPP loan forgiveness) helped bolster Drew Memorial’s financials in FY2022. Supplemental funding is outlined in the table below. The hospital’s sustainability plan includes approximately \$4M in revenue enhancements, however, \$3.3M of this impact comes from initiatives that have not been executed and includes projected revenues from new or enhanced services (*i.e.*, chemical dependency) that will likely take time to establish and reach the projected annual impact described.

Table 51: Drew’s Income Statement Metrics

Income Statement Metrics			
	FY 22	Trailing 6 Months Annualized	Difference*
Net Patient Service Revenue (NPSR)	\$ 41,769,602	\$ 33,980,294	-19%
Other Revenue	417,640	373,994	-10%
Total Revenue	42,187,242	34,354,288	-19%
Salaries, Wages & Benefits (SWB) Expense	20,882,351	20,581,542	-1%
Supplies Expense	8,609,834	3,016,364	-65%
Other Operating Expense	14,608,516	15,028,178	3%
EBITDA	(1,913,459)	(4,271,796)	-123%
Depreciation Expense	2,870,619	2,773,248	-3%
Operating Income	(4,784,078)	(7,045,044)	-47%
Non-Operating Income (Expense)	11,263,819	(683,754)	-106%
Net Income	6,479,741	(7,728,798)	-219%
Operating Margin	-11%	-21%	-81%
NPSR / Adj Discharge		\$ 6,309	
Expense / Adj Discharge		\$ 7,686	

*Difference is calculated as the percent change from the prior to current period relative to the absolute value of the metric in the prior period

Expenses

Trends in expenses can also provide insight into effectiveness of the Sustainability plan and contributors to the current fiscal condition. Flat salaries, wages, benefits, and payroll tax (SWB) expenses and other

operating expenses (excluding supplies) are not reflective of adjustments typically made when facing significant drops in service volume. Drew Memorial's SWB per Paid FTE peaked at \$5,625 per Paid FTE in December 2022.

The hospital's sustainability plan's expense reduction efforts projects \$3.2M in year one savings, however, \$2.1M of this impact comes from initiatives that have not been executed and include establishing an in-house revenue cycle management team which will require hiring of skilled personnel. Furthermore, this also include service line optimization that may require execution of a partnership before any impact can be realized.

Supplemental Funding

As previously indicated, supplemental funding helped bolstered Drew Memorial's financial position in the last two fiscal years. This funding has been recognized to-date based on when Drew Memorial recognized revenues. The Supplemental Funding table below summarizes the significant supplemental funding that was received.

Table 52: Drew's Supplemental Funding

Supplemental Funding	FY2021	FY2022
CARES Act	\$ 5,332,000	\$ 6,425,000
American Rescue Plan Act (ARPA)		\$ 981,000
Arkansas' ARPA (SFRF)		\$ 750,000
AR Community Development Block Grant		\$ 490,000
Paycheck Protection Program (PPP)		\$ 3,235,300
Total	\$ 5,332,000	\$ 11,881,300

Notes:

Table above is based on when Drew Memorial recognized revenues.

The CARES Act includes the recognized portion of HRSA Provider Relief Funds and CRF funds provided by the State.

Hospital has received \$2,092,000 in total ARPA funds but has only recognized \$981k in revenue for FY2022

PPP Loan was forgiven in June 2021

Break-Even Analysis

Given the trends associated with Drew Memorial's operational outlook and fiscal condition, and the potential impact of the sustainability plan, a break-even analysis was performed to approximate the current Net Income (Loss). A below break-even analysis was performed based on a trailing 6-month annualization of the Drew Memorial income statement. As flagged with the in-table red circle below, their annualized FY23 net income is negative \$7,728,798. The currently quantified sustainability plan, if all impact dollars are achieved, has a potential impact of \$7,294,687.

Table 53: Drew's Break-even Analysis

Drew Memorial Income Statement	September 2022	October 2022	November 2022	December 2022	January 2023	February 2023	Breakeven over the last 2 Quarters	12 Month Total	18 Month Total
Net patient service revenue	\$ 3,170,848	\$ 2,907,668	\$ 2,543,558	\$ 2,560,691	\$ 3,412,775	\$ 2,394,607	\$ 16,990,147	\$ 33,980,294	\$ 50,970,441
Other Operating Revenues	33,856	33,738	31,481	30,718	26,458	30,746	\$ 186,997	373,994	560,991
Total Revenue	3,204,704	2,941,406	2,575,039	2,591,409	3,439,233	2,425,353	17,177,144	34,354,288	51,531,432
Salaries, Wages, Benefits and Payroll Taxes	1,704,172	1,820,466	1,656,851	1,884,767	1,549,036	1,675,479	10,290,771	20,581,542	30,872,313
Supplies	201,111	304,869	315,730	214,791	273,281	198,400	1,508,182	3,016,364	4,524,546
Total Operating Expenses Less D&A	3,125,451	3,381,676	3,065,976	3,350,177	3,334,901	3,054,861	19,313,042	38,626,084	57,939,126
EBITDA	\$ 79,253	\$ (440,270)	\$ (490,937)	\$ (758,769)	\$ 104,332	\$ (629,508)	\$ (2,135,898)	\$ (4,271,796)	\$ (6,407,694)
Depreciation	231,104	231,104	231,104	231,104	231,104	231,104	1,386,624	2,773,248	4,159,872
Total Operating Expenses	3,356,555	3,612,780	3,297,080	3,581,281	3,566,005	3,285,965	20,699,666	41,399,332	62,098,998
Operating Income (Loss)	\$ (151,850)	\$ (671,375)	\$ (722,040)	\$ (989,872)	\$ (126,772)	\$ (860,612)	\$ (3,522,522)	\$ (7,045,044)	\$ (10,567,566)
Interest Expense	(73,543)	(71,023)	(76,293)	(67,469)	(72,729)	(72,348)	(433,405)	(866,810)	(1,300,215)
Non-Operating Income (Expenses)	33,116	3,217	52,082	321	792	2,000	91,528	183,056	274,584
Net Income (Loss)	\$ (192,278)	\$ (739,180)	\$ (746,252)	\$ (1,057,021)	\$ (198,709)	\$ (930,960)	\$ (3,864,399)	\$ (7,728,798)	\$ (11,593,197)

Capital Considerations

In addition to all the operational and financial considerations described above, Drew Memorial's physical plant requires certain capital considerations to continue, sustain, and enhance operations. Hospital leadership provided a capital budget that included approximately \$4.4M in medical equipment over the next three fiscal years. During our on-site reviews and tours, we observed several additional capital and infrastructure items that also will require investment and major funding over the next few years. The hospital was built in multiple different phases, with the original section of the building dating back to 1972. There was another addition in the late 1970s, along with several expansions throughout the 1990s. Particularly concerning are the issues with the air handlers that are significantly aged over the older parts of the building. There is already one air handler that is currently inoperable that sits over the old operating rooms of the hospital, which equates to approximately 7,500 square feet that is unusable without adding portable heating / AC units. Two additional air handlers that sit over the old part of the facility are end of life and need to be replaced as well as they are from the 1970s. These units are operating at approximately 20% capacity, and so the facility struggles with keeping different areas cool during the summer and warm in the winter.

Upcoming Obligations

Drew Memorial is preparing for a new electronic medical record (EMR) implementation, as it moves from Computer Programs and Systems, Inc (CPSI) to Cerner Health. Having completed several initial testing sessions, Drew is solely responsible for Cerner travel-related reimbursement at this time. The hospital estimates that the transition to Cerner will cost the hospital an additional \$200k per year and implementation costs are included in the monthly/annual fees and are not separate in the agreement. A decision to make a change in revenue cycle management is likely to be considered after the Cerner implementation, however nothing definitive has been established at this time.

Sustainability Plan

Given the revenue cycle management challenges and consistently below budgeted operational statistics described earlier, a strong sustainability plan is critical at Drew Memorial. Hospital leadership provided a sustainability plan that included several revenue enhancement and expense reduction items that had either already been implemented or were planned for the near future.⁷⁴ Per leadership, many of the revenue enhancement items were difficult to quantify, however, several of the original revenue enhancement and expense reduction initiatives were quantified and new initiative were submitted post on-site review as part of an updated sustainability plan. The updated plan quantification contributes \$4.7M to the \$7.3M Sustainability plan summarized below in the table below.

Table 54: Drew's Sustainability Plan

Drew Memorial Health System Sustainability Plan Summary		FINANCIAL IMPACT		
ACTION	Action Complete	Action Pending	Total	
Revenue Enhancement:				
Behavioral Health Services - Broaden admission criteria, expand outpatient services, begin chemical dependency program	-	1,422,370	1,422,370	
Renegotiate payor contracts - Negotiate with BCBS, UHC, and other payors	487,000	-	487,000	
Pulmonary Rehab Program - Establish outpatient program. Delays due to Cerner delays.	-	315,000	315,000	
Primary care / Urgent care Services - Establish provider based RHC / urgent care services	-	525,000	525,000	
Expand 340b - Expanded 340b program and patient assistance program for co-pays	-	1,000,000	1,000,000	
Expand Outpatient Specialty Clinic - Add additional providers (ENT, Pulmonologist, Urologist)	Impact unknown	-	Impact unknown	
Hospital Based Specialties - Add or expand service offerings; including addition of Velys Robot for orthopedics	308,353	-	308,353	
Marketing - Established focused and enhanced plan	Impact unknown	-	Impact unknown	
TOTAL REVENUE ENHANCEMENT IMPACT	\$ 795,353	\$ 3,262,370	\$ 4,057,723	
Expense Reduction:				
*Travel nurse contracts - Eliminate and replace with inhouse contracts	\$165/hr changed to \$85/hr			
Staff Reductions - Eliminate positions and avoid backfilling vacancies	248,000	766,000	1,014,000	
Contract Reductions - Renegotiate contractual obligations (physc, pharm mgmt, RCM vendor, Aramark, other)	305,000	309,000	614,000	
**Service Line Optimization - Eliminate Women's Service Clinic and possible addn reduction of nonperforming services	491,764	515,000	1,006,764	
New Initiatives from updated plan - Bring RCM in house and other expense reduction measures	60,000	542,200	602,200	
TOTAL EXPENSE REDUCTION IMPACT	\$ 1,104,764	\$ 2,132,200	\$ 3,236,964	
***TOTAL IMPACT	\$ 1,900,117	\$ 5,394,570	\$ 7,294,687	

*Travel nurse elimination impact not included in Total

**Total includes potential service line optimizing impact of \$450k to "Action pending", however decision to take action is not final

***Total Impact is expected to be realized primarily in or after 2023 and does not include Recruitment and retention efforts and Funding opportunities

Revenue Enhancements

- Behavior Health Services
 - They have decreased the admitting age from 65 to 55 on their geriatric psychiatric unit to increase the census on the unit. Unit is already staffed, and no additional costs are anticipated to support the additional census. DMHS also intends on expanding outpatient mental health services beyond IOP to accommodate a diverse age range (children to geriatric patients) and offer IOP to patients after detox (impact of \$96k). There are also plans to enroll in Rural Life 360 program if deemed eligible.
 - DMHS intends on converting 11 geripsych beds for use of a new Chemical dependency program with a projected impact of \$1.3M. This will however require additional licensures, certifications, and specialized staff and exact timelines for impact may be at risk.
- Renegotiate Payer Contracts
 - They have renegotiated their Blue Cross and UnitedHealth payer contracts. Blue cross renegotiation led to \$1,000 increase in reimbursement per inpatient discharge. These changes went into effect in June 2022 and should already be seen in the trailing six months financials. The BCBS negotiation resulted in a \$487k impact.
- Pulmonary Rehab Program

⁷⁴ A&M makes no representation or warranty as to the accuracy or reliability of the future financial or operational performance discussed in any of the Hospitals' sustainability plans.

- They are hoping to open an outpatient Pulmonary Rehab program in May 2023 that shows potential increased reimbursement of \$211,000 - \$379,000. There have been a number of issues getting the program started that are tied to Drew's Cerner implementation and the new EMR is needed to begin the program. DMHS has suggested the possibility of starting the program on paper in case of further Cerner delays and projects \$315k impact in the quantification in the Sustainability Plan Summary table above.
- Primary care / Urgent care Services
 - DMHS intends on establishing a provider based RHC / urgent care with annual impact of \$525k.
- Expand 340B
 - They have expanded the hospital's 340B program and anticipates an additional \$1,000,000 from the expansion and by instituting a patient assistance program for co-pays. The expanded program is anticipated to go live April 1st, 2023, and Drew Memorial is expecting to see revenues from the program increase shortly after the go live date.
- Expand Outpatient Specialty Clinic and Hospital based specialists
 - They have added several physicians, including another general surgeon who started in September 2022, a physician assistant for urology, a Pulmonologist in December 2022, and an Ear, Nose, and Throat (ENT) physician who started in February 2023.
 - They have expanded their Orthopedic offering by signing an agreement for a VELYS Robot in January 2023. First robotic cases were to be done on March 22nd, 2023, with anticipated annual impact of \$308k.
- Marketing
 - DMHS has started a focused marketing effort enhanced visibility and presence.

Expense Reductions

- Travel Nurse Contracts
 - Hospital leadership has been able to successfully eliminate travel nurse contracts that were \$165 per hour in March 2022 for in house contracts that are between \$68 - \$8 per hour.
 - In-house contracts are still significantly above regular hourly rate at around \$35 per hour more. Part of the issue is currently hourly wages for staff are not competitive; Drew Memorial needs to perform wage increases to be competitive with the area, but they do not have the funds to do so.
- Staff Reduction
 - They have eliminated several non-clinical positions across the organization that have resulted in annual savings:
 - Eliminated Greeter positions in August 2022 for annual savings of ~\$144,000.
 - Not backfilling three positions that became vacant for an annual savings of ~\$104,000.
 - Additional 15 positions being reviewed with impact potential of \$766,000.
- Contract Reductions
 - Hospital leadership was able to successfully renegotiate several contracts that resulted in annual savings:

- Psychiatrist contract renegotiated back in September 2022 for an estimated savings of approximately \$100,000 annually.
- Renegotiated contract with pharmacy management company for annual savings of \$50,000.
- Negotiated a rate decrease with their RCM Vendor in October 2022 for a savings of \$75,000 split over six months (remaining savings will be recognized by Q1 of 2023).
- Renegotiated their contract with Aramark in November 2022 for dietary and environmental services resulting in an annual savings of \$80,000.
- DMHS believes other contracts exist with reduction potential and potential impact of \$309,000.
- Service Line Optimization
 - They have eliminated Women's Services Clinic in August 2022 resulting in elimination of yearly loss of \$491,764.
 - They are evaluating opportunities around a range of related service lines which could eliminate an annual loss of \$450,000 - \$515,000 if eliminated. Nothing is implemented as of the date of A&M's on-site visit.
- New Initiatives from updated plan
 - Cost reduction efforts such as change of employee benefits from BCBS to UHC (action complete) and reduction in printing expense (action planned) have an impact of \$60,000 and \$7200, respectively.
 - DMHS has a plan to bring RCM in house. This would require hiring skilled staff and is believed to have an impact of \$535,000. In this plan, the "early out" and "bad debt" vendors would remain outsourced.

Recruitment and Retention

As part of their sustainability plan, DMHS is involved in several recruitment and retention efforts. They are partnering with University of Arkansas at Monticello to try and recruit new nurses and decrease traveler usage / costs. Approximately \$150,000 to start the scholarship program was given by the Foundation. They are also partnering with South Arkansas Community College in a RN clinical instructor program. Efforts are also underway to enhance certifications and skills of existing radiology staff and DMHS hopes to start recruitment H1B efforts for MT staff in the lab.

In early 2023, Drew Memorial leadership and representatives from the Baptist Health System met multiple times to discuss Drew Memorial potentially joining the consolidated Baptist Health System, which has integrated other challenged regional hospitals in the past. Pressures around staffing, sustainability, payer contracts, and supply chain underlie Drew Memorial's engagement in these discussions. Baptist completed a review prior to this meeting, noting Drew Memorial's weaknesses around RCM, labor challenges, information technology and data/management tools. Drew's hospital board member Carl Lucky stated the following in regard to those discussions:

“We’ve made a lot of progress physically at this hospital and we provide a lot of great services. But we are struggling to keep the right people in the right jobs for a long enough time to get things accomplished.”⁷⁵

The partnership would be a sublease model, with Baptist subleasing the 501(c)(3) from the County for 20-25 years, with the County retaining full ownership. The discussions mentioned a start date of June/July 2023. Baptist board leadership believes that the partnership model would stabilize Drew’s revenue cycle issues and offer additional support to address other opportunities that they identified (e.g., labor challenges, data management tool immaturity, supply chain optimization, etc.). Baptist would want Drew to support efforts to increase the local sales tax by at 0.75-1% from the current 4.4% to compete with CAH funding levels.

Drew has considered CAH status but is limited by the 25-bed rule and is too close to Warren to meet the 30–35-mile restriction.

⁷⁵ Deltaplex News, January 27th, 2023; *Memorial System Hospital Board discusses financial condition with new partnership.*
[Drew Memorial System Hospital Board discusses financial condition with new partnership – Deltaplex News](#)

