



Rural Idaho hospital fights for survival

CAH, HUD PROGRAMS HELP MED CENTER FINANCE NEEDED REPLACEMENT FACILITY

By Jessica Griffith

Gold first lured miners to northern Idaho, but veins of silver kept the industry thriving for nearly a century.

PROJECT CASE STUDY

In 1958, the mining companies helped build Shoshone General Hospital in Kellogg.

“It was one of the premier rural hospitals and state-of-the-art for the 1950s,” says Gary Moore, CEO of the hospital, renamed Shoshone Medical Center. The hospital serves about 14,000 residents of the Silver Valley, located 35 miles east of Coeur d’Alene.

As the mines sputtered in the 1980s, population tumbled. A sister hospital in nearby Wallace closed in the early 1990s and a group of family practice physicians battled with the medical center for the remaining healthcare business.

The hospital’s future looked as hopeful as a stripped mine. But in the late 1990s, Shoshone began a transformation. Hospital administrators developed a cooperative strategy to settle the dispute with the doctors and straightened out Shoshone’s finances.

In September 2003, Shoshone broke ground for a new hospital scheduled to open in December.



A HUD-backed loan allowed Shoshone Medical Center to replace its aged hospital with this new building, scheduled to open later this year.

(Rendering courtesy of Johnson Johnson Crabtree Architects P.C.)

The resurrection of Shoshone Medical Center required three distinct steps.

Dealing with doctors

In 1999, the hospital hired management company QuorumHealth Resources LLC of Plano, Texas.

Quorum brought in Mr. Moore, who set out to resolve what he calls the “Holy Healthcare Wars of Silver Valley.” A physicians’ group and the hospital were competing for the healthcare dollars of a shrinking population.

“(The hospital and the doctors) had decided to see who would go out of business first,” Mr. Moore says. “Something had to change.”

Shoshone laid off its family physicians and told the family practice doctors in the community that they could have the clinic patients.

“Once we stopped the fighting, we had to figure out how to cure the financial part,” Mr. Moore says.

Debt dilemma

Shoshone Medical Center was broke. After years of trying to compete with the physicians, the hospital had about \$1.5 million in short-term debt.

A California firm was offering interest rates so high that Mr. Moore says he would have been better off if he just borrowed money on his MasterCard. The company fell behind in its retirement account payments and prospects dulled.

Quorum completed a site analysis of the hospital and the news did not improve. Shoshone would require \$5 million to \$6 million just to keep its doors open for the next 10 years.

Renovation was nearly impossible due to low ceiling heights. The hospital board agreed that any money spent on the old facility would be wasted.

Shoshone Medical Center had no cash. It still had some debt. But in order to survive, it needed a new hospital.

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Two positive signs turned Shoshone's luck around. Sterling Savings Bank in Spokane, Wash., agreed to provide the hospital with a \$1 million line of credit. And, Shoshone received federal status as a Critical Access Hospital (CAH).

(For more on the CAH Program, please see "CAH revs up rural market" the September issue of HREI™.) The latter allowed the hospital to receive Medicare and Medicaid reimbursements based on the actual cost of procedures.

"We were on our backs flat," Mr. Moore says. "The critical access designation brought us back up to our knees."

Lease deals

The U.S. Department of Housing and Urban Development (HUD) will insure mortgages for rural hospitals through the Federal Housing Administration's (FHA) Section 242 program.

In Idaho, hospital districts and other government bodies cannot mortgage property, explains Neil Moss, executive director of the Idaho Health Facilities Authority in Boise.

This quasi-state agency is authorized to issue tax-exempt debt for Idaho's healthcare facilities.

To complicate matters, the land is a former Superfund site and lies in a flood plain, Mr. Moore says. In addition to requiring a line of credit and property appraisals, HUD needed a construction manual approved by the Environmental Protection Agency.

The deal took two and one-half years and calls for Shoshone to lease the facility to the Idaho Health Facilities Authority on a 99-year lease that includes both the land and buildings.

The authority then has an agreement with Shoshone in which it leases the land and building back to the hospital district.

"HUD guarantees the mortgage of our lease agreement," Mr. Moss says. "The hospital is owned by the hospital district but the mortgage is controlled by us because we can take out a mortgage and they can't."

The long-term lease structure was the first of its kind, says Alan Richman, president and CEO of InnoVative Capital LLC in Springfield, Pa., which served as the FHA mortgage banker for the deal.

"Fortunately, HUD's Office of Insured Health Facilities was convinced that Gary Moore's vision of a new hospital was financially viable and urgently needed for its citizens," Mr. Richman says.

The total cost of the loan, and the new hospital, is \$18.5 million. The 42,000 square foot, single-story building will have 25 beds, in compliance with Critical Access rules.

The hospital will include an emergency room, a trauma center, general surgery and, important in ski country, orthopedic surgery.

Johnson Johnson Crabtree Architects in Nashville, Tenn., used Shoshone to test their prototype of a rural replacement hospital.

The basic design allows the architects to customize at minimal cost, says Steven Reutter, project architect.

"It is just a starting point that lets you jump ahead in the process," he says.

Skiing magazines have noticed Silver Valley and the potential influx of new residents and tourists is one reason Mr. Moore had faith in the survival of Shoshone.

"A new healthcare facility gives a community a huge boost for economic development," he says. "We're not on our feet yet, but we will be soon, and we will be a well-heeled, state-of-the-art resort hospital." □

Jessica Griffith is a business writer specializing in commercial real estate.

Shoshone Medical Center KELLOGG, IDAHO

STATS

- Cost: \$18.5 million, including \$9.5 million for the building; \$4.8 million for furniture, fixtures and equipment (FF&E)
- Size: One floor, 25 beds, 42,000 square feet

PLAYERS

- Owner: Shoshone Medical Center
- Architect: Johnson Johnson Crabtree Architects P.C., Nashville, Tenn.
- Project Manager: American Health Facilities Development, Brentwood, Tenn.
- Contractor: Medical Construction Group Inc., Nashville, Tenn.
- Management Group: Quorum Health Resources, Plano, Texas
- FHA Mortgage Banker: InnoVative Capital LLC, Springfield, Pa.