

Hospital Survival: Informed County Commissioners Can Preserve Local Healthcare



Effingham Hospital Authority's state-of-the-art critical access hospital exemplifies how the resolve of dedicated, home-grown hospital leaders and county commissioners can result in a multimillion dollar investment of taxes to preserve and enhance the future of local healthcare. Photo courtesy Michael Murphy, modernization project manager at Effingham Health System.



All county commissioners should visit their local hospitals at least once a year to observe the facilities and daily operations.

By Alan P. Richman
President and CEO, InnoVative Capital

Georgia's rural hospitals have delivered essential medical care for decades while serving as major employers and economic growth engines. These hospitals face financial challenges as dramatic changes in the health care industry render their once modern facilities obsolete. Inpatient rooms in aging hospitals sit empty, as the needs of 21st-century medicine, including modern equipment, physician recruitment, and outpatient facilities are unaddressed.

The future of many self-supporting rural hospitals is poor, as profits are sparse and losses are common. While many community hospitals are nonprofit or for-profit facilities and independently owned and operated, Georgia's hospital authorities represent a hybrid structure that require the attention and supervision of county commissioners. Under Georgia law, the oversight of hospital authorities is ceded to county-appointed hospital authority board members. Commissioners make the final decisions regarding requests for tax support,

land donations, bonding authority and hospital sale or closure.

A community hospital not only provides for residents' health and welfare, it bolsters job production, tax collections and real estate values. County commissioners must be knowledgeable about the hospital's financial and operational requirements and vigilant toward management.

"We have to have healthy citizens, but what is the role of the hospital in the bigger picture of the county's own goals regarding public health and welfare?" asked Matthew Hicks, vice president of government relations for Grady Health System in Atlanta.

This is not a great time to be a community hospital. Persistent operating losses have eroded most long-standing cash reserves and the hospitals' declining creditworthiness makes capital investment and physician recruitment almost impossible.

"One-third of Georgia's counties provide financial support to their local hospitals, and many other counties anticipate funding requests during the next two years," said Hicks.

"A hospital is typically one of the top three employers in the county," said Jimmy Lewis, CEO of HomeTown Health LLC, a lobbying firm for Georgia's rural hospitals. "It is important that county commissioners be willing to support their hospital with tax dollars in two forms: capital investments and outright operation subsidies to cover the cost of uninsured and self-pay patients."

County commissioners must be knowledgeable about hospital operations in order to vote on complex issues, particularly financial support, that will have irreversible consequences for their communities. This requires both education on the commissioners' part as well as the retention of a qualified financial advisor and attorney who can analyze the hospital and its options as far as ongoing operations.

Getting to Know Your Hospital

County commissioners are responsible for the oversight and funding of a wide range of public-purpose enterprises, but often the local hospital is not one of them. While county support may only apply to government hospitals and those owned and operated by hospital authorities, county commissioners must recognize the importance of all hospitals to the county finances.

It is recommended that each commissioner be required to attend an introductory lecture or series on hospital finance. Georgia law mandates that hospitals deliver annual audited financial reports to the county, and commissioners can best monitor developments and trends that may require immediate or future attention if they learn how to evaluate a hospital's financial condition and to assess the quality of hospital management.

All county commissioners should visit their local hospitals at least once a year to observe the facilities and daily operations.

Evaluating Hospital Budget Requests

An introductory class in hospital finance provides insight into the financial operations of a community hospital, but some knowledge of municipal finance is also important. Commissioners should be able to evaluate hospital operating and capital budgets, both on their own and within the overall county consolidated annual financial report.

The county's annual review of its hospital's operating budget should be part of



In January 2012 the new Effingham Hospital opened with enhanced services and physicians. Financed with a federally-guaranteed FHA 242 mortgage loan, Effingham Hospital will provide residents with the best possible care. Photo courtesy Michael Murphy, modernization project manager at Effingham Health System.

a comprehensive review that includes its audited financial statement and a strategic operational assessment. An independent financial consultant retained by the county can evaluate the hospital's performance compared with trends, budgets and industry standards. Commissioners must also assess the community's health care needs and the hospital's ability to meet those needs with its facility, physicians and service mix. These analytics will serve to bolster or weaken a hospital's case for county support.

County commissioners must be prepared to ask the hospital authority why it needs operational financial support, and the commissioners should answer that question for themselves. Is the hospital losing money because of structural reasons that can be remediated through capital investment or operations modifications, or is the hospital managed improperly? A detailed look at operations and capital budgets helps evaluate the extent of ongoing financial investments and whether a change in hospital management is necessary.

Transparent working relationships and consistent communication among hospital management, hospital authority members, and county commissioners is essential. County commissioners must not allow themselves to be blindsided by hospital requests for financial support that can play out in the public forum of town hall meetings and local newspaper articles. Commissioners must ask the right questions of hospital leadership in

Effingham Hospital Authority

Effingham Hospital Authority's state-of-the-art critical access hospital exemplifies how the resolve of dedicated, home-grown hospital leaders and county commissioners can result in a multimillion dollar investment of taxes to preserve and enhance the future of local healthcare.

Opened in 1969 in Springfield, just 30 miles north of Savannah, Effingham Hospital's resume was similar to most Georgia rural hospitals until 2010. Operating losses from declining patient volume and increasing indigent care challenged cash flow, making it impossible to secure capital for its aging facility or recruit much-needed physicians.

By 2010, patient outmigration had reduced hospital use to unsustainable lows, leading Savannah's largest medical center to take advantage and pursue a certificate of need (CON) to build a new hospital near Effingham. Effingham Hospital's future was in jeopardy. Sensing their predicament, the board, administration and staff brought their concerns to the county.

County subsidized indigent care was set to expire in 2013. It would take a 30-year renewal of the county's annual tax levy for the hospital to be creditworthy enough to finance the \$31 million

Continued on page 62

Continued from page 61

expansion deemed necessary for survival.

Should the county support the hospital and its new facility with a tax extension that would result in enhanced revenue, valuations and goodwill? Or should the county end its tax support, which could force a sale or closure?

"I knew we couldn't let the hospital close and that it required tax support to update the facility and recruit doctors," said former Effingham County Commissioner Jeff Utley, who served from 2002 until 2010. "The commissioners were also dead set against selling or leasing the hospital to outsiders and losing control."

Following a stepped evaluation process, commissioners reviewed independent reports that analyzed hospital finances, operations, market needs and the economic impact to the community. By a vote of 5 to 1, the tax and project were approved by commissioners. In January 2012 the new Effingham Hospital opened with enhanced services and physicians. Financed with a federally-guaranteed FHA 242 mortgage loan, Effingham Hospital is here to stay, and plans for the proposed competing hospital have been scrapped.

"County residents deserve the best in hospital care, within the limits of an affordable budget, and our review was critical in allaying any concerns. Our community can take pride knowing that we have preserved its local healthcare for generations to come," said Utley.

evaluating requests, demand answers and take decisive public action that is in balance with the needs of constituents.

Deciding Your Hospital's Future

Once the financial and budget analyses are complete, questions remain. What is the best investment of county funds? Should the county support a hospital modernization project and if so, should the hospital be renovated or replaced? What will it cost?

Does the future of hospital care in your county require operational or physician enhancements that are best provided by an



In January 2012 the new Effingham Hospital opened with enhanced services and physicians. Financed with a federally-guaranteed FHA 242 mortgage loan, Effingham Hospital will provide residents with the best possible care. Photo courtesy Michael Murphy, modernization project manager at Effingham Health System.

affiliation partner? Should the hospital be sold, leased, managed or even closed? All options must be considered very carefully.

"Hospital fatigue" is a growing problem for administrators, authority members and commissioners. This manifests itself in hospital managers who have struggled to remediate financial and operational deficiencies. Hospital authority members tire of the rigors of addressing managerial issues that drain hours out of their workdays.

This fatigue must not spread to county commissioners, who remain the final trustees of health care for their communities. Heightened vigilance by county commissioners is essential because tired hospital leaders are easy prey for hospital purchasers whose self-interests are not necessarily protective of residents and the local economy. These buyers promise enhanced physician recruitment, expense management and updated facilities in exchange for financial control over a vital county asset; too often these promises are broken, which translates into exacerbated hospital difficulties and a future hospital closure or county bailout.

Major decisions regarding the future of a hospital require thoughtful analysis and should not be made under duress. Scheduled hospital reviews by county commissioners and their advisors can provide ample time for strategic planning, thus avoiding rushed decisions. Commissioners also should keep residents in the loop with public forums and other types of outreach.

Selecting a Hospital Authority Board Member

County commissioners rely heavily on their designated hospital authority board members to oversee the local hospital, and it is critical to choose qualified individuals for these positions.

Key criteria for board members include: local roots, business experience, financial expertise, an interest in hospitals, reliability and the ability to commit time and resources to the role.

Perhaps no trait is more important than endurance. Hospital oversight is a demanding job and those chosen for this role cannot succumb to hospital fatigue. They must be counted on to represent the interests of their community above their own interests and of hospital employees.

Commissioners, who are involved with the hospital authority, adhere to a deliberative and scheduled review process and stay informed about the health care industry and the community's needs, will have the tools to make solid decisions about the future of the county's health and public safety. ■

InnoVative Capital is a hospital and municipal financial advisory firm and U.S. Department of Housing and Urban Development licensed Federal Housing Administration mortgage bank, which has an active Georgia hospital practice with past clients that include, Effingham Hospital, Emanuel Hospital, Meadows Regional Medical Center, and Memorial Health University Medical Center.