

36TH
ANNUAL

AHA RURAL HEALTH CARE

LEADERSHIP CONFERENCE

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SAN ANTONIO, TX

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American Hospital
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Advancing Health in America



AHA Events



Can Independent Community Health Systems be Sustained?

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Learning Objectives of Today's Session

Today's Learning Objectives

- Identify alternative initiatives and strategies for consideration in order to transform the health care business model to ensure financial sustainability that will enable an organization to continue to be a vibrant, thriving, healthcare provider
- Describe the Portfolio Sustainability Assessment process and approach to evaluate lines of businesses, services, and/or entities to be considered for repositioning (e.g., close, consolidate, maintain, grow, expand, acquire, launch or streamline)
- Demonstrate how an objective assessment of strategic growth and operational performance improvement initiatives can provide clarity on “closing the financial gap” to enable leadership and the board to fulfill their fiduciary responsibility to the community
- Understand the process, variables, and data modeling essential to provide information for a board to make informed and defensible decisions about independence and alignment options

Washington Health System: Who Are We?

Washington Health System



**Established
(Washington)**



**City Hospital &
Washington
Hospital
Merger**



**Bonar Ave. Facility
Opened - Greene**



**Community Outreach
& Outpatient Expansion**



**Established
(Greene)**



**Wilson Ave. Facility
Opened - Washington**



**Multiple expansions
over the years**

OUR STRATEGIC JOURNEY

Vision

LOCALLY GOVERNED LEADER
in HEALTH CARE QUALITY,
SAFETY and VALUE.

MISSION: GREAT PATIENT CARE!



GROWTH

INDEPENDENCE

INNOVATION

OUR VALUES

CONTINUOUS IMPROVEMENT

COMPASSION

INTEGRITY

PATIENT AND FAMILY FOCUS

COMMUNITY COMMITMENT

COMMUNICATION

RESPECT

About WHS: What Kind of Organization?



- Non-profit
- Voluntary Board of Directors
 - 12 to 18 members
 - Term Limits: Three, 4-year terms

About WHS: Who We Are



- Largest Employer in Washington County, PA
- **WHS Team Members – 2,300**
 - Washington Hospital – 1,725
 - WHS Greene – 235
 - Washington Physician Group – 265
 - JVs and Partnerships – 10k+
- **Medical Staff – 300+**
 - 120+ employed
- **Volunteers – 300+**

About WHS: Who We Are



- What we think versus reality
- Clinical Sophistication



- Teaching hospital
- Family Culture

Our Health Care World: Major Trends



Our Health Care World: Region

HCWP Survey FY 2022



Admissions



-4.96%

Emergency
Visits



-7.96%



Inpatient
Surgery



-10.13%

Outpatient
Surgery



2.30%



Our Health Care World: Trends

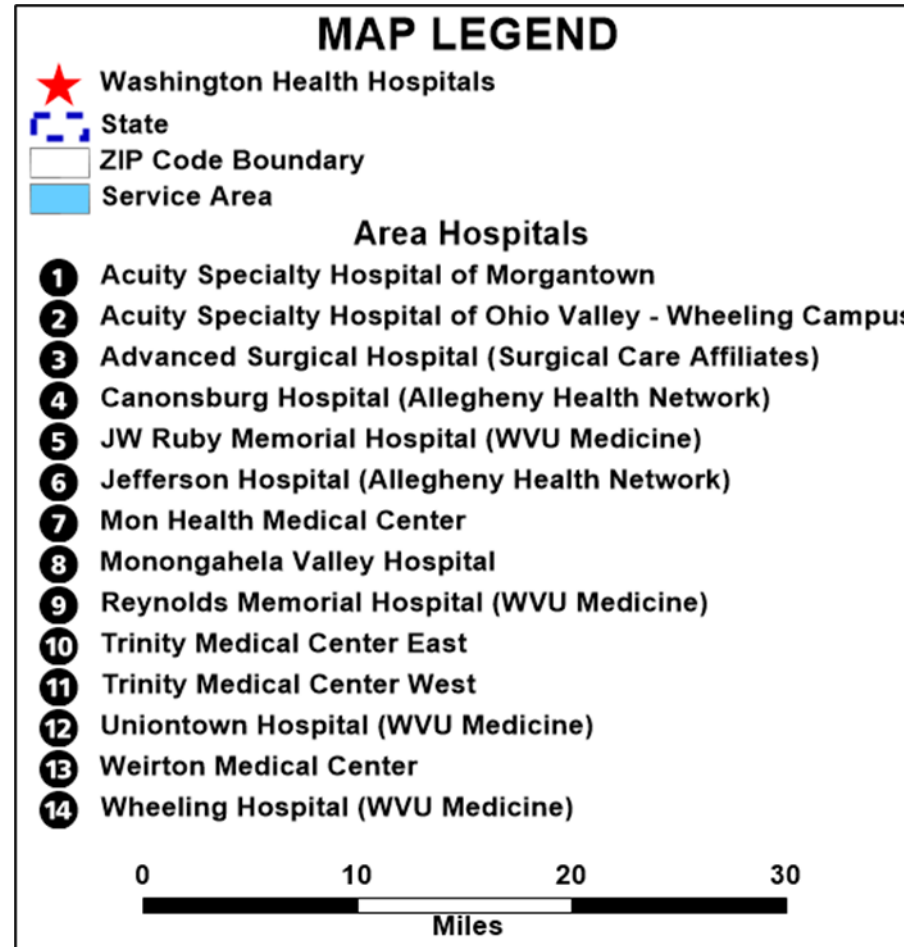
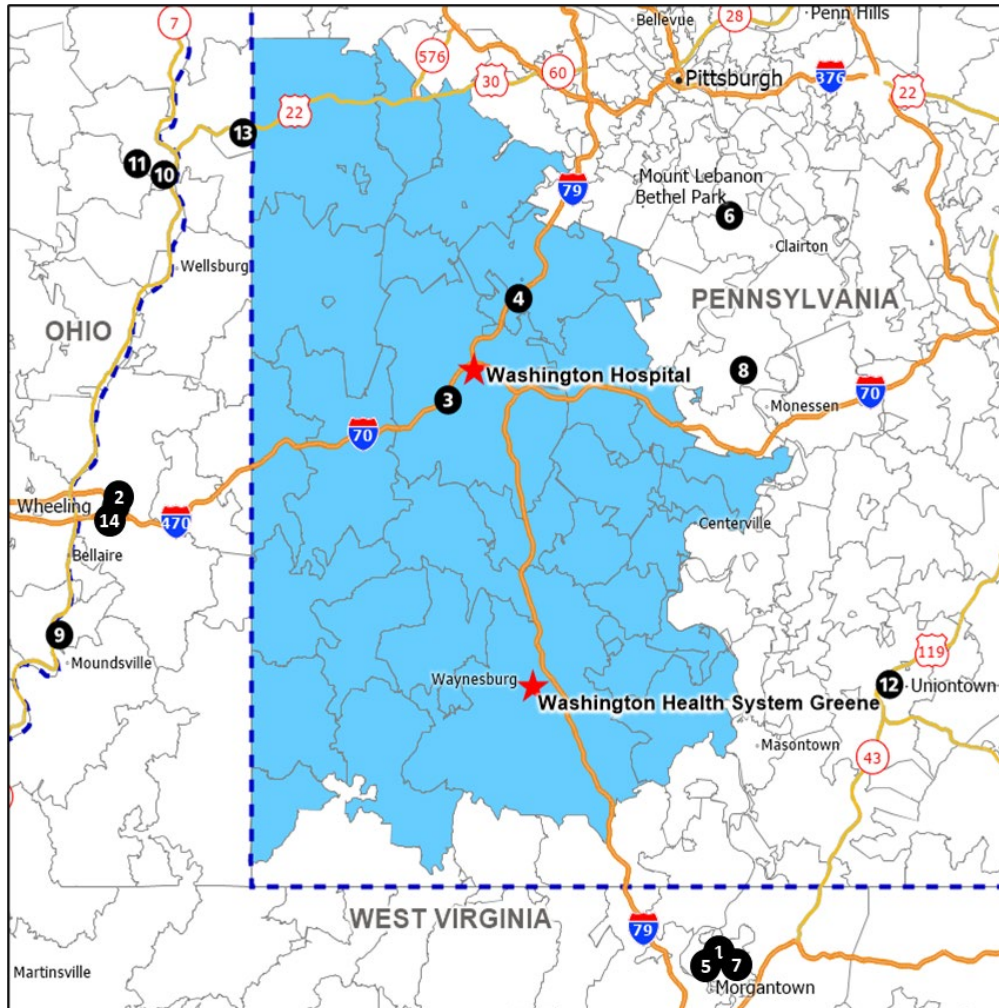
Healthcare Providers Under Financial Pressures

- **AHA Report: Rural Hospital Closures Threaten Patient Access to Care”** (American Hospital Association, September 2022)
- **“892 Hospitals at Risk of Closure, State by State...More than 500 Rural Hospitals in the U.S. are at Immediate Risk of Closing”** (Beckers Hospital Review, March 2022)
- **“Healthcare Providers Face a Growing Risk of Violating Debt Covenants”** (Healthcare Financial Management Association, January 2022)
- **“Post-Acute Care Programs Close Over Staffing Concerns”** (Modern Healthcare, June 2021)



Our Health Care World: Trends

Washington Health System Service Area



Our Health Care World: Regional Players

- UPMC
- Highmark/ Allegheny Health Network
- WVU Medicine
- Penn Highlands
- Heritage Valley Health System
- St. Clair Hospital
- Butler Health System
- Excelsa Health System
- a few other small players

How Did Washington Health System Arrive at Assessing Our Future as an Independent Rural Health System?

Board Actions: How Did WHS Arrive at this Inflection Point?

- Engaged third-party consultant, built upon past consultant's work products and feedback
- Formed a Steering Committee, identified Project Champions, and convened a Physician Advisory Council
- Confirmed guiding principles
- Set an engagement timeline with key milestones and deliverables
- Identified and implemented a “two-pronged” process that included a strategic opportunity workstream and performance improvement workstream

Steering Committee's Guiding Principles

- **To select a future-path forward that continues to enable the organization to operate as a thriving community asset**
 - We **want** to remain an independent, sustainable, thriving, and successful organization
 - We **must** look at all operational and strategic opportunities (if any) → what service lines and partnerships should we grow, reduce, eliminate, acquire, expand, and launch?
 - We **owe** it to our community to make the right and tough decisions now
 - The best path forward might include becoming part of a different healthcare system, but looking to merge WHS into another health system is not the focus of the desired outcome

WHS Market & Financial Assessment

Key Observations at the Onset of the Process...

Can WHS remain independent? There is strong preference to stay independent – looking for an objective assessment to answer this question

Market Dynamics

“**Consolidation** continues to occur around us with key players including UPMC, AHN, WVU, Butler/Excelsior”

“Patients in northern Washington County are oriented toward Pittsburgh”

Physician Group

“Physician group is not profitable – is that being recouped on inpatient side? ... How can we improve **physician productivity** and efficiency?”

“Call schedule is a deterrent with **physician recruitment** ... other hospitals can offer more money, proximity to Pittsburgh”

Access & Throughput

“Patients have **difficulty scheduling appointments** due to poor systems and staffing shortages with call center”

“We’ve been experiencing challenges with **throughput** in the ED and ORs with units closed due to staffing”

Productivity

“We experienced strong buy-in with **LEAN** journey 10 years ago, we should reinvigorate post-COVID”

“**Staffing challenges** and systems disparities are likely driving inefficiencies”

Service Lines

“We can’t be everything to everyone ... how do we re-evaluate service offerings and focus on the **core business**?”

Technology Systems

“Technology systems are **disparate and outdated** ... an overhaul is required to stay competitive”

Revenue Cycle

“System disparities between the hospital and physician group cause challenges and many **manual and duplicate processes** ... no central scheduling”

Facilities

“Facilities are **aging** ... we need to re-evaluate facilities to meet patients where they are [outpatient]”

Assets & Investments

“**Strategic capital investments** often lose out to critical, regulatory expenses (e.g., sprinkler system)”

Corp & Shared Services

“Should we **outsource back-office functions** to focus on clinical needs?”

WHS Market Population Trends

Over the last decade, population and birth volumes for residents of Washington, Greene and Allegheny counties have been flat or declining. These dynamics have contributed to growth challenges at WHS.

Population	Washington County	Greene County	Allegheny County
2010	207,820	38,686	1,223,348
2015	207,212	37,938	1,231,145
2020	209,349	26,233	1,250,578
Change 2010-2020	1,529	(12,453)	27,230
% Change 2010-2020	0.7%	(32.2%)	2.2%

Births	Washington County	Greene County	Allegheny County
2010	1,940	364	12,892
2015	1,971	401	13,311
2019	1,972	324	12,905
Change 2010-2019	32	(40)	13
% Change 2010-2019	1.6%	(11.0%)	0.1%

WHS Market Share by Discharges

WHS has 45% of discharge market share in its PSA and 30% in its total service area.

WHS' largest competitors in its PSA are St. Clair, UPMC Shadyside, Canonsburg and Allegheny General Hospital.

Facility	PSA	% of Total	SSA	% of Total	Total Service Area	% of Total
The Washington Hospital	5,055	43%	996	11%	6,051	29%
St. Clair Hospital	1,486	13%	1,145	12%	2,631	12%
Uniontown Hospital	107	1%	2,159	23%	2,266	11%
UPMC Presbyterian Shadyside	961	8%	701	8%	1,662	8%
Monongahela Valley Hospital, Inc.	135	1%	1,420	15%	1,555	7%
Allegheny General Hospital	810	7%	306	3%	1,116	5%
Jefferson Hospital	219	2%	693	8%	912	4%
Canonsburg Hospital	751	6%	100	1%	851	4%
UPMC Magee-Womens Hospital	416	4%	336	4%	752	4%
UPMC Children's Hospital of Pittsburgh	335	3%	207	2%	542	3%
UPMC Mercy	263	2%	252	3%	515	2%
West Penn Hospital	278	2%	150	2%	428	2%
Washington Health System Greene	256	2%	53	1%	309	1%
Advanced Surgical Hospital, LLC	199	2%	82	1%	281	1%
Highlands Hospital	10	0%	169	2%	179	1%
All Others	587	5%	465	5%	1,052	5%
Total	11,868	100%	9,234	100%	21,102	100%

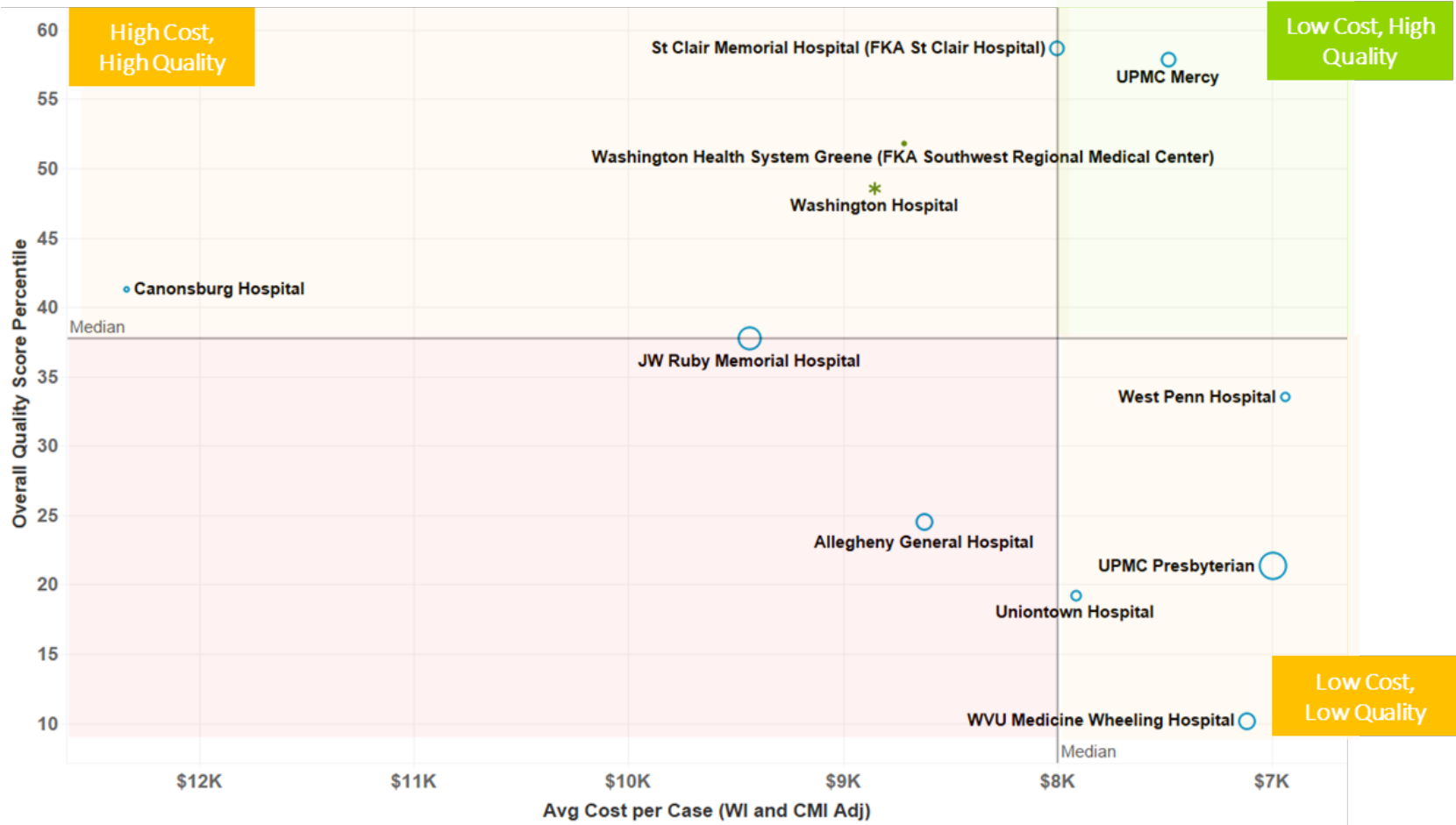
Inpatient Volumes in Local Facilities

Allegheny County hospital facilities have enjoyed more stable admission and births volumes than their Washington County peers. This may be driven by better demographics, favorable commuting patterns, and health plan steerage.

County	Facility	Admissions				Births			
		2015	2019	Change	Change %	2015	2019	Change	Change %
Washington	The Washington Hospital	11,573	9,711	(1,862)	(16%)	955	771	(184)	(19%)
Washington	Canonsburg Hospital (AHN)	2,736	1,604	(1,132)	(41%)				
Washington	Monogahela Valley	7,973	5,760	(2,213)	(28%)				
Allegheny	St. Clair	16,359	16,142	(217)	(1%)	1,346	1,456	110	8%
Allegheny	UPMC Shadyside	59,860	54,597	(5,263)	(9%)				
Allegheny	UPMC Magee Womanns	19,255	18,967	(288)	(1%)	10,353	9,415	(938)	(9%)
Allegheny	Jefferson Hospital (AHN)	14,791	13,276	(1,515)	(10%)	391	1,310	919	235%
Allegheny	West Penn Hospital (AHN)	10,495	13,620	3,125	30%	3,523	4,384	861	24%
Allegheny	Heritage Valley (Sewickley)	8,279	6,745	(1,534)	(19%)	752	649	(103)	(14%)
Allegheny	UPMC Mercy	20,158	16,223	(3,935)	(20%)	1,237	193	(1,044)	(84%)
Allegheny	Forbes Regional	13,014	13,405	391	3%	815	1,338	523	64%
Greene	Washington Hospital Greene	1,873	1,570	(303)	(16%)				
Washington	All	22,282	17,075	(5,207)	(23%)	955	771	(184)	(19%)
Allegheny	All	219,018	206,701	(12,317)	(6%)	18,417	18,745	328	2%
PA State Total	All	1,485,746	1,413,016	(192,456)	(13%)	124,926	118,005	(6,921)	(6%)

Value Proposition: Cost and Quality Performance

WHS facilities have better than average quality and slightly higher than average cost compared to their local market competitors, based on an assessment of Medicare FFS performance.



Inpatient Growth Opportunities By Service Line

The growth opportunity for WHS is limited because of the high share it already has in its PSA in many service lines, and the challenge of growing share in the northern part of the PSA.

	General Medicine	Behavioral Health	GI	Orthopedics	Obstetrics	Neurology	General Surgery	Neonatology	Oncology	Vascular	Urology
Market Discharges	1,969	689	629	596	587	410	405	208	202	103	99
WHS Discharges	1,415	416	421	220	302	206	248	93	98	50	59
WHS Share	72%	60%	67%	37%	51%	50%	61%	45%	49%	49%	60%
Growth Opportunity: Market Share %	0%	0%	3%	10%	10%	10%	10%	10%	10%	10%	10%
Growth Opportunity: Discharges	0	0	19	60	59	41	41	21	20	10	10

Growth Opportunity in Discharges	Annualized Discharges and % of WHS Total
Opportunity in top service lines by discharge volume (excludes zip codes 15317 and 15057)	370
Opportunity excluding ortho and obstetrics	215

Inpatient Growth Opportunities By Zip Code

The growth opportunity for WHS is limited because of the high share it already has in its PSA in many service lines, and the challenge of growing share in the northern part of the PSA.

	15301	15370	15317	15021	15057	15312	15314	15320	15322	15323	15330	15342	TOTAL
Low-Medium Acuity Market Discharges	4,040	742	2,615	337	858	231	286	308	155	229	297	311	10,409
WHS Discharges	2,734	578	553	109	85	128	97	170	92	139	79	102	4,866
WHS Share	68%	78%	21%	32%	10%	55%	34%	55%	59%	61%	27%	33%	47%
Growth Opportunity: Market Share %	0%	0%	10%	10%	10%	10%	5%	10%	5%	1%	10%	10%	
Growth Opportunity: Discharges	0	0	262	34	86	23	14	31	8	2	30	31	520

Growth Opportunity in Discharges	Annualized Discharges and % of WHS Total
All zip codes	520
Excluding 15317 and 15057	230

Financial Situation: S&P Median Benchmarks

WHS financial performance has been declining in recent years; performance is generally near BBB medians.

Metric	FY 2019	FY 2020	FY 2021	FY 2022 (Projected)	FY 2023 (Budget)	S&P 2020 AA Median	S&P 2020 BBB Median	Comparison to BBB Median
NPSR (\$M)	\$291	\$285	\$291	\$277	\$287	\$985	\$371	●
EBIDA Margin (%)	6.5%	7.0%	5.7%	3.2%	(0.5%)	12.6%	8.4%	●
Operating Margin (%)	0.7%	1.3%	0.3%	(2.3%)	(5.8%)	3.5%	0.7%	●
Excess Margin (%)	3.7%	3.2%	10.8%	(5.2%)	4.0%	6.7%	2.5%	●
Unrestricted Days Cash	178	194	223			354	171	●
Avg. Age of Plant	12.7	13.2	13.3			11.1	13.7	●
CapEx / Dep & Amortization	103%	92%	81%			126%	86.4%	●

● 2020 Ratio Outperforms BBB Median
 ● 2020 Ratio Near BBB Median
 ● 2020 Ratio Underperforms BBB Median

Source: 2019-2021 ratios calculated based on WHS audited financial statements. 2022-2023 ratios calculated based on projections from WHS 2023 Board Operating and Capital Budget. Benchmarks for SP& 2020 rating medians for published Aug 2021 [S&P Solo NFP Hospital 2020 Medians](#)

Financial Situation: Competitor Benchmarks

WHS financial performance lower than local competitor health systems. WHS's capital spending and facility age lag local competitors.

Metric	Competitor A	Competitor B	Competitor C	Competitor D	WHS	Comparison To Competitors
NPSR (\$M)	\$22,000	\$10,055	\$3,561	\$382	\$290	●
EBIDA Margin (%)		6.3%	11.5%	10.8%	5.7%	●
Operating Margin (%)	1.4%	3.6%	5.3%	5.0%	0.3%	●
Excess Margin (%)	2.0%	6.3%	13.7%	18.9%	10.8%	●
Unrestricted Days Cash		119	189	392	200	●
Avg. Age of Plant		9.7	7.7		13.3	●
CapEx as % Dep & Amort		110%	147%	390%	81%	●

● Similar to Competitors ● Underperforms Competitors

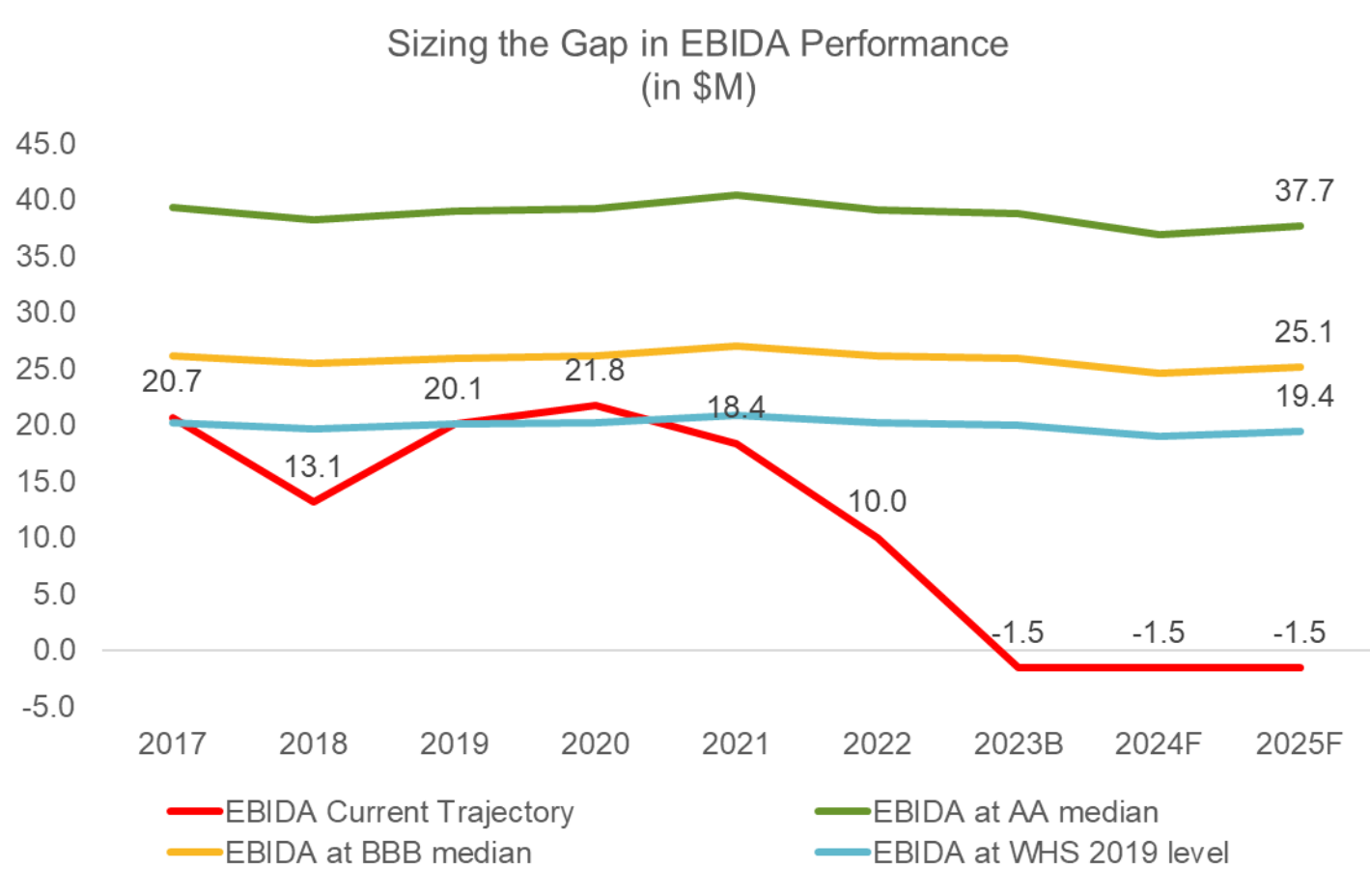
Financial Gap: 2023-2025 Operating Performance

To be sustainable in the long run, WHS income from operations must be sufficient to cover capital spending and interest, and to create a cushion against market and competitive risks.

Approach

- Size the 3-year performance gap to return WHS to more sustainable earnings as measured by earnings before interest, depreciation, and amortization
- Earnings can fund capital spending, interest payments, and can replenish cash reserves

EBIDA Benchmark	Target EBIDA %	Cumulative 3-YR Gap
WHS 2019	6.5%	\$63M
S&P 2020 BBB median	8.4%	\$80M
S&P 2020 AA median	12.6%	\$118M



Source: Standard & Poor 2020 Medians for stand-alone health systems, WHS audited financial statements and board documents

WHS Financial Improvement Assessment

WHS Calculated Strategy & Performance Initiatives

WHS has identified multiple areas for growth and performance improvement. There is risk in achieving all the savings, and savings will require investment and benefits accrue over time.

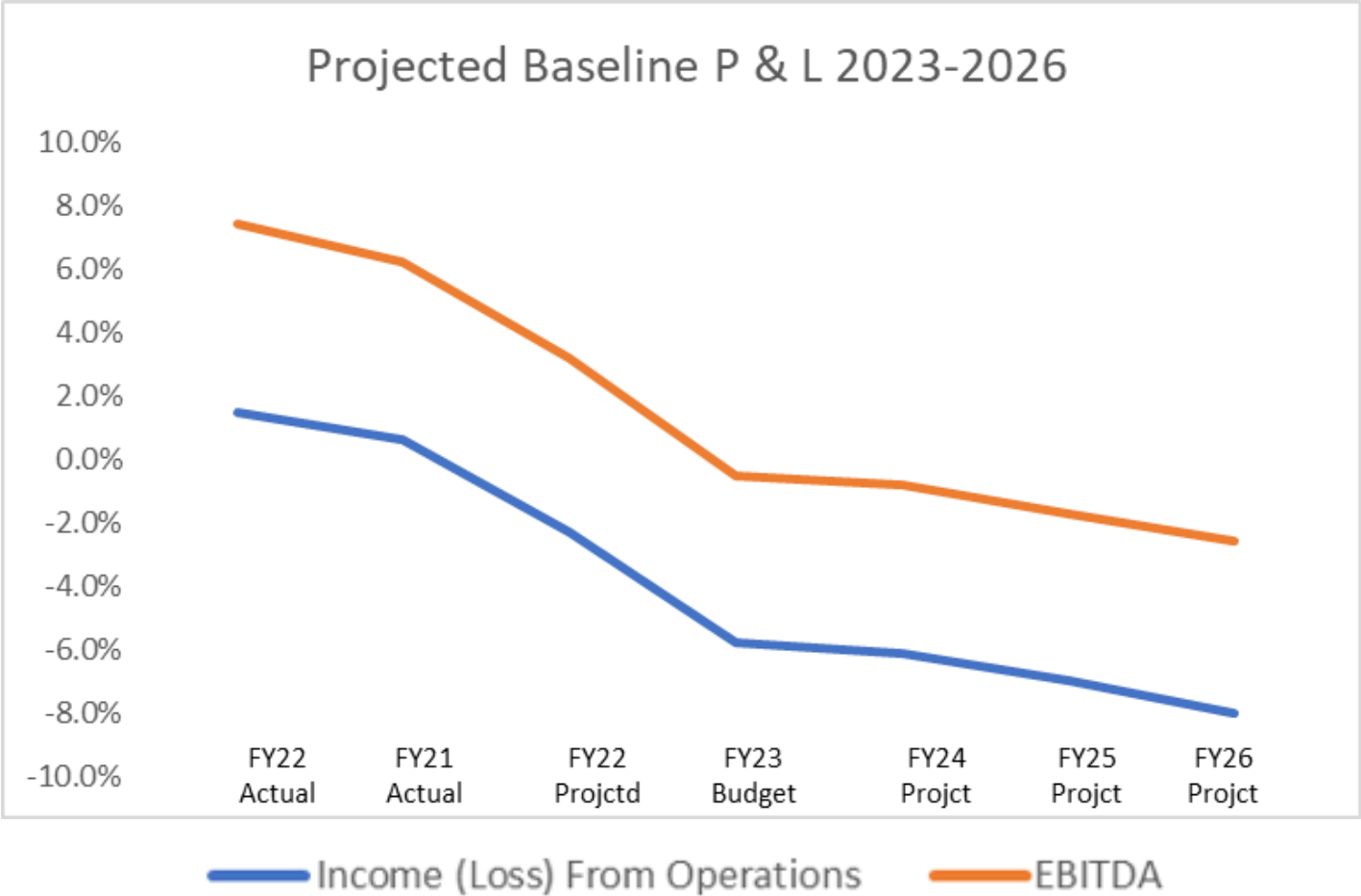
Initiative Description	Opportunity			Calendar Year Realization				Fiscal Year Income Impact				Total
	Annual Opportunity	Execution Risk	Risk-Adjusted Opportunity	2023	2024	2025	2026	2023	2024	2025	2026	2023-2026
Incremental Income (Gross)												
Income from Growth in IP and OP Services	2,000,000	65%	700,000	0%	25%	50%	100%	-	87,500	262,500	700,000	1,050,000
Income from Expense Reduction												
Graduate Medical Program Right Size	400,000	50%	200,000	33%	67%	100%	100%	33,333	100,000	166,667	200,000	500,000
OB/GYN program closure	1,000,000	65%	350,000	33%	67%	100%	100%	58,333	175,000	291,667	350,000	875,000
Physician Enterprise	1,250,000	50%	625,000	20%	40%	100%	100%	62,500	187,500	437,500	625,000	1,312,500
Workforce Productivity	5,500,000	30%	3,850,000	20%	30%	50%	100%	385,000	962,500	1,540,000	3,850,000	6,737,500
Revenue Cycle Improvements	2,250,000	50%	1,125,000	10%	30%	100%	100%	56,250	225,000	731,250	1,125,000	2,137,500
Corporate Services - Cost Reduction	4,000,000	50%	2,000,000	0%	30%	60%	100%	-	300,000	900,000	2,000,000	3,200,000
Clinical Operations	2,000,000	35%	1,300,000	25%	40%	75%	100%	162,500	422,500	747,500	1,300,000	2,632,500
Supply Chain (Purchased Services)	1,700,000	25%	1,275,000	10%	30%	60%	100%	63,750	255,000	573,750	1,275,000	2,167,500
Pharmacy (supply/drug utilization)	350,000	25%	262,500	10%	30%	100%	100%	13,125	52,500	170,625	262,500	498,750
Total Income from Initiatives	20,450,000		11,687,500	7%	24%	50%	100%	834,792	2,767,500	5,821,458	11,687,500	21,111,250

Projected Baseline P & L 2023-2026

It is anticipated that WHS will face increasing, unsustainable operating losses over the next four years given market and competitive realities and the current operating trajectory.

Forecast Assumptions

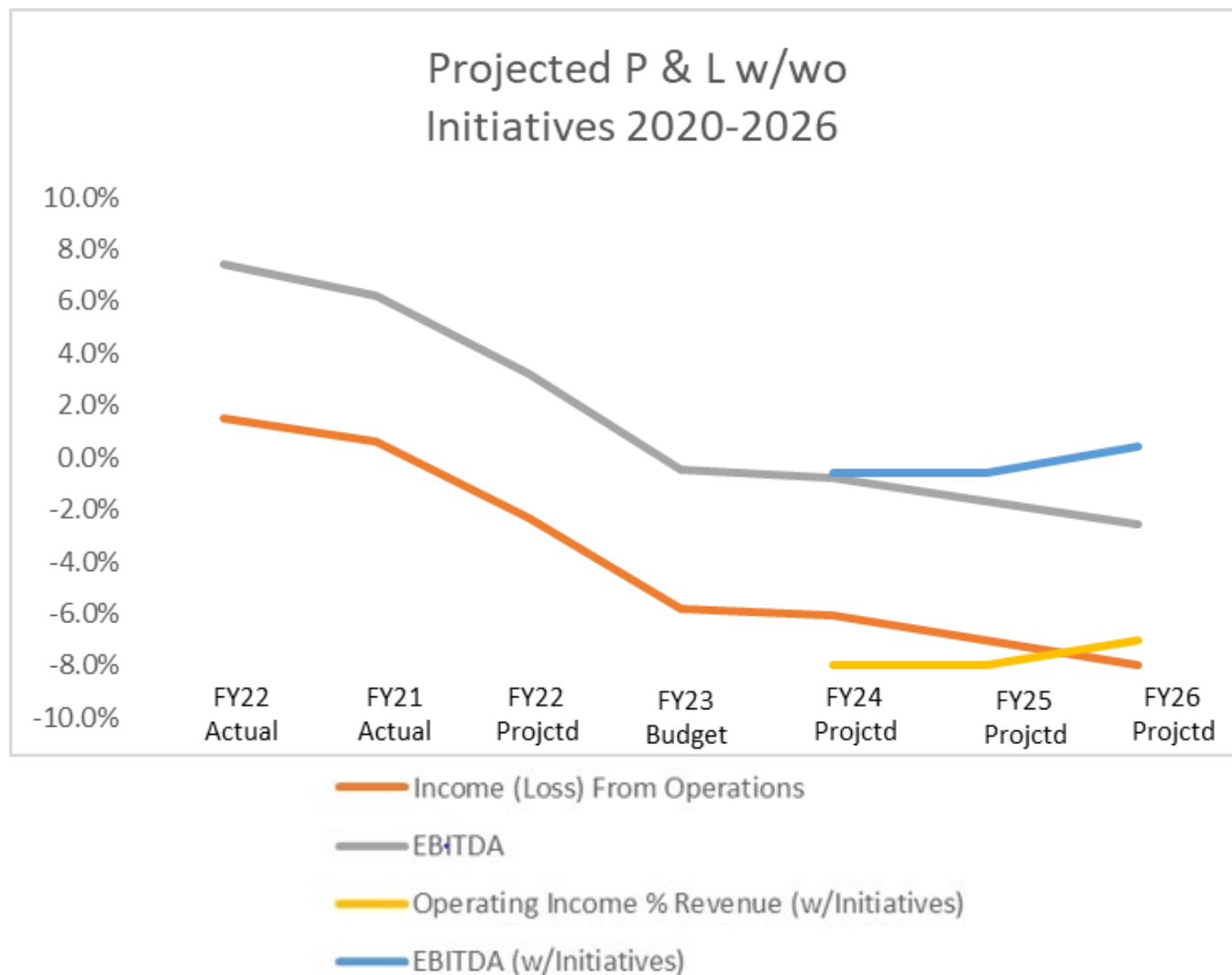
Assumption	2024	2025	2026
Rate Change (Net Patient Revenue)	3.0%	3.0%	3.0%
Volume Change (Net Patient Revenue)	-1.5%	-1.5%	-1.5%
Salary and Wage Increases	2.5%	2.5%	2.5%
Other cost increase	2.0%	2.0%	2.0%
Rural Health Model	\$12.3M	\$12.3M	\$12.3M
MA Modernization	\$14M	\$14M	\$14M



Projected P & L With Initiatives 2023-2026

With significant investment and initiatives, WHS can realize significant improvements; however, performance is still a challenge and execution risks are high.

- Scenario models income improvements to the baseline scenario (changes shown under the green line)
- Debt service coverage ratio goes below bond covenants in this scenario
- There is a decline in non-operating income to fund operating losses and capital investments



Baseline and Performance Improvement Scenarios

Closing the Gap

Making strategic investments and pursuing performance initiatives will improve WHS' financial trajectory. However, investments will take time to materialize, and will create lower cash in the short-run.

Area	4-Year Impact	Discussions
Income from Initiatives	\$21M	<ul style="list-style-type: none"> Strategic initiatives have an annual risk-adjusted value of \$11M, but only \$21M in benefit over the next four years because of time to deploy and realize financial benefit
Incremental OpEx	\$8.0M	<ul style="list-style-type: none"> Additional operating expense to install new IT systems
Net EBIDA Impact	\$12.6M	<ul style="list-style-type: none"> Near-term impact is lower because of risk and time for savings to materialize
Additional CapEx	\$40M	<ul style="list-style-type: none"> Investments will create benefits outside of the 4-year assessment period



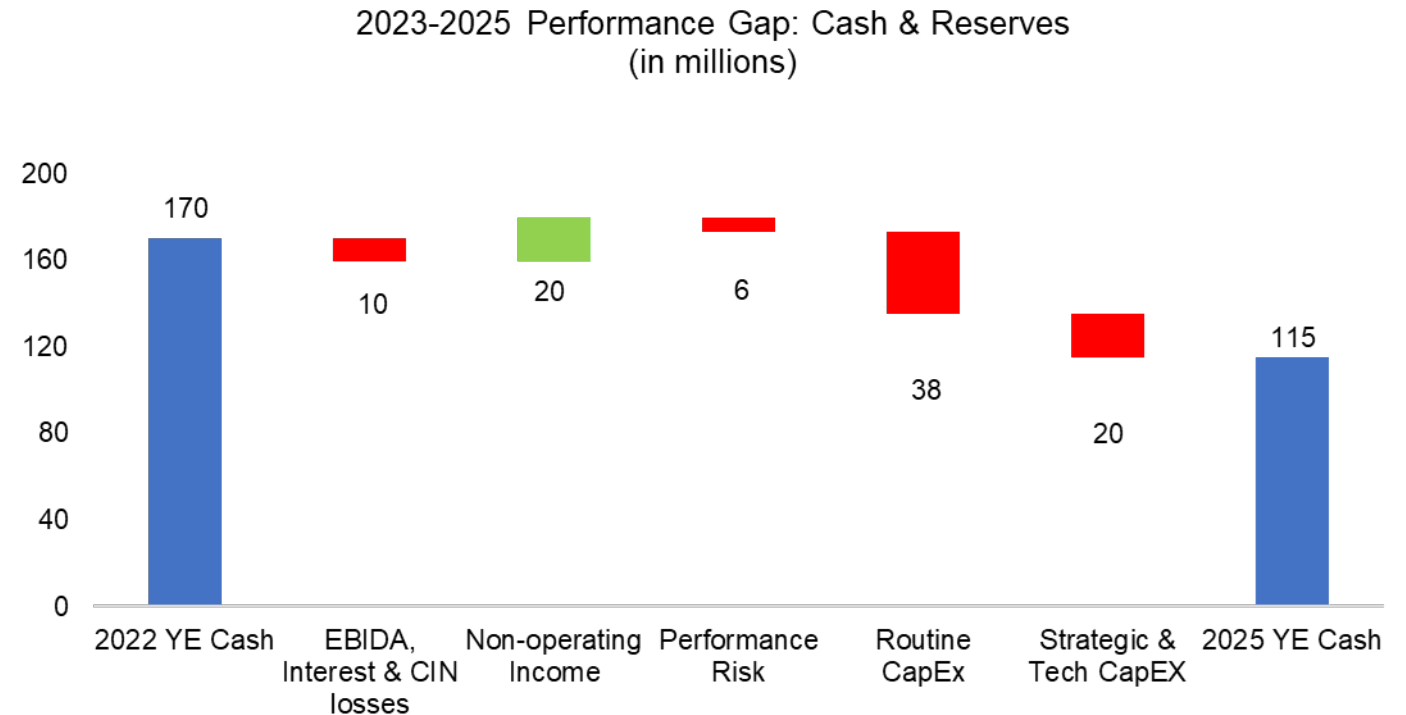
Financial Gap: 2023-2025 Cash Flow Performance

WHS cash position could deteriorate quickly in the next three years as the organization grapples with challenged operating performance, a difficult market and economy, and the need for meaningful capital investments.

Approach

- **2022 YE Cash:** Based on 2023 Proposed Operating and Capital Budget
- **EBIDA, Interest, & CIN Losses:** Based on 2023 budget with 2024-2025 performance near 2023
- **Non-Operating Income:** Based on 2023 budget with 2024-2025 performance near 2023
- **Performance Risk:** Potential for worse than anticipated operating or non-operating losses
- **Routine CapEx:** 2023 budget with 2024-2025 capital spending equal to annual depreciation and amortization expense
- **Strategic CapEx:** *Illustrative* estimate for technology and strategic growth investments to reposition WHS for longer-term success

Cash Flow Gap: ~\$55 M



Key Conclusions

Perspectives on Opportunities and Risks

Our Assessment

- Although initiatives that were identified throughout this process can improve financial performance and strategic position, they may not improve fundamental challenges of WHS' market, competitive environment, and the difficulties of being sub-scale
- While WHS' financial and strategic position may improve somewhat in the near-term with effective implementation of the initiatives we have identified, these initiatives may not be sufficient to position WHS for long-term sustainability and viability

External Environment

- WHS operates in a market with challenging demographics that include a contracting population, lower service volumes, and lower rate increases
- WHS faces high-performing, well-funded competitors that are moving quickly to meet their own growth aspirations. As WHS works to achieve better outcomes, the market will not be stagnant and WHS is at risk for increased competitive encroachment in key geographic markets and service lines
- Local market dynamics are exacerbated by difficult national trends, including a volatile economy, changing care patterns, pressure on costs from payers, and evolving consumer preferences

Internal Environment

- WHS is facing significant operating losses that we project will increase over the next four years. WHS' current trajectory is not sustainable
- Guidehouse has identified a set of growth and expense reduction initiatives that can improve financial performance. Achieving these improvements will require significant capital investment and swift, flawless execution
- The benefits of growth and expense reduction initiatives will take time to be realized even with rapid execution and will likely be tempered by high degree of execution risk

Strategic Focus		
Financial Position	●	●
Market Attractiveness & Demand	●	●
Market Position & Access	●	●
Competitive Position/ Vulnerability	●	●
Clinical Services Portfolio	●	●

Strategic Focus		
Physical Plant & Technology Capabilities	●	●
Physician "Platform"	●	●
Workforce & Employer of Choice	●	●
Value Proposition (Cost & Quality)	●	●
Leadership & Execution	●	●

Current State	●
After Initiative Execution	●

Strategic Options: *The WHS Inflection Point*

- After thoroughly considering the strategic, operational, and financial analyses, the Ad Hoc Committee identified three strategic options
- Options A and B may not provide a path to long-term viability and sustainability
- Option C was acknowledged to be a potential option to ensure the long-term viability of WHS
 - a) Remain independent without significant capital reinvestment in IT and facilities
 - b) Remain independent with significant capital investment in IT and facilities
 - c) Seek an affiliation/partner relationship for the future with purpose/urgency

Recommendations

Washington Health System was tasked with answering the question: “What can WHS do to remain independent?” Over the past few months, the WHS executive team....

- Reviewed strategic, operational, and financial analyses of current state and potential improvement scenarios
- Found that the current financial trajectory may be difficult to support a sustainable, independent, and thriving organization
- Determined there is limited growth opportunity due to significant and intensifying external market factors
- Concluded that improvement initiatives will be insufficient to position WHS for long-term sustainability and viability

What's Next?

Questions & Answers