Freestanding Emergency Department

Preliminary financial models

Prepared for the Rural Hospital Stabilization Committee

by

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Modeling process

- Analyzed financial and statistical data
  - 53 hospitals in counties with population <35,000
- Formulated assumptions through data analyses and input from hospital and industry leaders
- Developed a preliminary financial model for a freestanding emergency department based on specific assumptions

Modeling process

- The preliminary model is not representative of a particular FED in any specific location.
- The model is built using aggregated data and the results are entirely dependent upon the assumptions used in the model.
  - *There will usually be differences between the preliminary and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.*

Data used in developing assumptions

- Number of visits- GHA Hermes database
  - Emergency visits that did not result in admission
- Payer mix – GHA Hermes database
  - Average of selected hospitals
- Staffing
  - Provided by input from hospital management
- Expenses
  - Analyses of Medicare cost reports and financial data

Number of visits in models

- Cross-section 10 hospitals **(14.1 avg. daily visits)**
  - 8 CAH, 2 PPS
  - 4 affiliated with larger hospital system
  - 5 in counties <15,000 population
  - 5 in counties with population 15,001 – 35,000
- Average of 53 hospitals in counties with population <35,000 **(22.5 avg. daily visits)**
  - <15,000 population – 15 hospitals - 11.2 visits
  - 15,001 – 35,000 population – 38 hospitals - 27.2 visits

Physician staffing in model

- Model considerations
  - ED staffed with physicians 24/7 ($115/hour)*
  - ED staffed with mix of mid-level providers and physicians ($80/hour)**

*Based on hospital input

**Based on analyses of Medicare cost reports

Model expenses

- Staffing
- Ancillary costs
- Plant costs
- Administrative costs
- No costs in model related to capital costs of property and equipment

Scenario 1 – 10 hospitals

Visits per day (1)	**14.1**
Physician costs per hour	$115
Net profit/(loss)	$ (1,200,000)

(1) Based on cross-section of hospitals

*Assuming insignificant variable costs

No costs included for capital costs of building and equipment

Scenario 3 - Average volume ED

Visits per day (1)	**22.5**
Physician/mid-level costs per hour	$ 115
Net profit/(loss)	$ (700,000)

(1) Average for 53 hospitals in counties <35000 population

*Assuming insignificant variable costs

No costs included for capital costs of building and equipment

Scenario 4 – Average volume ED

Visits per day (1)	**22.5**
Physician/mid-level costs per hour	$ 80
Net profit/(loss)	$ (400,000)

(1) Average for 53 hospitals in counties <35000 population

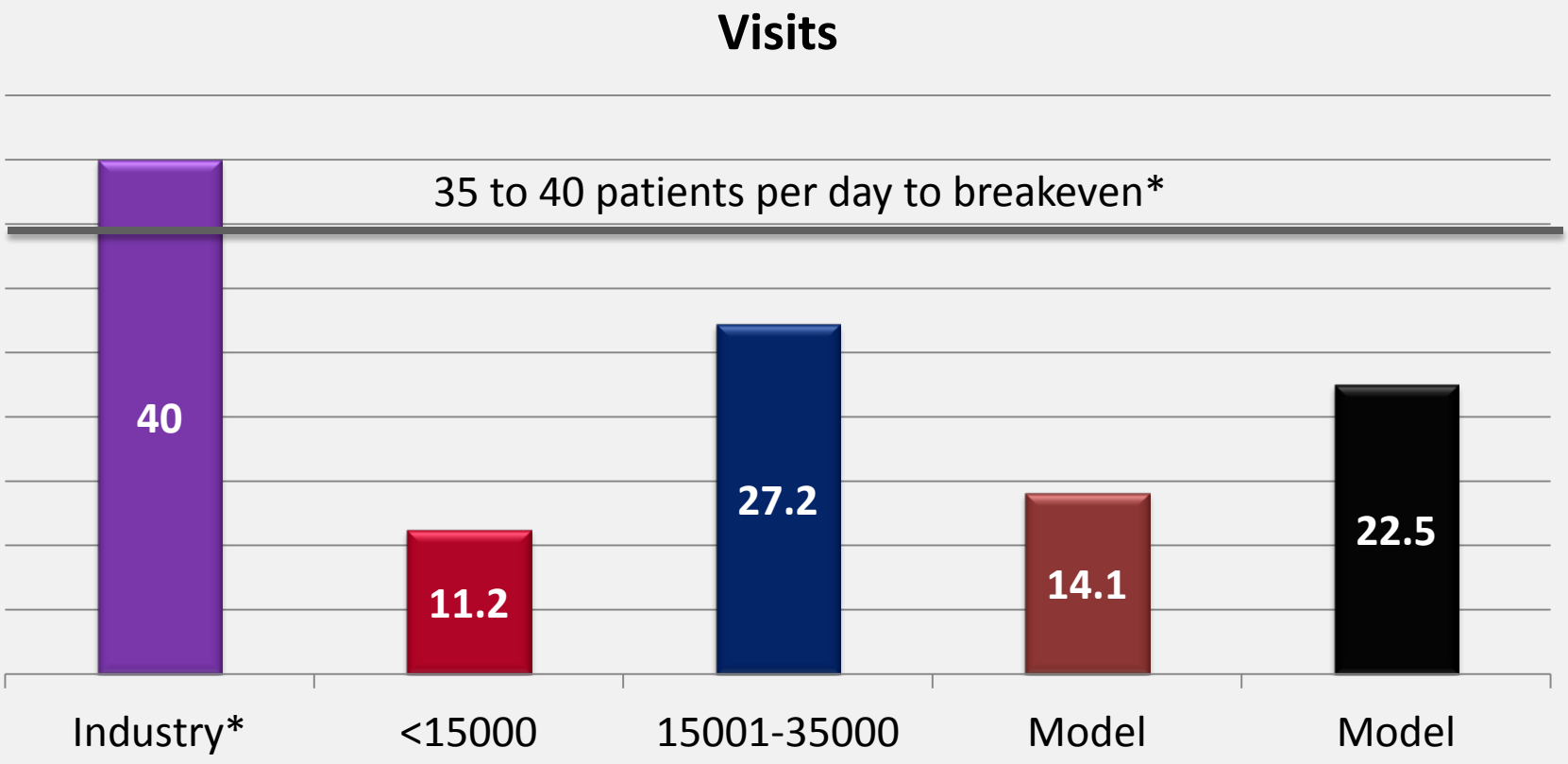
*Assuming insignificant variable costs

No costs included for capital costs of building and equipment

Contributing factors

Why is the FED not profitable?

Low volume

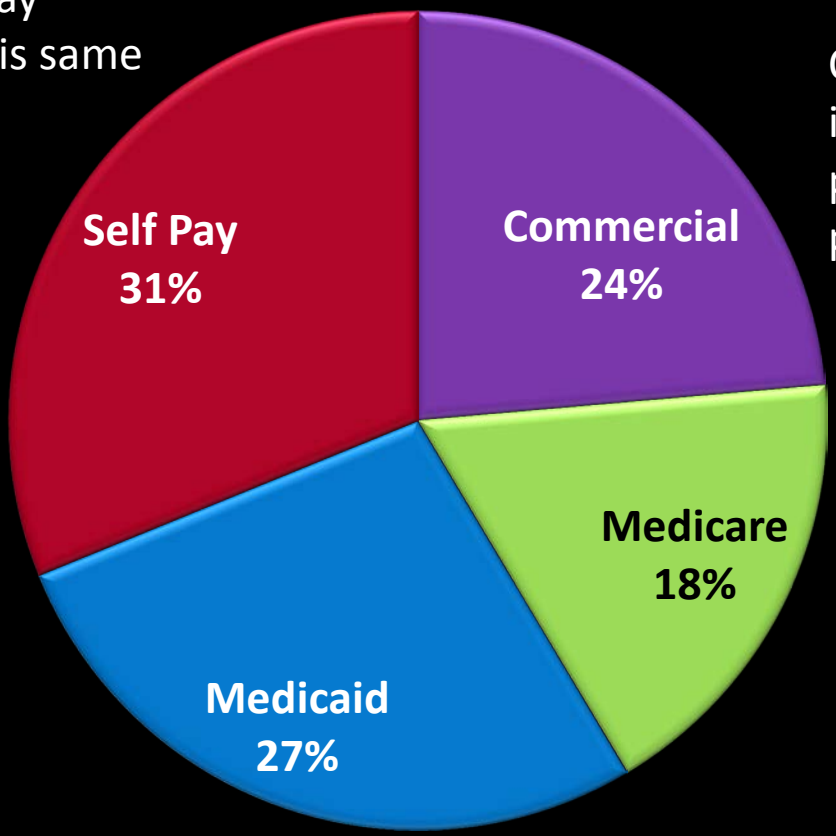


*Source: Urgent Care Association of America

Unfavorable payer mix

(based on primary payer)

In models, self pay Reimbursement is same as Medicaid.



Commercial includes patient portion

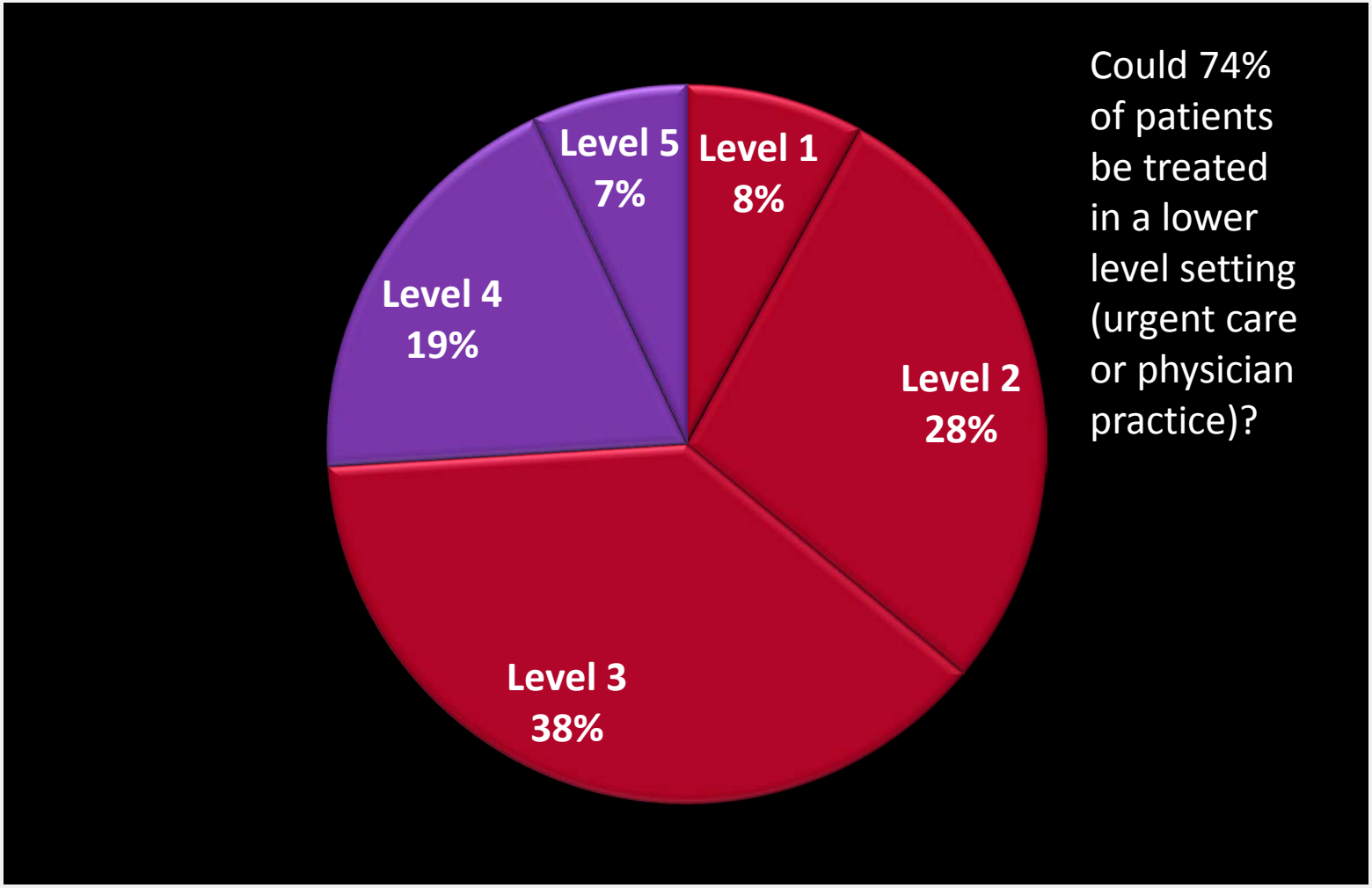
Source: GHA Hermes database 2011-2013 Cross-section of 10 facilities

Poor reimbursement

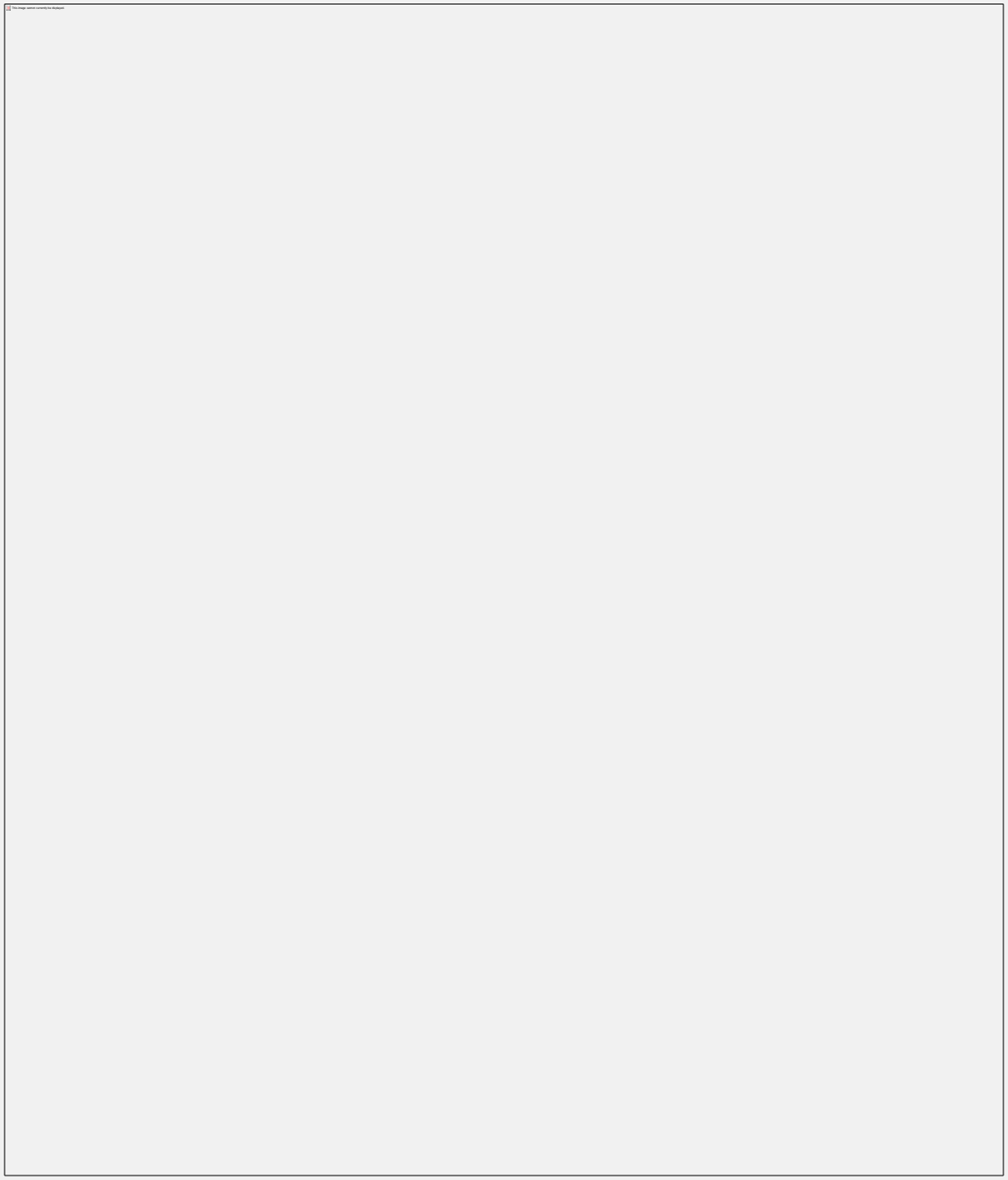
- Medicare – will pay same as physician office
- Medicaid – will pay same as physician office
- Commercial - ? Will not spend more than current total spend
- Self-pay – in model at Medicaid payment rate

- *Physician office reimbursement is not designed to cover a 24/7 operation with few patients and high overhead.*
- *Most physician offices do not have advanced radiology or full lab services as required in an ED.*
- *Profitable physician offices typically see more than 20 patients per day.*

Low ED patient acuity



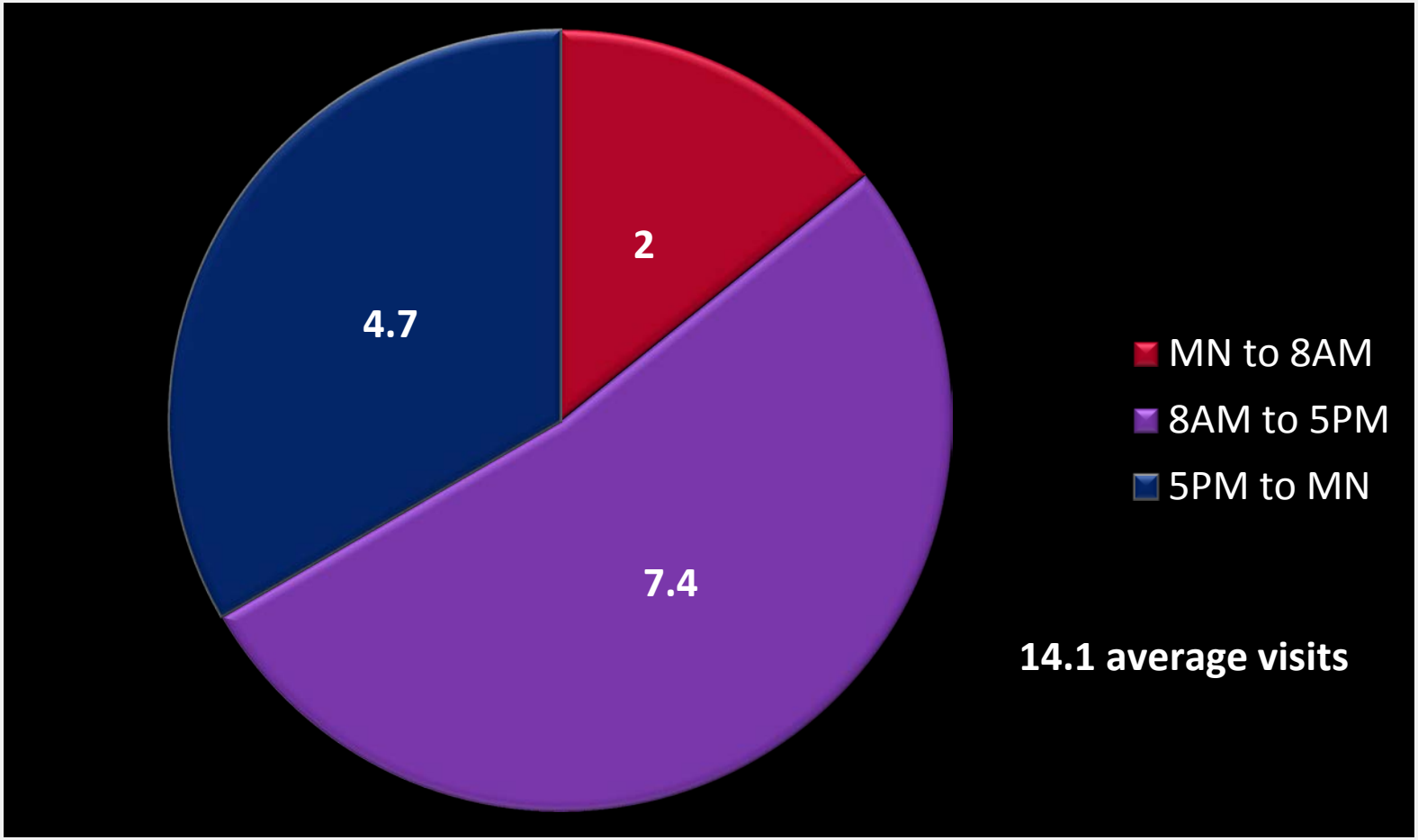
Source: GHA Hermes database 2011-2013 Cross-section of 10 facilities



Clinical classifications to 25 highest volume ED visits.

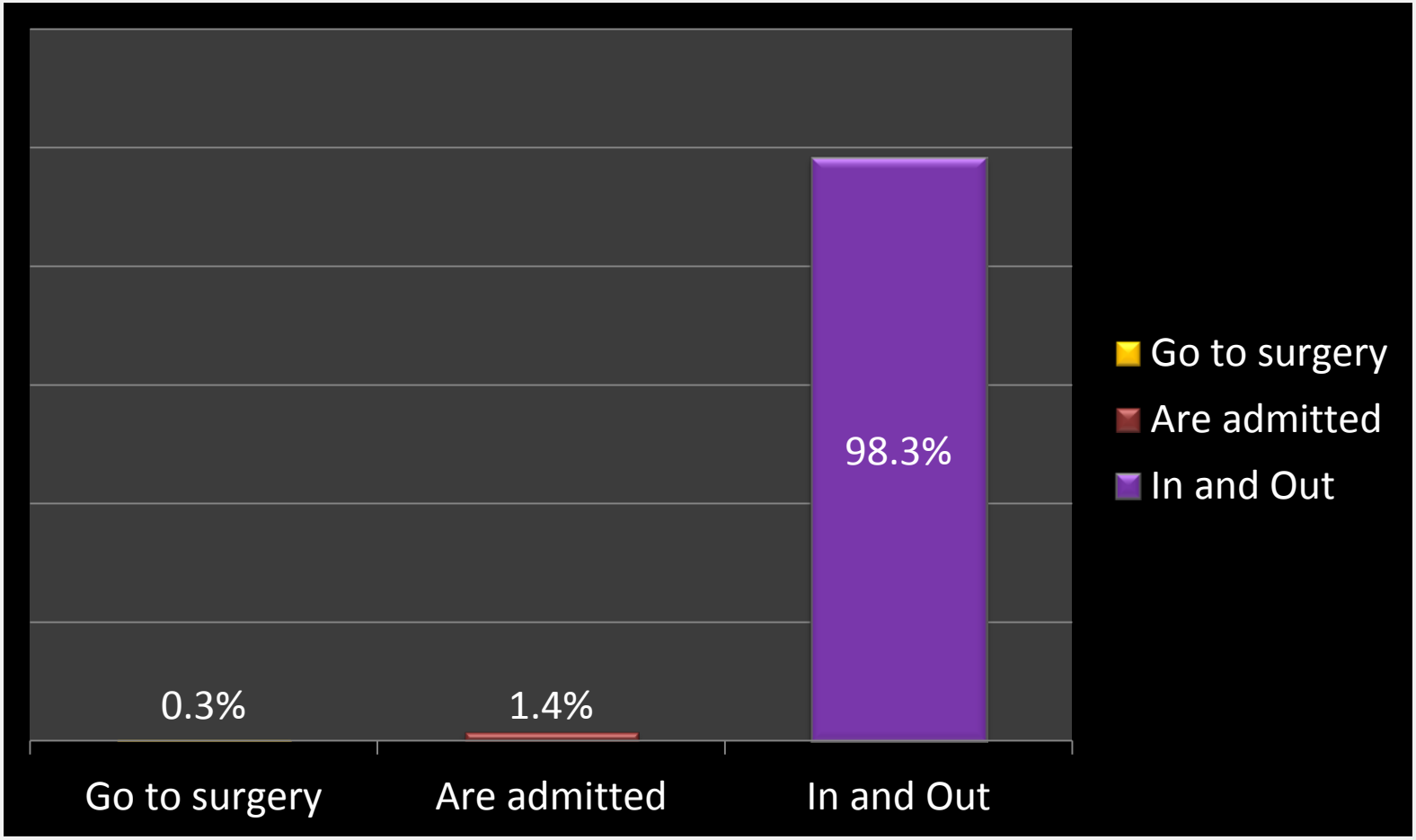
Source: GHA Hermes database 2011-2013 Cross-section of 10 facilities

Timing of visits



Source: GHA Hermes database 2011-2013 Cross-section of 10 facilities

Few admissions



Source: GHA Hermes database 2011-2013 Cross-section of ten facilities

Quality

- Industry literature and research focuses on the need for high quality in the FED in order to attract patients.

Bottom line

". . .while free-standing EDs could help rural residents in states such as Georgia, they don't address the underlying socio-economic issues. The demographics will still be the same, with many people lacking health insurance or having bare-bones coverage and thus unable to pay the high bills associated with free-standing EDs."

Modern Healthcare, September 27, 2014