1/24/13
CMC Board Retreat

CMC Board Retreat

February 2013

Analysis

Options

- status quo
- Montana alliance
- Bidder 4 / [redacted]
- Bidder 4 / [redacted]

Items reviewed

- Quality
- Scope
- Cost
- Governance
- Medical Staff

Conclusions

- Status Quo is not viable in the long run
- Montana Alliance is risky. Do members have the courage to translate encouraging words into real action?
- [redacted] offers the best balance but is dependent on Bidder 4 participation.
- [redacted] offers the most (medically), but at what cost?

COMMUNITY M[illegible]ICAL CENTER

KEY ASSUMPTIONS UT[illegible]ZED/ IDENTIFIED RISKS

PRIOR YEAR ASSUMPTIONS IN BLUE

FYE 2012-2017

ASSUMPTIONS:

INPATIENT ADMISSIONS INCREASE 1.0% (1.0%) EACH YEAR

LENGTH OF STAY REMAINS THE SAME AT 4.6 DAYS (4.3) PER ADMISSION

ANNUAL GROWTH OF OUTPATIENT SERVICES OF 1.0% (1.0%)

CPG ENCOUNTERS GROW 2.0% (2.0%) EACH YEAR

RATE INCREASE OF 6% (6.0%), NET IMPACT IS ONLY 2.0% (2.0%) INCREASE IN NET REVENUES

CHARITY CARE & BAD DEBT EXPENSE TO INCREASE 3% (3%) AND 2% (2%) ANNUALLY RESPECTIVELY

SEQUESTER AND CODING REDUCTIONS AVERAGE $750K ($0) PER YEAR IN FYE 2014-2017, INCREASES CONTRACTUALS AND DECREASES NET INCOME

REDUCTION IN DSH PAYMENTS AND IMPACT OF HEALTH INSURANCE EXCHANGES BEGIN IN FYE 2014 AND FYE 2015 RESPECTIVELY

ANNUAL SALARY INCREASE OF 2.5% (3.0%)

EMPLOYEE BENEFITS ARE 25.8% (24.7%) OF SALARY INCLUDING THE ADJUSTMENT FOR HEALTH INSURANCE. BENEFITS AS A % OF SALARIES WILL INCREASE EACH YEAR BASED ON THE INCREASE COMPUTED FOR HEALTH INSURANCE. IN FYE 2017 BENEFITS ARE PROJECTED TO BE 26.6% OF SALARY EXPENSE.

ANNUAL SUPPLY INFLATION OF 2.8% (3.0%)

ANNUAL CAPITAL BUDGET OF $6.0M ($6.0M) FOR ROUTINE CAPITAL, $600K ($750K) FOR PROJECTS PLUS $2.5M ($2.2M) FOR IT PROJECTS OVER NEXT 4 YEARS

ONCOLOGY/RADIATION EXPANSION FINANCIAL BENEFITS REFLECTED STARTING IN FYE 2014

POTENTIAL RISKS :

BED TAX ELIMINATED, IMPACT WOULD REDUCE OPERATING INCOME BY $4.0 MILLION

GROWTH PROJECTIONS NOT MET

LOSS OF ANY CURRENT INSURANCE PLANS TO REGIONAL COMPETITOR.

ADDITIONAL MEDICARE/MEDICAID CUTS

ABILITY TO MAINTAIN THE ANNUAL SALARY INCREASE A[illegible]%

ADDITIONAL DISCOUNTING VIA THE HEALTH CARE EXCHANGE

COMMUNITY MEDICAL CENTER	
RECONCILE PRIOR YEAR PROJECTION TO CURRENT YEAR	
FYE 2013	
	FYE
	2013
NET INCOME PROJECTED IN JANUARY 2012	$ 5,201,093
ACTIONS ACCOUNTING FOR VARIANCE:	
INCREASED VOLUME-ADJUSTED PATIENT DAYS OVER BUDGET BY 15.6% AND IMPROVED EXPENSE MANAGEMENT	$ 1,794,314
IMPROVED JV INCOME	$ 1,000,000
340B PROGRAM-NEW PROGRAM	$ 800,000
CPG GROWTH	$ 794,000
PHYSICIAN RECRUITMENT DELAYED	$ 2,193,000
SUPPLY REDUCTION GOAL NOT MET	$ (350,000)
LEAN TARGET UNDER BUDGET	$ (750,000)
ASSET RESTRUCTURING	$ (900,000)
ONCOLOGY DID NOT EXPAND AS PLANNED	$ (120,000)
TOTAL OF ALL ACTIONS	$ 4,461,314
NET INCOME PROJECTED IN JANUARY 2013	$ 9,662,407

COMMUNITY MEDICAL CENTER
INCOME STATEMENT-BASELINE
FYE 2012-2017

	ACTUAL 2012	PROJECTED 2013	FORECASTED 2014	FORECASTED 2015	FORECASTED 2016	FORECASTED 2017
REVENUES:						
INPATIENT & OUTPATIENT SERVICES	$234,136,465	$270,298,162	$291,524,653	$314,419,955	$339,115,420	$365,752,747
TOTAL HOSPITAL PATIENT REVENUE	$234,136,465	$270,298,162	$291,524,653	$314,419,955	$339,115,420	$365,752,747
HOSPITAL REVENUE DEDUCTIONS	$103,694,021	$126,450,726	$142,723,801	$160,000,489	$178,509,552	$198,595,728
NET HOSPITAL REVENUE	$130,442,444	$143,847,436	$148,800,852	$154,419,467	$160,605,868	$167,157,019
GROSS CPG SERVICES REVENUE	$21,578,748	$23,192,484	$23,892,897	$24,614,462	$25,357,819	$26,123,625
CPG SERVICES DEDUCTIONS	$5,804,545	$6,955,627	$7,380,657	$7,831,659	$8,310,221	$8,818,025
NET CPG SERVICES REVENUE	$15,774,203	$16,236,857	$16,512,240	$16,782,803	$17,047,598	$17,305,600
OTHER OPERATING REVENUE	$ 3,709,562	$ 9,596,619	$ 8,791,283	$ 8,264,395	$ 8,091,483	$ 7,770,695
NET OPERATING REVENUE	$149,926,209	$169,680,912	$174,104,374	$179,466,664	$185,744,950	$192,233,315
EXPENSES:						
SALARIES AND WAGES	$58,498,131	$63,010,875	$65,242,946	$67,812,460	$70,493,546	$73,291,024
EMPLOYEE BENEFITS	$13,551,734	$15,872,454	$16,754,713	$17,734,577	$18,755,745	$19,820,051
NON SALARY EXPENSE	$57,560,549	$66,463,570	$68,654,942	$70,779,888	$73,275,141	$75,856,282
DEPRECIATION AND AMORT	$7,129,678	$8,755,485	$10,311,333	$10,692,758	$11,258,545	$11,995,335
INTEREST	$853,301	$1,397,000	$1,797,200	$1,712,072	$1,615,554	$1,514,064
BAD DEBTS	$7,230,227	$8,686,839	$9,532,974	$10,461,588	$11,480,729	$12,599,229
TOTAL EXPENSES	$144,823,620	$164,186,224	$172,294,109	$179,193,343	$186,879,260	$195,075,985
OPERATING MARGIN	5,102,589	5,494,689	1,810,266	273,321	(1,134,310)	(2,842,670)
NON OPERATING REVENUE	$1,718,113	$4,167,718	$4,209,395	$4,251,489	$4,294,004	$4,416,004
TOTAL NET INCOME	$6,820,702	$9,662,407	$6,019,661	$4,524,810	$3,159,694	$1,573,334
OPERATING MARGIN %	3.4%	3.2%	1.0%	0.2%	-0.6%	-1.5%
TOTAL MARGIN %	4.5%	5.7%	3.5%	2.5%	1.7%	0.8%
$ SHORT [illegible]) OF 5% MARGIN	$675,608	-$1,178,361	$2,685,558	$4,448,523	$6,127,554	$8,[illegible],332

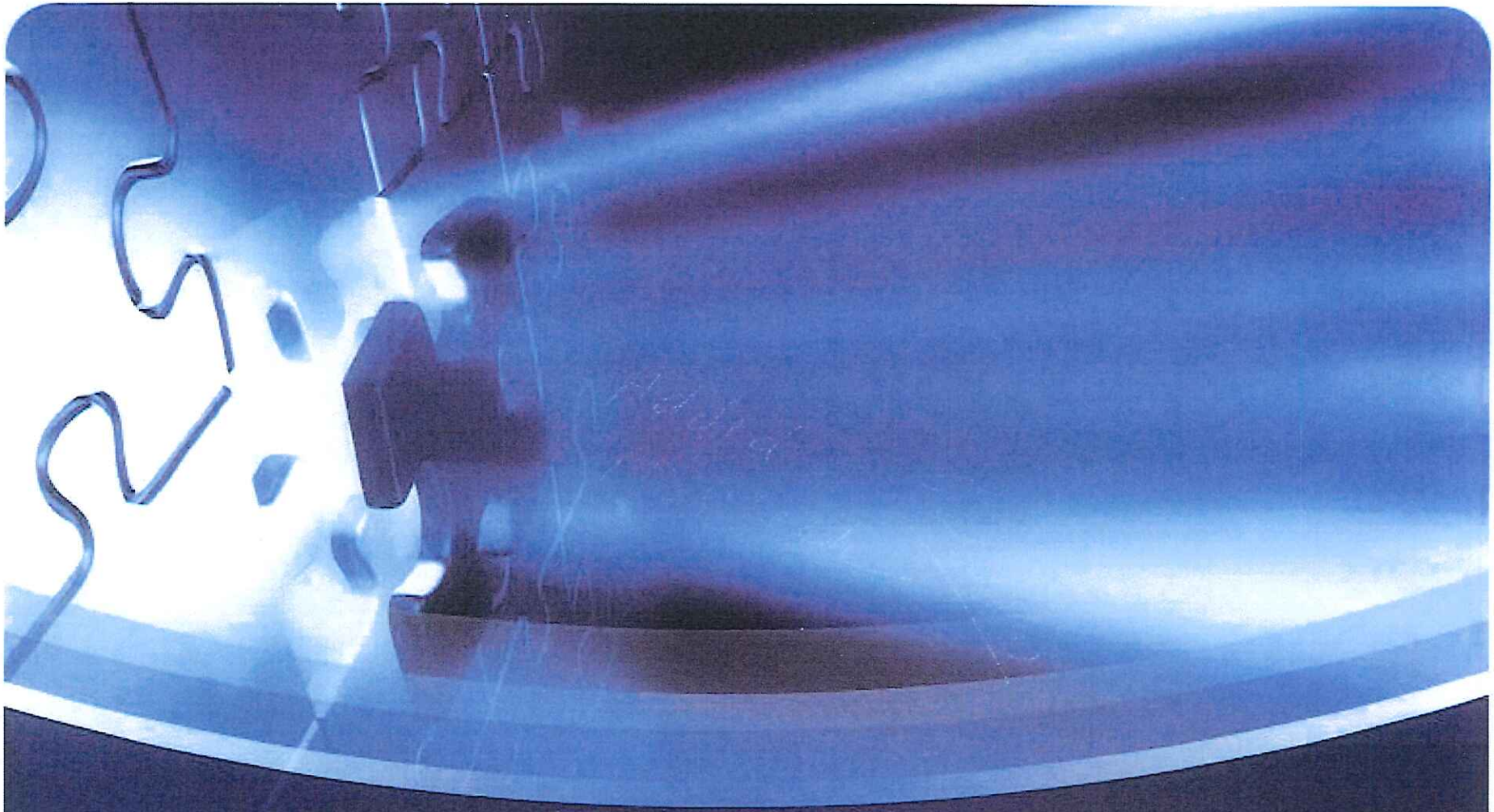
COMMUNITY MEDICAL CENTER						
CASH FLOW STATEMENT-BASELINE						
FYE 2012-2017						
	ACTUAL	PROJECTED	FORECASTED	FORECASTED	FORECASTED	FORECASTED
	2012	2013	2014	2015	2016	2017
BEGINNING CASH BALANCE	$42,653,303	$37,228,790	$44,061,801	$48,762,968	$53,009,924	$56,363,162
SOURCES OF CASH:						
TOTAL NET INCOME	$5,102,589	$5,494,689	$1,810,266	$273,321	($1,134,310)	($2,842,670)
NON OPERATING REVENUE	$1,718,113	$4,167,718	$4,209,395	$4,251,489	$4,294,004	$4,416,004
DEPRECIATION	$7,129,678	$8,755,485	$10,311,333	$10,692,758	$11,258,545	$11,995,335
BOND FUNDS	$7,312,668	$4,650,000	$1,550,000			
TOTAL SOURCES OF CASH	$21,263,048	$23,067,892	$17,880,994	$15,217,568	$14,418,238	$13,568,669
USES OF CASH:						
ROUTINE CAPITAL EXPENDITURES	$24,284,710	$14,037,000	$11,342,000	$9,100,000	$9,100,000	$9,100,000
RETIREMENT OF LONG TERM DEBT	$2,402,851	$2,197,881	$1,837,827	$1,870,612	$1,965,000	$2,070,000
TOTAL USES OF CASH	$26,687,561	$16,234,881	$13,179,827	$10,970,612	$11,065,000	$11,170,000
CASH BALANCE AT YEAR END	$37,228,790	$44,061,801	$48,762,968	$53,009,924	$56,363,162	$58,761,831
DAYS OF CASH	99	103	110	115	117	117

COMMUNITY MEDICAL CENTER						
INCOME STATEMENT-REVISED						
FYE 2012-2017						
	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FYE 2017
BASELINE NET INCOME ►►	$ 6,820,702	$ 9,662,407	$ 6,019,661	$ 4,524,810	$ 3,159,694	$ 1,573,334
SUPPLY COST REDUCTIONS			$ 350,000	$ 350,000	$ 350,000	$ 350,000
LEAN PROJECT			$ 750,000	$ 1,500,000	$ 2,250,000	$ 3,000,000
ASSET RESTRUCTURING-PEDS CONTRACT			$ 175,000	$ 175,000	$ 175,000	$ 175,000
ONCOLOGY/RADIATION JV			$ 3,000,000	$ 3,060,000	$ 3,121,200	$ 3,183,624
IMPACT OF EXCHANGES			$ -	$ (500,000)	$ (1,000,000)	$ (1,500,000)
REDUCTION IN DSH PAYMENTS			$ (525,000)	$ (525,000)	$ (525,000)	$ (525,000)
PHYSICIAN RECRUITMENT			$ (873,543)	$ (985,255)	$ 658,757	$ 1,356,824
SUB TOTAL OF ALL ACTIONS	$ -	$ -	$ 2,876,457	$ 3,074,745	$ 5,029,957	$ 6,040,448
TOTAL NET INCOME	$ 6,820,702	$ 9,662,407	$ 8,896,118	$ 7,599,555	$ 8,189,651	$ 7,613,782
TOTAL MARGIN %	4.5%	5.7%	5.1%	4.3%	4.4%	4.0%
$ SHORT (RED) OF 5% TOTAL MARGIN	$ 675,608	$ (1,178,361)	$ (217,149)	$ 1,322,528	$ 1,021,347	$ 1,896,634

COMMUNITY MEDICAL CENTER						
CASH FLOW STATEMENT-REVISED						
FYE 2011-2016						
	ACTUAL	PROJECTED	FORECASTED	FORECASTED	FORECASTED	FORECASTED
	2012	2013	2014	2015	2016	2017
BEGINNING CASH BALANCE	$42,653,303	$37,228,790	$44,061,801	$51,639,425	$58,961,126	$67,344,321
SOURCES OF CASH:						
TOTAL NET INCOME	$6,820,702	$9,662,407	$8,896,118	$7,599,555	$8,189,651	$7,613,782
DEPRECIATION	$7,129,678	$8,755,485	$10,311,333	$10,692,758	$11,258,545	$11,995,335
BOND FUNDS	$7,312,668	$4,650,000	$1,550,000			
TOTAL SOURCES OF CASH	$21,263,048	$23,067,892	$20,757,451	$18,292,313	$19,448,195	$19,609,117
USES OF CASH:						
ROUTINE CAPITAL EXPENDITURES	$24,284,710	$14,037,000	$11,342,000	$9,100,000	$9,100,000	$9,100,000
RETIREMENT OF LONG TERM DEBT	$2,402,851	$2,197,881	$1,837,827	$1,870,612	$1,965,000	$2,070,000
TOTAL USES OF CASH	$26,687,561	$16,234,881	$13,179,827	$10,970,612	$11,065,000	$11,170,000
CASH BALANCE AT YEAR END	$37,228,790	$44,061,801	$51,639,425	$58,961,126	$67,344,321	$75,783,438
DAYS OF CASH	99	104	111	122	132	142

COMMUNITY MEDICAL CENTER						
INCOME STATEMENT-WORSE CASE						
FYE 2012-2017						
	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FYE 2017
REVISED NET INCOME ►►	$ 6,820,702	$ 9,662,407	$ 8,896,118	$ 7,599,555	$ 8,189,651	$ 7,613,782
ONCOLOGY/RADIATION JV DILUATION			$ (3,000,000)	$ (3,060,000)	$ (1,560,600)	$ (795,906)
REDUCTION OF CURRENT ONCOLOGY SERVICE LINE			$ (750,000)	$0	$0	$0
REDUCTION OF OB/NICU SERVICE LINE			$ (686,000)	($1,509,200)	($1,660,120)	($1,826,132)
RADIATION THERAPY SERVICE LINE				$500,000	$750,000	$1,000,000
SUB TOTAL OF ALL ACTIONS	$ -	$ -	$ (4,436,000)	$ (4,069,200)	$ (2,470,720)	$ (1,622,038)
TOTAL NET INCOME	$ 6,820,702	$ 9,662,407	$ 4,460,118	$ 3,530,355	$ 5,718,931	$ 5,991,744
TOTAL MARGIN %	4.5%	5.7%	2.6%	2.0%	3.1%	3.1%
$ SHORT (RED) OF 5% TOTAL MARGIN	$675,608	($1,178,361)	$4,245,101	$5,442,978	$3,568,317	$3,619,922

COMMUNITY MEDICAL CENTER						
CASH FLOW STATEMENT-WORSE CASE						
FYE 2011-2016						
	ACTUAL	PROJECTED	FORECASTED	FORECASTED	FORECASTED	FORECASTED
	2012	2013	2014	2015	2016	2017
BEGINNING CASH BALANCE	$42,653,303	$37,228,790	$44,061,801	$47,203,425	$50,455,926	$56,368,401
SOURCES OF CASH:						
TOTAL NET INCOME	$6,820,702	$9,662,407	$4,460,118	$3,530,355	$5,718,931	$5,991,744
DEPRECIATION	$7,129,678	$8,755,485	$10,311,333	$10,692,758	$11,258,545	$11,995,335
BOND FUNDS	$7,312,668	$4,650,000	$1,550,000			
TOTAL SOURCES OF CASH	$21,263,048	$23,067,892	$16,321,451	$14,223,113	$16,977,475	$17,987,079
USES OF CASH:						
ROUTINE CAPITAL EXPENDITURES	$24,284,710	$14,037,000	$11,342,000	$9,100,000	$9,100,000	$9,100,000
RETIREMENT OF LONG TERM DEBT	$2,402,851	$2,197,881	$1,837,827	$1,870,612	$1,965,000	$2,070,000
TOTAL USES OF CASH	$26,687,561	$16,234,881	$13,179,827	$10,970,612	$11,065,000	$11,170,000
CASH BALANCE AT YEAR END	$37,228,790	$44,061,801	$47,203,425	$50,455,926	$56,368,401	$63,185,480
DAYS OF CASH	99	104	102	104	111	118



Community Medical Center

Environmental Assessment 2013-2014

Projections for 2013

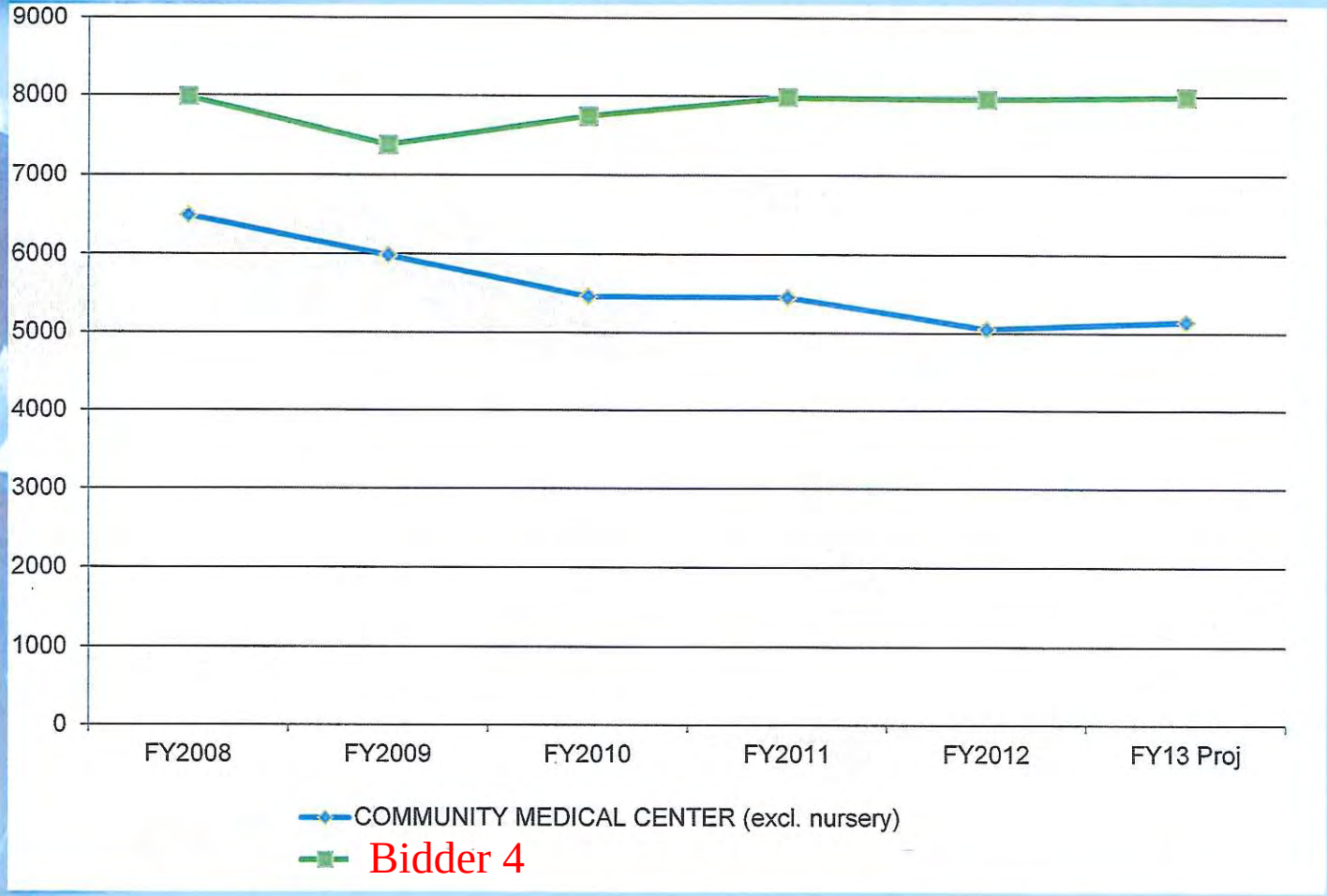
- Market share battles will intensify.
- There will be increased bad debt.
- The march into risk-based payment will accelerate.
- The role of the consumer is growing.
- Margin improvement is mandatory.
- IT implementation costs will force some organizations to seek merger or capital partner.
- Merger activity and investor-owned growth are rising.

Market Share battles will intensify.

- With fewer elective admissions, referral patterns between primary care physicians and specialists will become even more important.
- Physicians who failed to drive growth, or whose poor performance cost the hospital through readmission penalties or low HCAHPS scores, will be value destroyers.
- The primary strategy for combating the lower volumes from healthcare reform is to increase market share.

Sg2 2011

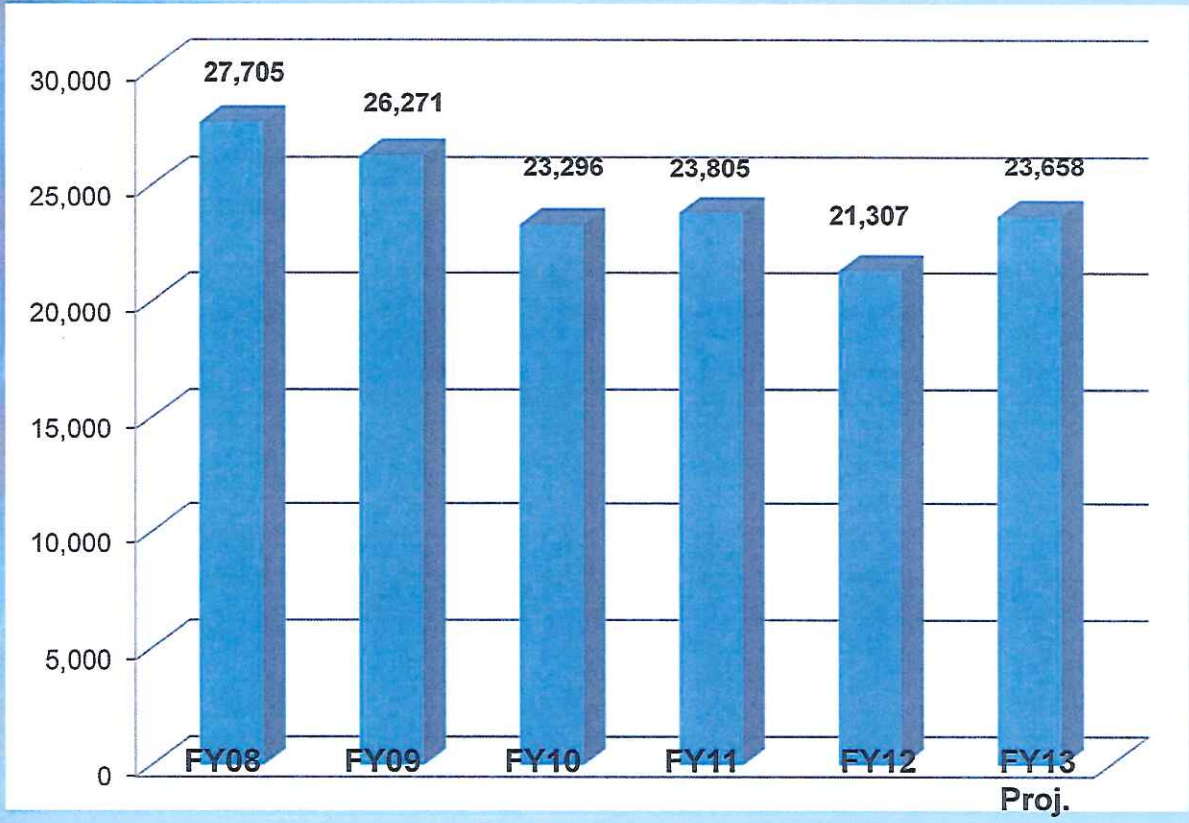
Discharge Trend 6 Years



Inpatient Discharge Trends

DISCHARGES	FY09	FY10	FY11	FY12	FY13 Projected	FY09 - FY13 Variance	FY12 - FY13 Variance
ICU	548	471	381	303	370	-178	67
OBSTETRICS	1657	1547	1577	1529	1506	-151	-23
ORTHO	872	847	942	848	952	80	104
PEDIATRICS	429	417	391	356	363	-66	7
MED/SURG	2042	1756	1780	1611	1569	-473	-42
SUBTOTAL	**5548**	**5038**	**5071**	**4647**	**4760**	**-788**	**113**
NEWBORN INTENSIVE CARE	229	222	220	211	194	-35	-17
REHAB	218	211	172	203	148	-70	-55
TOTAL	**5995**	**5471**	**5463**	**5061**	**5102**	**-893**	**41**

Inpatient days trends



Physician Development

Specialty:	FY 14	FY 15	FY 16	FY 17	FY 18	Total
General Surgery: Colorectal, Thoracic	$ (338,954)	$ 121,856	$ 482,150	$ 695,446	$ 727,838	$ 1,688,336
Neurosurgery/Spine	$ (236,111)	$ 92,418	$ 378,461	$ 401,014	$ 422,602	$ 1,058,383
Cardiology	$ (288,373)	$ (14,990)	$ 212,610	$ 230,556	$ 247,732	$ 387,535
Pulmonology	$ (35,105)	$ 139,711	$ 159,014	$ 177,490	$ 200,000	$ 641,110
OB-GYN	$ 25,000	$ 25,750	$ 26,523	$ 27,318	$ 28,138	$ 132,728
Endocrinology		$ (300,000)	$ (150,000)	$ (75,000)	$ -	$ (525,000)
Medical Oncology	$ -	$ (350,000)	$ (150,000)	$ -	$ -	$ (500,000)
GYN Oncology	$ -	$ (450,000)	$ (200,000)	$ (100,000)	$ -	$ (750,000)
Pediatric Orthopedist	$ -	$ (250,000)	$ (100,000)	$ -	$ 100,000	$ (250,000)
Total ▶	$ (873,543)	$ (985,255)	$ 658,757	$ 1,356,824	$ 1,726,309	$ 1,883,092

There will be more bad debt pain.

- Bad debt should increase with the growth of high-deductible plans offered by employers.
- For employees, this means that some medical procedures will be put off altogether.
- We should expect lower readmissions, better case management and a continued migration to outpatient settings.
- Inpatient volume projections need to be at minimal growth.

Sg2 2011

Bad Debt vs. Charity Care

AS A PERCENTAGE OF GROSS REVENUE

	FY2009	FY2010	FY2011	FY2012	FY 2013
BAD DEBT*	3.04%	3.09%	2.71%	3.12%	3.3%
CHARITY	1.71%	1.97%	1.78%	1.76%	1.70%
TOTAL	4.74%	5.06%	4.49%	4.88%	5.0%

* Bad Debt Avg for MT hospitals = 3.5%
Bad Debt Avg for 10 largest MT hospitals = 3.3%
Charity Care Avg for MT hospitals = 3.3%
Charity Care Avg for 10 largest MT hospitals = 3.5%

Margin improvement is mandatory…

- The cost cutting done over the last few years will be insufficient.
- Medicare rates will be lower for physicians and CMC.
- We must redesign care models and pursue value-based strategies.
- The greatest risk for margin decline is tied to the health insurance exchange and the expansion of Medicaid.

Sg2 2011

IT implementation costs will force some organizations to seek merger or capital partner.

- The costs of IT system implementation have increased.
- The right technologies are clearly transformative so we need to think strategically about which technologies we can afford.
- The implementation of regional IT plans could have significant impact on referrals.

Sg2 2011

IT Implementation

Costs: Actual vs. budget, 2013

Budget	$6.90M
Actual	$7.55M
Variance	$648,000

Rural Installations:

CMC, Cerner:	0
[redacted]	4+
[redacted]	Cerner
[redacted]	Meditech

Merger activity and investor-owned growth are rising.

- Growth in private equity health care investment and hospital acquisitions will continue.
- These acquisitions will be driven by distress, lack of access to capital, and/or the need for a complete overhaul of the business and care delivery model.
- Regional concentration will be key to success.

Sg2 2011

Merger activity: case study

- Albany, GA
  - Three hospital town
  - 2011 HCA sold 102 bed to the county owned hospital authority of Albany
  - Opposed by FTC for 2.5+ years
  - Legal fees of $6 – 10M
- Rockford, IL
  - Three hospital town
  - Two of three hospitals attempted to merge
  - FTC blocked merger, transaction abandoned
  - Rockford Health System hired M&A advisor
- Is COPA an alternative pathway in MT?

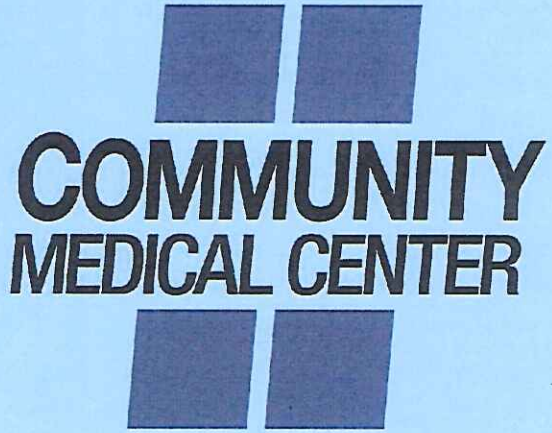
MT COPA

50-4-603. **Certificate of public advantage** -- standards for certification -- time for action by department -- duration of certificate. (1) **Parties to a cooperative agreement, merger, or consolidation may apply to the department for a certificate of public advantage**. The application for a certificate must include a copy of the proposed or executed cooperative, merger, or consolidation agreement, a description of the scope of the cooperation, merger, or consolidation contemplated by the agreement, and the amount, nature, source, and recipient ofany consideration passing to any person under the terms of the agreement. (2) The department shall hold a public hearing on the application for a certificate before acting upon the application. **The department may not issue a certificate unless the department finds that the agreement is likely to result in lower health care costs or is likely to result in improved access to health care or higher quality health care without any undue increase in health care costs…. A certificate of public advantage may not have a duration of more than 10 years.**

Thank you

Environmental Assessment

February 2013



From day one.

CMC Board Retreat

February 2013

Analysis

Options

status quo
93 corridor
Bidder 4 /CMC: [redacted]
Bidder 4 /CMC: [redacted]

Items reviewed

Quality
Scope
Cost
Governance
Medical Staff

Scoring

Very Negative	Neutral	Very Positive
---	o	+++

Status Quo: CMC does not pursue new partners and remains independent

Quality:	Maintain current position	0
Scope:	Maintain current position	0
Cost:	Maintain current position	---
Governance:	Optimize local control	+++
Medical Staff:	ST: Avoid disruptive change associated with service consolidation. Encourages local competition in OB/NICU. Fails to address need to stabilize key services. LT: Fails to secure a successful business model for the long term. Overtime CMC performance declines and medical staff support is lost	--

[redacted] CMC "partners" with [redacted]

Quality:	Opportunity to coordinate care delivery between rural and urban providers. Limited opportunity to consolidate services to achieve Centers of Excellence	+
Scope:	Ability to introduce select new services: surgical and GYN oncology	+
Cost:	Increased competition will increase duplication/cost in the Missoula market	---
Governance:	Maintain MT control. Limited consolidation	++
Medical Staff:	Avoid disruptive change associated with consolidation. Encourages local competition in OB/NICU. Possible opportunity to stabilize vulnerable services such as neurosurgery and cardiology.	+

[redacted]

Quality:

Scope:

Cost:

Governance:

Medical Staff:

[redacted]

[redacted]

Quality:

Scope:

Cost:

Governance:

Medical Staff:

[redacted]

Summary

	Quality	Scope	Cost	Govern	M Staff
Status quo	0	0	-3	+3	-2
[redacted]	+1	+1	-3	+2	+
	+1	+1	+2	+1	0
	+2	+3	+3	-3	-3

Conclusions

- Status Quo is not viable in the long run

[redacted]

Recommendation