Understanding the Current Status of Texas'

GOVERNMENT-OWNED COMMUNITY HOSPITALS

Proactively evaluating your situation and preserving access to high-quality healthcare services in your local community

Special Edition for TORCH Members:
includes analysis and benchmarking of TORCH member hospitals

STATE OF YOUR HOSPITAL

stateofyourhospital.com

TABLE OF CONTENTS

INTRODUCTION

Hospital leaders across the country are at a crossroads. While each community and its hospital is unique, all U.S. hospitals – particularly standalone, general acute care facilities – face many similar challenges: decreasing inpatient census, decreasing revenues, a move toward a value-based business model, and capital-intensive needs, such as physician recruitment, information technology, and facility improvements. In light of the growing challenges standalone community hospitals face, the expectations for boards, management teams, and elected officials have grown significantly. This paper identifies strategic alternatives available to standalone community hospitals, and demonstrates the need for proactively instituting strategic change within an organization. The statistics and analytical data are designed to give management and hospital boards the ammunition they need to persuade their constituents that the most important investment that they can make now is a strategic investment in "change." They also demonstrate that the financial pressures you face are not unique to your hospital.

We know that hospital and community leadershave the difficult task of evaluating their hospital's future and taking strategic action in order to:

- Ensure the continued availability of high-quality healthcare services to the residents of your community;
- Provide those services as close to patients' homes as possible;
- Create efficiencies to allow for the delivery of higher-quality, lower-cost care;
- Preserve jobs in your community;
- Preserve and maximize the value of your hospital for your citizens; and
- Enable the resulting healthcare service structure to continue to provide quality service in a financially self-sustaining manner (i.e., without direct taxpayer support).

Together, Healthcare Management Partners (HMP), Waller Lansden Dortch & Davis (Waller), Taggart, Rimes & Graham (Taggart), Jarrard Phillips Cate & Hancock (Jarrard) and other contributors have studied the financial and legal status of government-owned community hospitals across the nation. This report covers the findings for Texas, the particular issues standalone, government-owned hospitals face, and what lies ahead for them. Our purpose is to report on the current status of Texas' standalone, government-owned hospitals and how they can respond to ensure quality healthcare in their communities for years to come. This report is based on rigorous data analysis and on our collective knowledge – along with some anecdotal evidence and observations – gained by working with hundreds of hospitals and healthcare organizations across the country for the past 50 years.

EXECUTIVE SUMMARY

This study includes a quantitative and qualitative assessment of all short-term general acute and critical access hospitals across the United States with an in-depth analysis of Texas' 103 community-based, government-owned hospitals.[1] Our quantitative analysis has been prepared using data reported and certified in over 35,000 Medicare Cost Reports[2] ffiled by more than 5,000 hospitals for fiscal years 2008 to 2014. The performance of all hospitals in Texas was compared to national data for key metrics that are useful indicators of an organization's financial health. Then, the authors compared the performance of hospitals that are part of multihospital "systems"[3] to those that are "standalone"[4] (or non-system) hospitals. Finally, we analyzed performance by ownership type (Government, Investor (for-profit), Charitable (nonprofit), and hospital type (University, General Acute Care, Critical Access).

The quantitative analysis has been complemented with qualitative analysis describing healthcare market factors and trends based upon both independent research and the authors' extensive experience in managing and advising hospitals and local governments. A summary of the authors' background and experience is included at the end of this report.

For decades, government-owned short-term general acute care and critical access hospitals[5] have been the primary source of healthcare services for rural Texans. Today, Texas' 103 community based government-owned general acute care and critical access hospitals[6] have combined annual net patient revenues of more than $2.7 billion, directly employ more than 27,000 full-time equivalent staff (FTE), and generate on average, the indirect employment of over 16,000 non-healthcare jobs in their local communities.

MORE THAN 82%

of all Texas government-owned hospitals have reported an operating loss in each of the past two years.

For the last available reporting period (a single year), the 103 non-university government-owned hospitals in Texas had an aggregate net loss from hospital operations of more than $600 million. More than 82% of all Texas government-owned hospitals have reported an operating loss in each of the past two years. Texas communities that are proactive and initiate effective strategic change can survive the current financial trends which are likely to intensify and accelerate.

In the body of this paper, we attempt to describe the major forces affecting the ability of government-owned hospitals both to meet the healthcare needs of their communities and to remain financially self-sustaining without direct taxpayer funded operating subsidies.

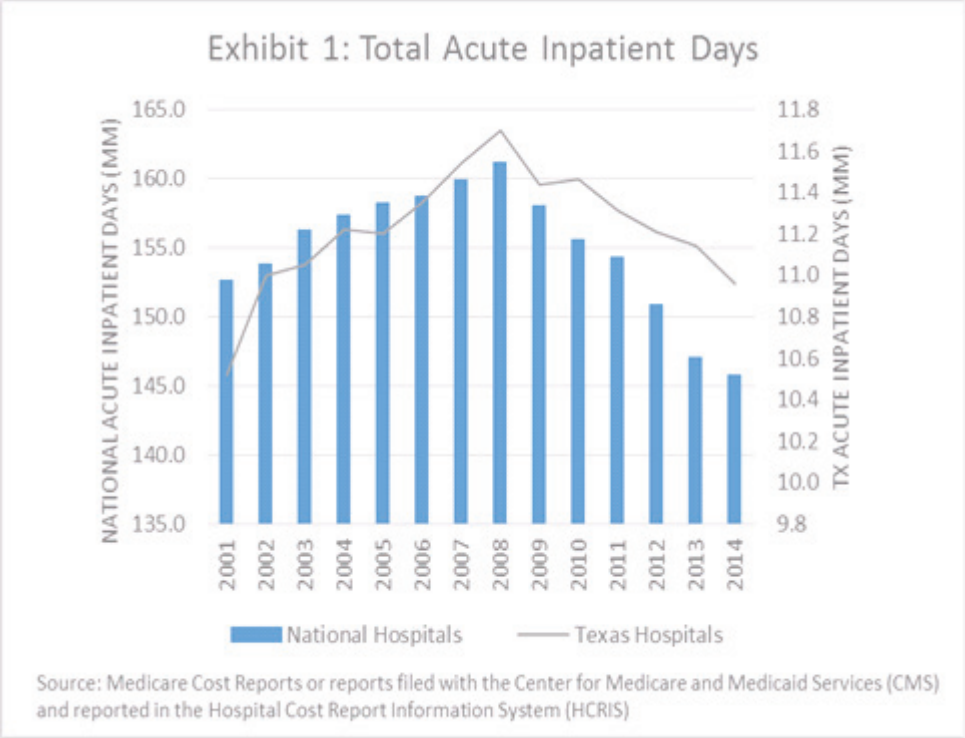
Based upon our analysis, we believe that the key drivers of the current financial and operating challenges that all strategic plans must consider and address are the following:

Decline in Demand for Inpatient Services

Scientific advances in the diagnosis and treatment of disease means a further decline in demand for inpatient services. Hospital use rates, as measured by the number of inpatient days per 1,000 population, have been declining for decades and are expected to continue to decline into the future.

The rate of decline in inpatient services is currently projected at approximately four times the rate of growth of the population. Based on this factor alone, average occupancy rates in communities with a growing population can be

expected to decline by 1% to 2% per year. This problem is compounded in rural areas where the population is often declining. Hospitals are largely a fixed-cost business, with most operating expenses associated with creating the ability to provide care at any time, even if not actually providing it. Declining revenues because of declining inpatient occupancy always translate into significant loss of marginal profits.



Significant and Growing Excess Inpatient Capacity

Texas currently has more than 9,000 inpatient beds than conventional bed need formulas would indicate are necessary. In spite of declines in the number of hospitals and hospital beds, national inpatient occupancy rates are at historic lows. In 2014 the average occupancy rate of all short term general acute care hospitals in the United States was approximately 60%. In Texas, the average hospital occupancy rate was 58%.[7]

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MORE THAN 9,000

inpatient beds than conventional bed need formulas would indicate are necessary.

Heathcare Has Become a Knowledge Business

Assembling and maintaining the stream of knowledge or skills necessary to successfully operate a modern general acute care hospital has become extremely complex and expensive. In addition to recruiting and retaining the necessary medical, nursing and clinical skills, hospitals must master increasingly complex clinical and information technologies, together with revenue cycles and supply chain management. It is a practical impossibility for most small standalone, government-owned hospitals with an average of 55 inpatient beds to meet this challenge effectively.

The Hospital Payment System is Largely Based on National Average Cost

The Medicare payment methodology, which serves as a model for most other health insurance programs, is based on the national average cost for all hospitals, except critical access hospitals, and is thoughtfully designed so that the average

hospital will produce a sufficient profit margin from all patients to enable the hospital to make necessary investments in buildings and equipment to maintain its ability to provide care. Hospitals with costs below the computed average or with rapidly increasing patient volumes (those in the first and second quartiles, in the analysis that follows) will be generally profitable and thrive. Those with above average costs or declining patient volumes will find it increasingly difficult to maintain their ability to provide quality care which, in turn, will drive their volumes lower and the average unit costs higher.

Critical access Hospitals are reimbursed at 101% of cost as defined by Medicare for services to Medicare patients. All other patients are paid on basis determined by their individual payor, usually a fixed payment or they are uninsured. This situation creates a very unusual dynamic whereby providing services to a privately insured patient may actually reduce total revenues.

National Payment Policies Favor Hospitals in Multihospital Systems

Approximately 50% of all hospitals are owned and operated by multihospital systems.[8] But only 21% of government-owned hospitals in the United States are part of a multihospital system. Except for government-owned hospitals, hospitals that are part of a system are consistently larger and more profitable than their non-system competitors. Based on current data, multihospital systems currently account for over 60% of all inpatient beds and patients. Further, when combined with the economies of scale that systems can produce for their hospitals and a national hospital payment system based on average cost, these factors make it increasingly difficult for standalone hospitals to deliver patient care below or at the national average cost.

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> *of all hospitals are owned and operated by multihospital systems.[8] But only 21% of government-owned hospitals in the U.S. are part of a multihospital system.*

Our analysis indicates that government-owned hospitals are struggling to reach the operating performance required to be financially self-sustaining in the long term. In 2014, the average operating loss for a standalone government hospital in Texas was just over $5 million.[9]

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> **$5 MILLION.**[9]

When a hospital experiences significant operating losses, particularly over consecutive years, the quality of clinical care is put at risk due to an inability to recruit physicians, retain nurses, invest in the facility and purchase the equipment required to keep up to date with standards of modern medicine.

Where there are consecutive years of declining patient volumes and the associated financial losses, strategic action must be taken to quickly reposition the hospital in the emerging healthcare delivery system. Otherwise, a hospital's cash reserves can and will be quickly exhausted. Ultimately, if the financial distress continues, it is likely that the hospital will be forced to limit access to critical health services.

To thrive in the changing healthcare environment, many hospitals and health systems are implementing a range of strategies, from population health management and retail clinics to partnerships and alliances with other hospitals and health systems, insurers and physicians.

Almost nine out of 10 hospitals in the country are evaluating some form of partnership or alignment, according to a survey from Dixon Hughes Goodman.

While the challenges may be different for each hospital, the mission and goals of community hospital boards of trustees are the same: to maintain access to high-quality care. With this and other objectives in mind, the strategic options available to hospitals facing uncertainty generally include: (1) sell; (2) acquire or merge; (3) affiliate; (4) transform into an alternative (non-hospital) care delivery model; (5) close; or (6) take other market-impacting actions. The best option for each hospital will depend on its unique market and circumstances. Further in this paper, we discuss alternatives that may be part of a successful strategic plan.

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NINE OUT OF 10

hospitals in the country are evaluating some form of partnership or alignment, according to a survey from Dixon Hughes Goodman.

Government-owned hospital boards and county supervisors that respond quickly to these rapidly emerging market forces will experience the best outcome for the residents of their communities. The option, however, to "play defense" may indeed pose the greatest risk to the long-term availability of quality of healthcare services for the community, and the existing enterprise value of the institution.

Taking Strategic Action Will Not Be Easy.

Reconfiguring local healthcare services is a highly emotional and difficult political undertaking. The local government-owned community hospital holds a dear place in the hearts of many people and is often one of the largest employers and budget line items in the jursisdiction. It is important for hospital and county leaders to consider thoughtfully their strategies for obtaining the best long-term outcome for all of their constituents.

Another certainty is that the implementation of a strategic plan to preserve healthcare services within the community will involve the understanding and unravelling of complex legal and financial structures, many of which are unique to each jurisdiction and institution. As such, the legal framework within which Texas county-owned hospitals operate has been analyzed separately.

Most of the hospital's constituents, have a limited understanding of the full scope of the external forces that impact healthcare service delivery within the community. Accordingly, it is imperative that government and hospital leadership agree upon and communicate a well-planned, consistent and truthful series of messages to all affected parties that accurately describes the hospital's operating environment and condition, the available alternatives being considered and ultimately the actions to be taken to accomplish the hospital's goals.

In this paper, you will find:

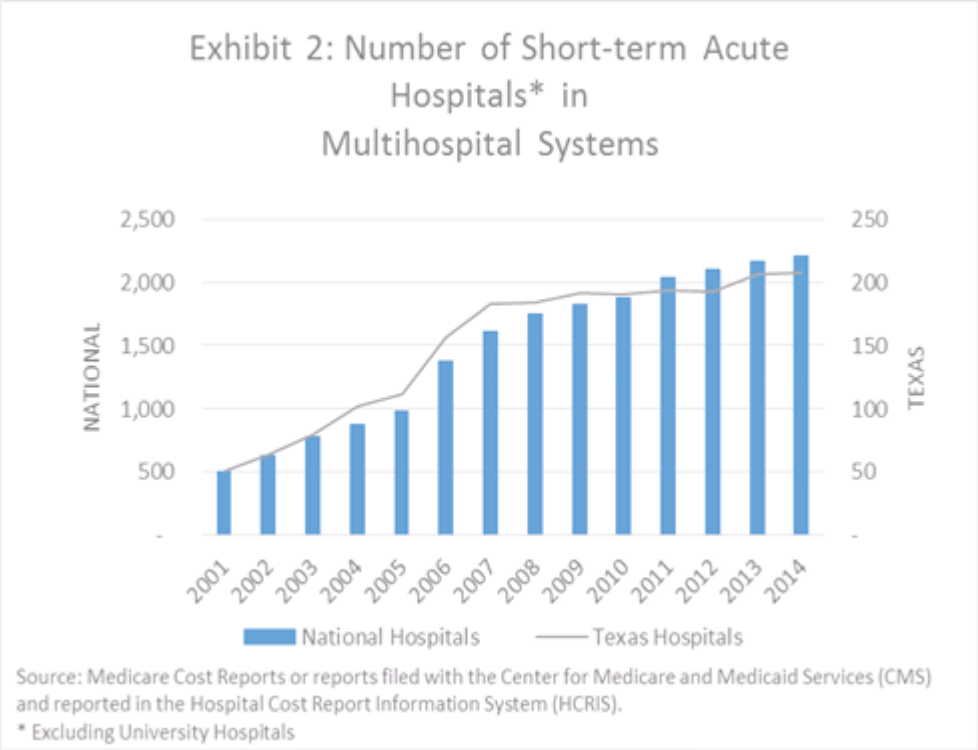
- An overview of the industry dynamics that are forcing hospitals to address market forces;
- Quantitative analysis of the performance of Texas' standalone, government-owned, acute care hospitals;
- An assessment of the various strategic alternatives available;
- A discussion of the specific duties of hospital boards in evaluating strategic options;
- Help in understanding the legal challenges unique to government-owned Texas hospitals; and
- A summary of the different approaches that can be taken to address constituent communications while evaluating and implementing a strategic plan.

In conjunction with preparing this document, the authors have developed provider-specific performance data, customized peer group benchmarks and an extensive online resource, which may be found at StateofYourHospital.com.

THE SHIFTING LANDSCAPE FOR STANDALONE GOVERNMENT HOSPITALS

To thrive in the changing healthcare environment, many hospitals and health systems are implementing a range of strategies, from population health management and retail clinics to partnerships with other hospitals, health systems, insurers and physicians.

It is clear that hospitals and health systems in the state and across the country are exploring ways to work together. Organizations that are open to collaborating with others will be at an advantage.



Source: Medicare Cost Reports or reports filed with the Center for Medicare and Medicaid Services (CMS) and reported in the Hospital Cost Report Information System (HCRIS).
* Excluding University Hospitals

It is important for hospital leaders not only to be aware of how healthcare is changing and how others are adjusting to the changes, but to continue to examine their hospital and their market to identify the next best steps to ensure long-term success.

Significant factors make it increasingly advantageous for standalone general acute care and critical access hospitals to consider restructuring of operations, or partnership or close alliance with a multi-hospital system. Those factors include the following:

Changes in the Way Hospitals Are Paid

Macroeconomics Drive Healthcare Spending Policies

Because of a rapidly aging population combined with better-informed consumers, the demand for healthcare services has historically grown at rates 3%-5% greater than either the population or the American economy. In 2014, total healthcare spending grew at 5.0%, up from 3.6% growth rate in 2013.[10] According to the U.S. Census Bureau, the population of the country grew by 0.73% that year.[11] Total healthcare spending in 2014 was 17.5% of GDP.[12] The federal

government is aggressively pursuing approaches to reduce the rate of growth in aggregate healthcare spending because more than 40% of total lifetime healthcare spending occurs in the last two years of life.

How the Current Medicare Payment Structure Works

Medicare currently accounts for more than 40% of all hospital patient revenues. At standalone, rural hospitals, because the elderly are less mobile than younger commercially insured patients, it is not uncommon for Medicare to account for 50% or even 60% of total patient revenues. Additionally, because of the scope and scientific validity of the Medicare rate-setting process for hospitals combined with the fact that most major insurance plans also offer Medicare Advantage plans, most commercial insurance or state Medicaid programs, incorporate or "piggyback" on the Medicare rate-setting methodology. Stated differently, on a national basis Medicare rate-setting policies drive hospital rate setting for all payors.

The Medicare payment methodology for general acute care hospitals, excluding critical access hospitals which are covered separately below, is conceptually very simple. Annually CMS computes an average cost for each inpatient and outpatient payment classification using the cost data it receives in approximately 5,000 hospital cost reports and allocates the cost based on approximately one billion processed and paid Medicare claims for the same period. There are some additional technical adjustments and then the computed average historical cost per diagnosis-related group (DRG) or ambulatory payment classification (APC) is adjusted upward for medical inflation less 2%. The 2% reduction in the medical inflation adjustment is an imposed productivity measure to help contain the rise in total expenditures. In theory, it also reflects that hospitals are a fixed-cost business and that all costs do not increase perfectly with volume.

Operating profit margins of almost

THREE OUT OF FOUR

government-owned standalone hospitals were in the bottom 50% of all hospitals nationally.[13]

The payment methodology is based on average cost for all hospitals and is thoughtfully designed so that the average hospital will produce a sufficient profit margin from all patients to enable it to make necessary investments in buildings and equipment to maintain its ability to provide care. Hospitals with costs below the computed average or rapidly increasing patient volumes (those in the first and second quartiles, in the analysis that follows) will be generally profitable and thrive. Those with above average cost or declining patient volumes will find it increasingly difficult to maintain their ability to provide quality care which in turn will drive their volumes lower and the average unit costs higher. The system is mechanically designed to put hospitals with high cost structures out of business.

For the last reporting period, the reported operating profit margins of almost three out of four government-owned standalone hospitals were in the bottom 50% of all hospitals nationally[13]. Further, 65% of government-owned hospitals in government-owned systems were also in the bottom 50% of all hospitals. These results contrast sharply with non-government-owned hospitals in multihospital systems where 28% of for profit and 42% of not for profit general acute care hospitals were in the bottom 50% for operating profit margin.

The concept that most hospital payment systems are based on a national average cost that is increasingly dominated by more cost-efficient system-owned hospitals is fundamental to evaluating the strategic choices to be made by standalone community hospitals. As will be shown in the section titled, "Comparative Data on Texas Hospitals," standalone government hospitals have a cost structure that makes it increasingly difficult for them to operate in a financially self-sustaining manner.

Evolving Payment Structures

Post-war "baby boomers" are now in their 60s and 70s and they are expected to put an increasingly significant burden on the Centers for Medicare and Medicaid Services (CMS) in its funding of elderly care. Because more than 40% of total lifetime healthcare spending occurs in the last two years of life, the government is desperate to get healthcare spending under control before it "breaks the bank."

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New and developing payment structures, which involve providers assuming the risk to manage population health, favor health systems that can cover thousands of lives in an actuarially balanced way. Standalone hospitals with small and concentrated populations cannot as easily spread the economic risk of treating very critically ill patients.

Recently, CMS announced it established a target to have 50% of provider payments risk-based or weighted by the beginning of FY 2018. ***This step is a refinement of the "average cost" methodology described above and not a blanket replacement. It will, however, further increase the complexity of an already complex payment system.*** Hospitals must develop plans to assess their financial capability to operate in this new risk-based world and take action, as needed, in certain circumstances a partnership or close alliance can help.

Additionally, for quality of care reasons, commercial insurance carriers that also provide Medicare Advantage and Medicaid managed care plans are increasingly refusing to contract with standalone or small hospitals for medical procedures that the hospitals perform at low volumes. The result is a decline in local community procedure-based medical specialties (surgeons, obstetricians, etc.) and a corresponding loss of marginal revenues.

As the reimbursement and regulatory structures become more complex, standalone facilities may be able to sustain the level of skill required to manage the business risk associated with the new and increasingly complex payment systems by partnering or entering into a close aliance with a sophisticated multi-hospital system.

Being a Healthcare Provider Requires Acquiring and Mastering New Skills

Healthcare services in general and hospitals in particular have become the consummate "knowledge business" rather than the service business generally perceived by consumers or patients. Service, however, remains a critically important part of the patient and family experience and is generally the criteria that families and patients use to evaluate hospitals.

However, delivery of state-of-the-art acute care requires hospitals to acquire, integrate and continuously maintain a current base or streams of knowledge in diverse and technically complex subject areas to compete successfully in today's very complex and rapidly changing healthcare marketplace.

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The following are the most critical subject areas that today's hospitals must master.

Medical and Clinical

The effective diagnosis and treatment of acutely ill patients requires the organization, development and maintenance of effective medical, nursing and allied health staff. It takes the combined knowledge of the medical and clinical staff, working closely together, to provide cost-effective, high-quality care. Maintaining this knowledge base is the single biggest challenge for a standalone hospital.

MOST STANDALONE HOSPITALS

have an aging physician workforce and struggle with physician succession planning.

A demographic shift of the population away from regional and rural areas toward more heavily populated towns and cities means not only is the patient population declining in rural communities, but most standalone hospitals have an aging physician workforce and struggle with physician succession planning. In many cases, when a physician retires or dies, specific medical services can no longer be safely provided by the hospital unless expensive alternatives are employed. It is particularly difficult to recruit young newly trained physicians under these circumstances. Young physicians overwhelmingly favor employment in large practice groups. They generally do not want to start a practice of their own and are reluctant to take over the practice of a retiring physician.

Further, exponential growth in medical knowledge and technological innovation means that each new generation of physicians is more likely to join a physician group than to be the sole provider of a medical specialty.

As standalone hospitals struggle with physician recruitment and retention, regional and national systems have a myriad of options to recruit, retain and efficiently utilize their most expensive resource (physicians) not available to a standalone hospital. Most particularly, health systems can assemble stable, single-specialty, multi-physician practices that are designed to serve multiple locations. For example, a large multihospital system can rotate physicians among multiple locations to increase their utilization. Standalone hospitals should consider arrangements that can give them access to these physicians.

Corporate and Legal Compliance

The delivery of healthcare, particularly by hospitals, is perhaps the most regulated, complex business in the U.S.

In addition to the usual business requirements (state and local taxes, corporate and employment law, etc.), hospitals must also comply with diverse legal and operating requirements which range from licensing and accreditation requirements, patient privacy and protection, to highly complex billing requirements and hazardous chemical and nuclear waste disposal. For instance, Natchez Regional Medical Center in Mississippi had more than $2.4 million in Medicare receipts withheld by CMS in just eight months as part of a RAC audit.[14] Natchez Regional was forced to file for bankruptcy in the middle of a process to sell the hospital, because, among other reasons, cash became suddenly so short that the hospital could not pay its regular operating expenses.

Business Management and Revenue Cycle

As much as 20% of a hospital's total administrative staff effort is associated with billing and collecting payment for medical and hospital services. The collection, processing and storage of personal and financial patient information, as well as coding medical records to reflect the millions of possible combinations of procedures and diagnoses presents an extremely difficult and complex challenge for a small or standalone hospital to master.

Due to the complexity, it is common for large hospital systems to consolidate their billing and collecting functions on a regional or national basis. The next few years will be particularly difficult for hospitals and all healthcare providers as the government mandated the shift to a new coding syste, ICD-10 from October 1, 2015. The ICD-10 coding system is much more detailed than ICD-9, and is one example of the increasing complexity in billing requirements. Hospitals need to dedicate resources to train staff, update systems, and address any billing delays that may result from the changed coding convetion.

Additionally, many standalone hospitals have outdated budgeting and financial reporting systems. In the current and future healthcare environment, information received three to six months after the end of the year is far too late to inform critical decision making. Standalone hospitals must also locate and dedicate resources to update their financial reporting systems.

The industry is full of examples where a failed information system installation has cost a hospital as much as

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of its total annual revenues in lost billing.

Information Technology

The information systems now required for hospitals are dramatically more complex than their commercial business counterparts. Hospitals are required to have electronic health record systems that are used to record and manage their patient's care. Lab results, x-rays and other diagnostic studies are transferred securely to doctors to enable them to remotely manage patient care. Mastering information management is extremely expensive and one of the leading reasons standalone hospitals consider joining a system. The industry is full of examples where a failed information system installation has cost a hospital as much as 10%-20% of its total annual revenues in lost billing. Additionally, hospitals must master the information systems necessary to implement population management and risk-based contracting.

Resource Management

Managing human resources, supplies, equipment and facilities in a hospital is very complex. A typical 100-bed general acute care hospital will employ 500-700 full-time equivalent staff, occupy 150,000 to 200,000 square feet of space, and stock 10,000 to 20,000 distinct drugs and medical supply items.

Additionally, it will own several hundred separate pieces of sophisticated electronic medical equipment ranging from patient beds, IV pumps, heart monitors and ventilators to surgical robots, MRIs and linear accelerators. The equipment will have a replacement value of $25 to $35 million. Effectively managing these resources requires significant and continuous specialized knowledge. Those hospitals that are part of a larger system gain the benefits of:

- **Consolidated Treasury Management:** By consolidating cash and treasury management systems, hospitals can lower the amount and cost of borrowing as well as improve investment yields.
- **Facilities Management and Maintenance:** Corporate facilities management teams provide system hospitals with sophisticated project management expertise; lower the cost and improve the quality of maintenance service contracts; provide the foundation for sophisticated approaches to energy management, biomedical engineering and waste disposal.
- **Centralized Employee Benefits Administration:** There is little additional cost associated with the administration of employee benefit plans for one location or multiple locations.
- **Self-Insurance and Risk Management Programs:** Multihospital systems with seven or more hospitals typically self-insure malpractice, workers compensation and employee health insurance, usually at great savings over market-based risk financing programs.

Management and Governance

Well-trained and experienced management and boards of directors or trustees are essential to ensure the continuous provision of cost-effective, quality healthcare services. Effective boards and management teams that work well together take years to build and require trust, reliable operating and financial reporting, clear lines of authority and responsibility and enforced accountability.

While the management team is tasked with carrying out day-to-day hospital operations, boards of directors or trustees exist to supervise the hospital's management team. The directors or trustees have a fiduciary duty to the hospital's stakeholders, including the management team, employees, physicians, patients, the community and elected officials - all of whom have their own unique interests and priorities. The board's fiduciary duties reflect the stakeholders' expectations that board members will prudently oversee the hospital's management team and business affairs.

Well-trained and experienced management and boards of directors or trustees are essential to ensure the continuous provision of cost-effective, quality healthcare services.

In light of the growing economic challenges facing standalone government-owned hospitals, the expectations for boards have recently grown significantly. Today, board members are expected to be more involved and better informed in order to ensure the long-term viability of healthcare services within the community they serve.

The trustees and senior managers of community hospitals have little margin for error in planning and operating their organizations. Time, human resources and capital are scarce; determining when and how resources are deployed in the post-reform environment requires informed decisions based on concepts that may not yet be proven.

Given the thin or negative margins at which many nonprofit and public hospitals operate, leadership teams must not only determine how to operate with less, but how to realistically position the organization for financial stability in a very uncertain environment. For these providers, a continuous, board-driven, proactive and objective assessment of operational and strategic options is absolutely required.

Unique Circumstances of Critical Access Hospitals

Thirty-one percent (or 1,330) of all short-term general acute care hospitals are classified as Critical Access Hospitals (CAH).[15] Typically, CAHs must be located in a rural area and be more than a 35-mile drive from any hospital or other CAH, maintain no more than 25 inpatient beds, and have an annual average length of stay of 96 hours or less per patient for acute care. CAHs must also furnish 24-hour emergency care services seven days a week, using either on-site or on-call staff16.[16]

Historically, CAHs were often the only reasonably accessible providers of acute care services for very rural populations. In Texas, the 53 government-owned CAHs have net patient revenue per adjusted occupied bed (AOB) of just over 50% of their GACH counterparts ($822 Vs $1,533). This net patient review per AOB is similar to net revenues of nursing homes that also provide certain diagnostic and therapeutic services.

In Texas, the 53 government- owned CAHs have net patient revenue per adjusted occupied bed (AOB) of

JUST OVER 50%

of their GACH counterparts.

Nationally, less than 30% of all CAHs meet the requirement that they be located more than 35 miles from a GACH or another CAH. Only 17 of Texas' 79 CAHs currently meet the 35-mile criteria. Traditionally, this criteria has been liberally waived by CMS. In an effort to reduce expenditures for Medicare, the current definition of CAH is under close examination by CMS.

Cost-based reimbursement by Medicare, provides CAH hospitals with effective payment rates that may be much greater than they would have received if they were paid on a prospective basis for services to Medicare patients. Because Medicare is essentially the only payor compensating CAH's on a "cost reimbursed" basis it creates a situation whereby a hospital can actually lose money by treating additional non-Medicare patients. Because of this economic conflict of interest, in many communities, CAHs are effectively discouraged from treating non-Medicare patients.

The issue for each community to consider is whether a CAH is the highest quality and most cost-effective way to provide health services to the entire population.

COMPARATIVE DATA ON TEXAS HOSPITALS

HMP Metrics™: Measuring Peer Group Adjusted Performance

HMP Metrics™ is a tool enabling the measurement of peer group adjusted performance for a diverse range of healthcare providers. Utilizing publicly available hospital Medicare cost report data, we have used the HMP Metrics™ to conduct an extensive study comparing performance within various hospital peer groups, including hospital type, ownership, system membership and bed size.

Using proprietary filters, data contained in the HMP Metrics™ database has been "scrubbed" to exclude statistically aberrant data elements for individual hospitals or health systems. This data validation process produces accurate and defensible peer group comparisons for dozens of standard industry metrics, many of which are analyzed in detail in the exhibits and text which follow. The industry terms or descriptors used to evaluate relative performance are defined below:

Key Hospital Descriptors

Average Total Bed Size	Includes acute and sub-acute beds (usually nursing home beds)
Average Acute Bed Size	Excludes sub-acute beds but includes all types of acute beds (medical, surgical, ICU, obstetrics, pediatrics, etc.)
Average Occupancy Rate (AOR)	Percentage of available acute patient beds that are filled on any given day
Average Daily Census (ADC)	Average number of actual inpatients occupying acute patient beds on any given day
Adjusted Occupied Beds (AOB)	An industry standard measure which uses total gross patient revenues to equate inpatient and outpatient revenues in a uniform manner

Key Hospital Descriptors

Net Patient Revenue Per AOB	Total Net Patient Revenue divided by the computed Adjusted Occupied Beds (this is an aggregate indicator of the relative complexity of patient services provided)
Average Markup on Cost	Total Gross Patient Charges (retail patient revenue based on retail prices) divided by total operating cost (Patients rarely actually pay the retail price for services. Contrary to common thinking, a lower markup is usually an indication of under management as opposed to price gouging.)
Full-Time Equivalent Staff (FTE)	Term is used to compute measures of labor productivity (one FTE is equal to 2080 paid staff hours per year)
Total FTEs	Total equivalent full-time employees for a hospital or ownership type for a given sector (For example, the 79 critical access hospitals in Texas directly employed the equivalent of 8,686 full-time employees.)
Average Full-Time Equivalent Staff	AAverage total equivalent full-time employees for a hospital or ownership type for an individual (For example, the 79 critical access hospitals in Texas directly on average employed the equivalent of 110 full time employees.)
Net Patient Revenue Per FTE	Average total net patient revenue per FTE employee (this is a composite indicator of labor efficiency and the relative market value of services provided)

In the exhibits that follow, hospitals by type and ownership are stratified further into quartiles in order to illustrate the benchmarks for poor to exceptional performance for each metric used, allowing for easy comparison within peer groups. The first quartile contains the top 25% of the best performing hospitals in an applicable peer group, the second quartile contains those hospitals falling in the 26% to 50% range, the third quartile contains those hospitals falling in the 51% to 75% range, and finally the fourth quartile contains those hospitals falling below 76%.

Using HMP Metrics™, we were able to construct peer group performance reports from publicly available data and extract valuable comparative information across national, state and local benchmarks which is presented and analyzed in exhibits 3 through 14.

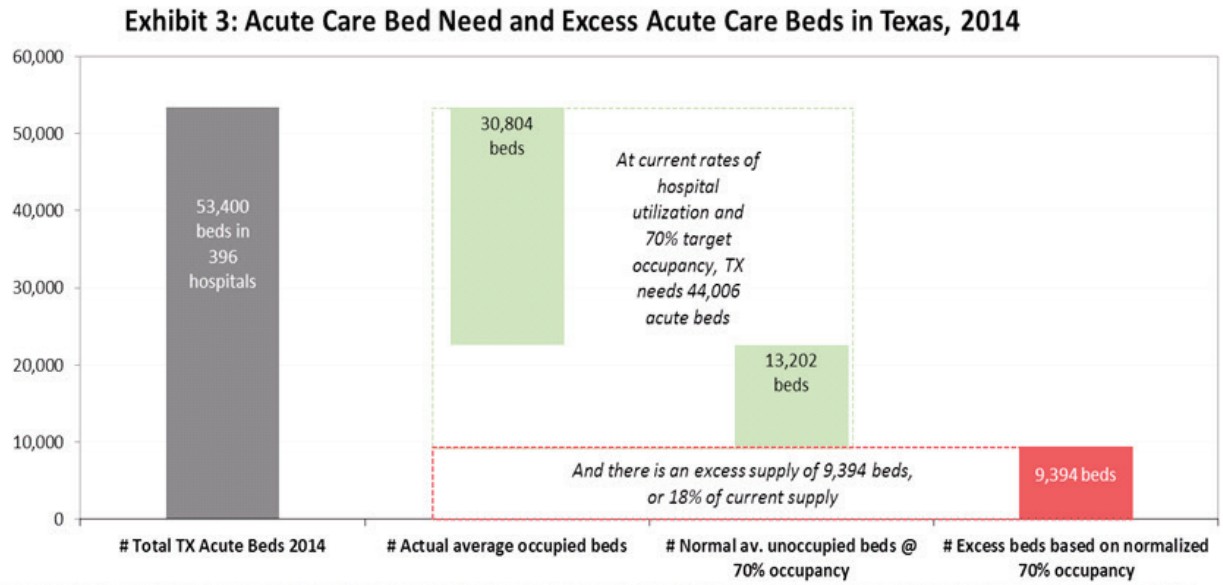
All data in the exhibits was derived from the most recent (Calendar Year 2014) Medicare Cost Reports filed with the federal government by almost 5,000 individual hospitals. Only one cost report was used for each hospital and all of the short-term acute care hospitals in Texas were included. By law, hospitals must file an electronic cost report within 150 days of the close of their fiscal year. Typically filed cost reports are electronically available to the public within 90 days of their receipt by CMS. The individual metrics and the statistical measures or terms used in the exhibits are defined below.

Key Hospital Metrics or Statistical Measure

Hospital Metrics	
Operating Profit Margin	Expressed as a percentage, it is computed by dividing total operating profit by total operating revenues (A negative percentage would indicate a loss from operations.)
Total Labor Cost as a Percentage of Total Operating Revenue	This is a percentage calculated by dividing the sum of the cost of employee salaries, benefits and contract labor by total operating revenues (A lower percentage indicates better labor cost efficiency.)
Full-Time Equivalent (FTE) Staff Per Adjusted Occupied Bed (AOB)	This ratio is computed by dividing total full-time equivalent staff by total computed adjusted occupied beds (It is an indicator of workforce productivity. A lower ratio indicates greater relative productivity.)
Average Days Net Patient Revenue in Patient Accounts Receivable	This is a measure of how many days of net patient revenue is on average uncollected (It is used to measure the efficiency of the hospital's revenue cycle or billing operations. A lower number would indicate greater revenue cycle efficiency.)
Statistical Measures Used	
Weighted Average Mean	The mathematical average of all of the required data elements for all of the hospitals included in the analysis. For example the weighted average mean operating margin was computed as follows: [(Total Operating Revenues for all included hospitals/Total Operating Expenses for all included hospitals) – 1]/(Total Operating Revenues for all included hospitals)
Median	The number separating the higher half of a data sample, or distribution from the lower half. In our exhibits it is the value for the middle hospital included in the analysis (e.g., half have a higher value and half have a lower value).
Percent (%) in the Bottom 50% of all Hospitals	Percent of the hospitals of a hospital or ownership type which are in the bottom 50% of ***ALL*** short term acute care hospitals
Percent (%) with an Operating Loss for the Past Two Consecutive Years	Percent of the hospitals of a hospital or ownership type which have experienced a net loss from operations for at least the last two consecutive reporting periods.
Mean for the Top 50% of all Hospitals in the Sector or Type	Mean value (average) for the metric for all hospitals of a hospital or ownership type which are in the first or second quartile for that metric.
Mean for the Bottom 50% of all Hospitals in the Sector or Type	Mean value (average) for the metric for all hospitals of a hospital or ownership type which are in the third or fourth quartile for that metric.

Declining Demand for Inpatient Services

Since 1980, the number of hospital inpatient surgical procedures per 1,000 population has declined by almost 75% and because of advances in technology, evermore healthcare services are provided at home or in sub-acute or non-hospital ambulatory settings. These trends are not expected to reverse. Based on 2012 data, the international actuarial firm Milliman, Inc. projected total inpatient utilization to decline by an additional 15% by 2021.[17]



Based upon a generally accepted industry standard average occupancy rate (AOR) of 70%, there are over 9,000 excess hospital beds in Texas.[18]

This excess capacity or over-bedding will continue to grow in the future as total patient days per 1,000 (demand for hospital inpatient services) continues to decline. Based on Milliman's projected 15% decline in inpatient demand through 2021, AOR in Texas will decline further from 58% to 50%.

Hospitals are largely a fixed-cost business, with most operating expenses associated with creating the ability to provide care not actually providing it. Declining revenues associated with declining inpatient occupancy will translate into significant financial losses.

Hospitals are largely a fixed-cost business, with most operating expenses associated with creating the ability to provide care not actually providing it. Declining revenues associated with declining inpatient occupancy will translate into significant financial losses.

Our analysis of government hospitals nationally and in Texas indicates that many hospitals in this category are already experiencing signs of severe financial distress, and, in many cases, the situation has already reached the point where consistent access to quality clinical care is likely being impaired.

System -vs- Non-System Hospitals

As shown in Exhibit 4 below, approximately half of all short-term general acute care hospitals are corporate subsidiaries of multihospital systems. However, there is great disparity between system membership and ownership type. Nationally only 21% of government-owned hospitals are configured as multihospital systems whereas nearly 70% of investor-owned and 55% of nonprofit hospitals are part of national or regional hospital chains or systems.[19] In Texas

only 10% of government-owned hospitals are part of a system. Nationally only 31% of critical of critical access hospitals (CAHs) are part of a system. Only 20% of CAHs in Texas are part of a system.

Nationally only 31% of critical of critical access hospitals (CAHs) are part of a system. Only 20% of CAHs in Texas are part of a system.

Exhibit 4 - Number of Short-term General Acute Care Hospitals by Type and System Affiliation

	National				Texas			
	System		Non-System		System		Non-System	
Ownership Type	Hospitals	Percent	Hospitals	Percent	Hospitals	Percent	Hospitals	Percent
Government Owned	216	21%	833	79%	11	10%	100	90%
For Profit (Investor Owned)	693	69%	305	31%	105	65%	56	35%
Not-For-Profit (Charitable)	1,500	55%	1,231	45%	106	85%	18	15%
All Short-term Hospitals	2,409	50%	2,369	50%	222	56%	174	44%

	National				Texas			
	System		Non-System		System		Non-System	
Hospital Type	Hospitals	Percent	Hospitals	Percent	Hospitals	Percent	Hospitals	Percent
University	157	60%	106	40%	10	71%	4	29%
General Acute Care	1,843	58%	1,342	42%	196	65%	107	35%
Critical Access	409	31%	921	69%	16	20%	63	80%
All Short-term Hospitals	2,409	50%	2,369	50%	222	56%	174	44%

Source: Hospital Cost Report Information System (HCRIS) using the most recent cost report on file.

As shown in Exhibits 5 to 7, non-system hospitals are on average smaller and less profitable than their system-owned counterparts. Moreover, with the exception of investor-owned hospitals, on average, all other non-system hospitals lose money from hospital operations, whereas their system-owned counterparts, except for government-owned systems, on the whole make money from recurring operations. Nationally the profit margins of system hospitals, regardless of ownership and type, are better than those of their non-system counterparts.

Exhibit 5 - Average Acute Bed Size Per Short-term General Acute Care Hospital

	National		Texas	
Ownership Type	System	Non-System	System	Non-System
Government	199	69	236	58
Government Excluding University	139	55	133	39
For Profit	155	67	191	48
For Profit Excluding University	151	67	191	48
Not-For-Profit	187	138	193	96
Not-For-Profit Excluding University	158	109	160	96

	National		Texas	
Hospital Type Regardless of Ownership Type	System	Non-System	System	Non-System
University (Regardless of Ownership)	530	539	613	520
All Short-term Including University	179	105	194	59
General Acute Excluding Univ. and CAH	184	128	187	64
Critical Access Hospitals (CAH)	22	22	23	21

Source: Hospital Cost Report Information System (HCRIS) using the most recent cost report on file.

Exhibit 6 - Average Annual Operating Profit Margin Per Short-term General Acute Care Hospital

Ownership Type	National		Texas	
	System	Non-System	System	Non-System
Government	-5.7%	-7.7%	-35.5%	-21.9%
Government Excluding University	-4.7%	-8.4%	-22.0%	-23.5%
For Profit	7.9%	0.8%	10.8%	5.6%
For Profit Excluding University	8.2%	0.8%	10.8%	5.6%
Not-For-Profit	-0.1%	-3.0%	1.0%	0.6%
Not-For-Profit Excluding University	0.6%	-2.1%	2.2%	0.6%

Hospital Type Regardless of Ownership Type	National		Texas	
	System	Non-System	System	Non-System
University (Regardless of Ownership)	-2.8%	-5.0%	-6.3%	-17.8%
All Short-term Including University	0.7%	-3.7%	4.1%	-7.3%
General Acute Excluding Univ. and CAH	2.2%	-2.6%	6.2%	-3.7%
Critical Access Hospitals (CAH)	-5.1%	-7.2%	-7.6%	-23.9%

Source: Hospital Cost Report Information System (HCRIS) using the most recent cost report on file.

Exhibit 7 - Average Annual Operating Profit/(Loss) Per Short-term General Acute Care Hospital

Ownership Type	National		Texas	
	System	Non-System	System	Non-System
Government	$ (14,367,290)	$ (5,146,475)	$ (62,011,247)	$ (6,457,877)
Government Excluding University	$ (6,567,483)	$ (3,966,854)	$ (29,147,777)	$ (5,118,599)
For Profit	$ 10,188,961	$ 458,459	$ 18,242,370	$ 2,472,170
For Profit Excluding University	$ 10,097,090	$ 458,459	$ 18,242,370	$ 2,472,170
Not-For-Profit	$ (290,698)	$ (5,287,511)	$ 1,851,863	$ 476,577
Not-For-Profit Excluding University	$ 998,044	$ (2,540,127)	$ 3,102,857	$ 476,577

Hospital Type Regardless of Ownership Type	National		Texas	
	System	Non-System	System	Non-System
University (Regardless of Ownership)	$ (22,057,477)	$ (46,539,996)	$ (52,596,615)	$ (58,689,700)
All Short-term Including University	$ 1,472,523	$ (4,583,289)	$ 7,239,379	$ (2,936,042)
General Acute Excluding Univ. and CAH	$ 4,161,822	$ (3,537,197)	$ 10,274,267	$ (1,861,377)
Critical Access Hospitals (CAH)	$ (1,299,024)	$ (1,517,521)	$ (1,458,136)	$ (2,568,460)

Source: Hospital Cost Report Information System (HCRIS) using the most recent cost report on file.

Hospitals are very capital intensive businesses. In order to maintain its clinical and technological capacity, a hospital typically must on average annually invest, on average, a minimum average 9-13%[20] of revenues each year in new technology and the routine replacement of its buildings and equipment.

Hospitals are very capital intensive businesses. In order to maintain its clinical and technological capacity, a hospital typically must on average annually invest, on average, a minimum average 9-13%[20] of revenues each year in new technology and the routine replacement of its buildings and equipment.[20]

Stated differently, in order to make the needed investment, hospitals must on average produce annual total profit margins of 3-4%. As seen in Exhibits 6 and 7 above, the greater profitability of system-owned hospitals provides them with a distinct competitive advantage over non-system hospitals in their ability to internally generate the capital required to make the necessary investments.

Based on a national average annual revenue of $67 million for non-system government-owned hospitals, the 7.5% to 15.5% spread in operating margins between them and their nonprofit and for-profit system competitors translates to an average difference in annual profits or cash generated from operation of $5.1 to $10.5 million.[21] These sums are sufficient to pay the debt service on $78 million to $161 million in tax-exempt bonds.[22] Today the average non-system government hospital with 55 acute care beds could be newly built and equipped with state-of-the- art medical technology for less than $100 million.[23]

In our opinion, in today's marketplace, system membership is the single most important factor currently contributing to a hospital's ability to deliver care at less than average cost.

Significant additional factors demonstrate the necessity for strategic change at standalone government hospitals in order for them to achieve financial stability.

Exhibit 8 - General Acute Care Hospitals Operating Profit by Ownership Type

	National				Texas			
Metric	**Gov't**	**Not-for-profit**	**For profit**	**Total**	**Gov't**	**Not-for-profit**	**For profit**	**Total**
Average Hospital Profile								
Number of Hospitals (before any exclusions)	***455***	***1,825***	***905***	***3,185***	***50***	***102***	***151***	***303***
Average Bed Size (total beds)	180	208	151	188	80	182	161	155
Average Bed Size (acute only)	128	180	135	160	71	170	150	144
Average Occupancy Rate (acute only)	53.5%	59.7%	53.7%	57.6%	45.0%	61.5%	56.7%	57.3%
Average Daily Census (acute only)	68	108	72	92	32	105	84	82
Adjusted Occupied Beds (AOB)	202	244	144	208	82	201	156	157
Average Annual Operating Revenue	$ 120,972,742	$ 202,161,584	$ 112,575,355	$ 166,190,337	$ 47,402,142	$ 153,813,980	$ 140,325,377	$ 130,316,871
Revenue Per AOB (weighted avg)	$ 1,613	$ 2,305	$ 2,149	$ 2,197	$ 1,533	$ 2,473	$ 2,388	$ 2,369
Average Annual Operating Expense	$ 128,652,081	$ 202,407,120	$ 104,402,885	$ 165,173,753	$ 57,783,578	$ 150,291,092	$ 125,592,875	$ 123,691,951
Operating Profit Margin								
Number of Hospitals (after any exclusions)	***405***	***1,722***	***801***	***2,939***	***44***	***95***	***125***	***265***
1st Quartile (Top)	4.5%	10.9%	17.8%	12.5%	-6.2%	14.2%	21.0%	17.5%
2nd Quartile	-5.5%	1.3%	6.7%	1.7%	-24.6%	1.8%	12.9%	4.9%
3rd Quartile	-16.9%	-5.7%	-2.4%	-6.7%	-42.0%	-4.1%	4.4%	-4.7%
4th Quartile (Bottom)	-42.5%	-20.6%	-22.8%	-24.7%	-59.5%	-29.3%	-14.7%	-31.8%
Mean	-6.3%	-0.1%	7.3%	0.6%	-21.9%	2.3%	10.5%	5.1%
Median	-9.1%	-1.3%	3.7%	-1.1%	-39.6%	-0.8%	8.9%	-0.4%
% in Bottom 50% of all Hospitals	69.1%	42.6%	28.2%	42.4%	95.5%	42.1%	24.8%	42.6%
% with Operating Loss last 2 Yrs	69.1%	48.4%	27.7%	45.7%	86.4%	47.4%	21.6%	41.5%
Mean Top 50%	-3.6%	3.1%	9.0%	3.5%	-19.2%	4.3%	13.1%	7.9%
Mean Bottom 50%	-23.1%	-11.3%	-6.4%	-12.0%	-47.0%	-8.9%	-0.4%	-11.8%
Average Markup on Cost (Weighted Average)	290%	307%	475%	337%	352%	347%	482%	414%

Notes:

1. For Average Bed Size, the Total Beds figure includes Specialty Hospitals
2. Daily Occupancy rate is based on Acute Inpatient Days
3. Revenue Per AOB is based on Average Total Operating Revenue Per AOB
4. All figures contained in this table use weighted average

All data contained in the table is sourced from the annual CMS cost reports.

Exhibit 8a - General Acute Care Hospitals Operating Profit by Ownership Type (National vs TORCH hospitals)

Metric	National				Torch			
	Gov't	Not-for-profit	For profit	Total	Gov't	Not-for-profit	For profit	Total
Average Hospital Profile								
Number of Hospitals (before any exclusions)	***455***	***1,825***	***905***	***3,185***	***42***	***23***	***4***	***69***
Average Bed Size (total beds)	180	208	151	188	57	182	161	155
Average Bed Size (acute only)	128	180	135	160	50	65	75	56
Average Occupancy Rate (acute only)	53.5%	59.7%	53.7%	57.6%	29.8%	35.5%	24.5%	31.6%
Average Daily Census (acute only)	68	108	72	92	15	23	18	18
Adjusted Occupied Beds (AOB)	202	244	144	208	52	58	47	53
Average Annual Operating Revenue	$ 120,972,742	$ 202,161,584	$ 112,575,355	$ 166,190,337	$ 28,606,161	$ 40,761,009	$ 46,206,342	$ 33,688,815
Revenue Per AOB (weighted avg)	$ 1,613	$ 2,305	$ 2,149	$ 2,197	$ 1,395	$ 1,850	$ 2,690	$ 1,661
Average Annual Operating Expense	$ 128,652,081	$ 202,407,120	$ 104,402,885	$ 165,173,753	$ 35,685,533	$ 44,593,711	$ 44,652,764	$ 39,223,336
Operating Profit Margin								
Number of Hospitals (after any exclusions)	***405***	***1,722***	***801***	***2,939***	***38***	***22***	***3***	***63***
1st Quartile (Top)	4.5%	10.9%	17.8%	12.5%	-7.3%	0.5%		0.4%
2nd Quartile	-5.5%	1.3%	6.7%	1.7%	-34.6%	-5.3%	9.0%	-14.9%
3rd Quartile	-16.9%	-5.7%	-2.4%	-6.7%	-47.2%	-20.6%	3.6%	-40.5%
4th Quartile (Bottom)	-42.5%	-20.6%	-22.8%	-24.7%	-61.3%	-42.0%	-42.6%	-57.6%
Mean	-6.3%	-0.1%	7.3%	0.6%	-24.7%	-9.4%	3.4%	-16.4%
Median	-9.1%	-1.3%	3.7%	-1.1%	-43.3%	-15.3%	3.6%	-33.1%
% in Bottom 50% of all Hospitals	69.1%	42.6%	28.2%	42.4%	71.1%	27.3%	33.3%	54.0%
% with Operating Loss last 2 Yrs	69.1%	48.4%	27.7%	45.7%	86.8%	63.6%	33.3%	76.2%
Mean Top 50%	-3.6%	3.1%	9.0%	3.5%	-20.6%	-4.0%	8.1%	-12.4%
Mean Bottom 50%	-23.1%	-11.3%	-6.4%	-12.0%	-52.7%	-32.5%	-13.9%	-46.1%
Average Markup on Cost (Weighted Average)	290%	307%	475%	337%	232%	362%	327%	288%

Notes:

1. For Average Bed Size, the Total Beds figure includes Specialty Hospitals
2. Daily Occupancy rate is based on Acute Inpatient Days
3. Revenue Per AOB is based on Average Total Operating Revenue Per AOB
4. All figures contained in this table use weighted average

All data contained in the table is sourced from the annual CMS cost reports.

Exhibit 8b - General Acute Care Hospitals Operating Profit by Ownership Type (Texas vs TORCH hospitals)

Metric	Texas				Torch			
	Gov't	Not-for-profit	For profit	Total	Gov't	Not-for-profit	For profit	Total
Average Hospital Profile								
Number of Hospitals (before any exclusions)	***50***	***102***	***151***	***303***	***42***	***23***	***4***	***69***
Average Bed Size (acute only)	71	170	150	144	50	65	75	56
Average Occupancy Rate (acute only)	45.0%	61.5%	56.7%	57.3%	29.8%	35.5%	24.5%	31.6%
Average Daily Census (acute only)	32	105	84	82	15	23	18	18
Adjusted Occupied Beds (AOB)	82	201	156	157	52	58	47	53
Average Annual Operating Revenue	$ 47,402,142	$ 153,813,980	$ 140,325,377	$ 130,316,871	$ 28,606,161	$ 40,761,009	$ 46,206,342	$ 33,688,815
Revenue Per AOB (weighted avg)	$ 1,533	$ 2,473	$ 2,388	$ 2,369	$ 1,395	$ 1,850	$ 2,690	$ 1,661
Average Annual Operating Expense	$ 57,783,578	$ 150,291,092	$ 125,592,875	$ 123,691,951	$ 35,685,533	$ 44,593,711	$ 44,652,764	$ 39,223,336
Operating Profit Margin								
Number of Hospitals (after any exclusions)	***44***	***95***	***125***	***265***	***38***	***22***	***3***	***63***
1st Quartile (Top)	-6.2%	14.2%	21.0%	17.5%	-7.3%	0.5%		0.4%
2nd Quartile	-24.6%	1.8%	12.9%	4.9%	-34.6%	-5.3%	9.0%	-14.9%
3rd Quartile	-42.0%	-4.1%	4.4%	-4.7%	-47.2%	-20.6%	3.6%	-40.5%
4th Quartile (Bottom)	-59.5%	-29.3%	-14.7%	-31.8%	-61.3%	-42.0%	-42.6%	-57.6%
Mean	-21.9%	2.3%	10.5%	5.1%	-24.7%	-9.4%	3.4%	-16.4%
Median	-39.6%	-0.8%	8.9%	-0.4%	-43.3%	-15.3%	3.6%	-33.1%
% in Bottom 50% of all Hospitals	95.5%	42.1%	24.8%	42.6%	71.1%	27.3%	33.3%	54.0%
% with Operating Loss last 2 Yrs	86.4%	47.4%	21.6%	41.5%	86.8%	63.6%	33.3%	76.2%
Mean Top 50%	-19.2%	4.3%	13.1%	7.9%	-20.6%	-4.0%	8.1%	-12.4%
Mean Bottom 50%	-47.0%	-8.9%	-0.4%	-11.8%	-52.7%	-32.5%	-13.9%	-46.1%
Average Markup on Cost (Weighted Average)	352%	347%	482%	414%	232%	362%	327%	288%

Notes:

1. For Average Bed Size, the Total Beds figure includes Specialty Hospitals
2. Daily Occupancy rate is based on Acute Inpatient Days
3. Revenue Per AOB is based on Average Total Operating Revenue Per AOB
4. All figures contained in this table use weighted average

All data contained in the table is sourced from the annual CMS cost reports.

Exhibit 9 - Critical Access Hospitals Operating Profit by Ownership Type

Metric	National				Texas			
	Gov't	Not-for-profit	For profit	Total	Gov't	Not-for-profit	For profit	Total
Average Hospital Profile								
Number of Hospitals (before any exclusions)	***528***	***720***	***82***	***1,330***	***53***	***16***	***10***	***79***
Average Bed Size (total beds)	34	37	28	35	24	23	22	23
Average Bed Size (acute only)	21	22	22	22	21	23	22	21
Average Occupancy Rate (acute only)	32.4%	35.5%	33.5%	34.2%	22.1%	32.1%	18.4%	23.8%
Average Daily Census (acute only)	7	8	7	7	5	7	4	5
Adjusted Occupied Beds (AOB)	65	78	41	70	30	33	19	29
Average Annual Operating Revenue	$ 17,694,051	$ 26,650,457	$ 14,872,967	$ 22,411,446	$ 10,303,230	$ 18,106,420	$ 14,430,133	$ 12,712,448
Revenue Per AOB (weighted avg)	$ 734	$ 948	$ 1,070	$ 873	$ 822	$ 1,498	$ 1,943	$ 1,065
Average Annual Operating Expense	$ 19,391,611	$ 27,990,295	$ 15,674,683	$ 23,861,090	$ 13,237,085	$ 19,149,009	$ 16,067,193	$ 15,020,676
Operating Profit Margin								
Number of Hospitals (after any exclusions)	***509***	***711***	***79***	***1,306***	***40***	***15***	***9***	***64***
1st Quartile (Top)	1.2%	6.2%	9.9%	4.7%	-7.6%	8.8%	-0.5%	1.6%
2nd Quartile	-7.8%	-2.8%	-5.3%	-4.5%	-25.4%	1.1%	-11.4%	-13.3%
3rd Quartile	-16.6%	-9.8%	-15.6%	-12.8%	-37.9%	-6.1%	-27.7%	-34.0%
4th Quartile (Bottom)	-36.5%	-25.1%	-41.1%	-30.6%	-56.9%	-48.9%	-46.0%	-55.8%
Mean	-9.6%	-5.0%	-5.4%	-6.5%	-28.5%	-5.8%	-11.3%	-18.2%
Median	-11.2%	-5.9%	-7.9%	-7.8%	-34.9%	-2.7%	-21.5%	-27.0%
% in Bottom 50% of all Hospitals	76.6%	62.3%	65.8%	68.1%	92.5%	40.0%	88.9%	79.7%
% with Operating Loss last 2 Yrs	76.8%	64.0%	50.6%	68.2%	77.5%	40.0%	55.6%	65.6%
Mean Top 50%	-6.3%	-1.5%	-1.3%	-3.1%	-20.4%	-0.3%	-7.2%	-11.1%
Mean Bottom 50%	-23.4%	-15.7%	-23.5%	-18.9%	-48.2%	-16.9%	-36.5%	-44.6%
Average Markup on Cost (Weighted Average)	149%	164%	260%	163%	125%	321%	175%	181%

Notes:

1. For Average Bed Size, the Total Beds figure includes Specialty Hospitals
2. Daily Occupancy rate is based on Acute Inpatient Days
3. Revenue Per AOB is based on Average Total Operating Revenue Per AOB
4. All figures contained in this table use weighted average

All data contained in the table is sourced from the annual CMS cost reports.

Exhibit 9a - Critical Access Hospitals Operating Profit by Ownership Type (National vs TORCH hospitals)

Metric	National				Torch			
	Gov't	Not-for-profit	For profit	Total	Gov't	Not-for-profit	For profit	Total
Average Hospital Profile								
Number of Hospitals (before any exclusions)	***528***	***720***	***82***	***1,330***	***51***	***14***	***9***	***74***
Average Bed Size (total beds)	34	37	28	35	24	23	22	23
Average Bed Size (acute only)	21	22	22	22	21	23	22	21
Average Occupancy Rate (acute only)	32.4%	35.5%	33.5%	34.2%	22.7%	32.7%	18.5%	24.2%
Average Daily Census (acute only)	7	8	7	7	5	7	4	5
Adjusted Occupied Beds (AOB)	65	78	41	70	30	33	13	29
Average Annual Operating Revenue	$ 17,694,051	$ 26,650,457	$ 14,872,967	$ 22,411,446	$ 10,431,942	$ 19,250,853	$ 10,149,988	$ 12,305,112
Revenue Per AOB (weighted avg)	$ 734	$ 948	$ 1,070	$ 873	$ 819	$ 1,531	$ 1,972	$ 1,049
Average Annual Operating Expense	$ 19,391,611	$ 27,990,295	$ 15,674,683	$ 23,861,090	$ 13,362,880	$ 20,562,653	$ 11,563,858	$ 14,682,961
Operating Profit Margin								
Number of Hospitals (after any exclusions)	***509***	***711***	***79***	***1,306***	***39***	***13***	***8***	***60***
1st Quartile (Top)	1.2%	6.2%	9.9%	4.7%	-7.6%	5.5%	15.9%	0.5%
2nd Quartile	-7.8%	-2.8%	-5.3%	-4.5%	-25.4%	0.4%	-11.4%	-16.9%
3rd Quartile	-16.6%	-9.8%	-15.6%	-12.8%	-37.9%	-7.0%	-27.7%	-35.3%
4th Quartile (Bottom)	-36.5%	-25.1%	-41.1%	-30.6%	-56.8%	-48.9%	-46.0%	-55.8%
Mean	-9.6%	-5.0%	-5.4%	-6.5%	-28.1%	-6.8%	-13.9%	-19.3%
Median	-11.2%	-5.9%	-7.9%	-7.8%	-34.7%	-2.7%	-28.3%	-28.9%
% in Bottom 50% of all Hospitals	76.6%	62.3%	65.8%	68.1%	56.4%	23.1%	50.0%	48.3%
% with Operating Loss last 2 Yrs	76.8%	64.0%	50.6%	68.2%	76.9%	46.2%	62.5%	68.3%
Mean Top 50%	-6.3%	-1.5%	-1.3%	-3.1%	-20.4%	-1.0%	-7.3%	-12.0%
Mean Bottom 50%	-23.4%	-15.7%	-23.5%	-18.9%	-47.9%	-19.6%	-36.5%	-45.7%
Average Markup on Cost (Weighted Average)	149%	164%	260%	163%	123%	300%	105%	165%

Notes:

1. For Average Bed Size, the Total Beds figure includes Specialty Hospitals
2. Daily Occupancy rate is based on Acute Inpatient Days
3. Revenue Per AOB is based on Average Total Operating Revenue Per AOB
4. All figures contained in this table use weighted average

All data contained in the table is sourced from the annual CMS cost reports.

Exhibit 9b - Critical Access Hospitals Operating Profit by Ownership Type (Texas vs TORCH hospitals)

Metric	Texas				Torch			
	Gov't	Not-for-profit	For profit	Total	Gov't	Not-for-profit	For profit	Total
Average Hospital Profile								
Number of Hospitals (before any exclusions)	***53***	***16***	***10***	***79***	***51***	***14***	***9***	***74***
Average Bed Size (total beds)	24	23	22	23	24	23	22	23
Average Bed Size (acute only)	21	23	22	21	21	23	22	21
Average Occupancy Rate (acute only)	22.1%	32.1%	18.4%	23.8%	22.7%	32.7%	18.5%	24.2%
Average Daily Census (acute only)	5	7	4	5	5	7	4	5
Adjusted Occupied Beds (AOB)	30	33	19	29	30	33	13	29
Average Annual Operating Revenue	$ 10,303,230	$ 18,106,420	$ 14,430,133	$ 12,712,448	$ 10,431,942	$ 19,250,853	$ 10,149,988	$ 12,305,112
Revenue Per AOB (weighted avg)	$ 822	$ 1,498	$ 1,943	$ 1,065	$ 819	$ 1,531	$ 1,972	$ 1,049
Average Annual Operating Expense	$ 13,237,085	$ 19,149,009	$ 16,067,193	$ 15,020,676	$ 13,362,880	$ 20,562,653	$ 11,563,858	$ 14,682,961
Operating Profit Margin								
Number of Hospitals (after any exclusions)	***40***	***15***	***9***	***64***	***39***	***13***	***8***	***60***
1st Quartile (Top)	-7.6%	8.8%	-0.5%	1.6%	-7.6%	5.5%	15.9%	0.5%
2nd Quartile	-25.4%	1.1%	-11.4%	-13.3%	-25.4%	0.4%	-11.4%	-16.9%
3rd Quartile	-37.9%	-6.1%	-27.7%	-34.0%	-37.9%	-7.0%	-27.7%	-35.3%
4th Quartile (Bottom)	-56.9%	-48.9%	-46.0%	-55.8%	-56.8%	-48.9%	-46.0%	-55.8%
Mean	-28.5%	-5.8%	-11.3%	-18.2%	-28.1%	-6.8%	-13.9%	-19.3%
Median	-34.9%	-2.7%	-21.5%	-27.0%	-34.7%	-2.7%	-28.3%	-28.9%
% in Bottom 50% of all Hospitals	92.5%	40.0%	88.9%	79.7%	56.4%	23.1%	50.0%	48.3%
% with Operating Loss last 2 Yrs	77.5%	40.0%	55.6%	65.6%	76.9%	46.2%	62.5%	68.3%
Mean Top 50%	-20.4%	-0.3%	-7.2%	-11.1%	-20.4%	-1.0%	-7.3%	-12.0%
Mean Bottom 50%	-48.2%	-16.9%	-36.5%	-44.6%	-47.9%	-19.6%	-36.5%	-45.7%
Average Markup on Cost (Weighted Average)	125%	321%	175%	181%	123%	300%	105%	165%

Notes:

1. For Average Bed Size, the Total Beds figure includes Specialty Hospitals
2. Daily Occupancy rate is based on Acute Inpatient Days
3. Revenue Per AOB is based on Average Total Operating Revenue Per AOB
4. All figures contained in this table use weighted average

All data contained in the table is sourced from the annual CMS cost reports.

Exhibit 10 - Short-term Hospitals Operating Profit by System Ownership

Metric	Governmental (Inc. University)		All Short-term (Inc. University)		
	System	Non-System	System	Non-System	Total
National					
Average Hospital Profile					
Number of Hospitals (before any exclusions)	***216***	***833***	***2,409***	***2,369***	***4,778***
# of GACs within 35-miles of a Critical Access	42	318	314	619	933
Average Bed Size (total beds)	245	100	203	132	168
Average Bed Size (acute only)	199	69	179	105	142
Average Occupancy Rate (acute only)	68.9%	51.0%	61.1%	58.9%	60.3%
Average Daily Census (acute only)	137	35	109	61	85
Adjusted Occupied Beds (AOB)	309	114	226	158	191
Average Annual Operating Revenue	$ 254,917,225	$ 66,972,667	$ 198,438,672	$ 123,779,426	$ 161,266,070
Revenue Per AOB (weighted avg)	$ 2,212	$ 1,736	$ 2,479	$ 2,181	$ 2,370
Average Annual Operating Expense	$ 269,333,706	$ 72,119,142	$ 196,950,907	$ 128,341,400	$ 162,790,451
Operating Profit Margin					
Number of Hospitals (after any exclusions)	***190***	***785***	***2,268***	***2,249***	***4,517***
1st Quartile (Top)	4.8%	2.5%	13.6%	5.9%	10.4%
2nd Quartile	-5.8%	-7.2%	2.9%	-2.9%	-0.2%
3rd Quartile	-16.1%	-17.0%	-5.5%	-12.6%	-9.0%
4th Quartile (Bottom)	-42.6%	-41.3%	-22.9%	-33.4%	-26.9%
Mean	-5.7%	-7.7%	0.7%	-3.7%	-0.9%
Median	-8.7%	-10.5%	-0.2%	-5.9%	-3.1%
% in Bottom 50% of all Hospitals	65.3%	74.4%	39.5%	60.6%	50.0%
% with Operating Loss last 2 Yrs	60.0%	75.0%	40.4%	64.1%	52.2%
Mean Top 50%	-3.5%	-3.9%	4.2%	-1.2%	2.1%
Mean Bottom 50%	-21.4%	-27.2%	-11.5%	-18.2%	-15.1%
Average Markup on Cost (weighted average)	280%	237%	336%	269%	310%
Texas					
Average Hospital Profile					
Number of Hospitals (before any exclusions)	***11***	***100***	***222***	***174***	***396***
# of GACs within 35-miles of a Critical Access	1	39	15	47	62
Average Bed Size (total beds)	264	64	209	64	145
Average Bed Size (acute only)	236	58	194	59	135
Average Occupancy Rate (acute only)	70.1%	46.7%	61.3%	46.2%	58.0%
Average Daily Census (acute only)	165	27	119	27	78
Adjusted Occupied Beds (AOB)	405	69	221	70	152
Average Annual Operating Revenue	$ 174,642,336	$ 29,520,429	$ 179,319,660	$ 42,098,114	$ 123,220,263
Revenue Per AOB (weighted avg)	$ 1,186	$ 1,502	$ 2,370	$ 1,875	$ 2,300
Average Annual Operating Expense	$ 236,653,583	$ 35,978,305	$ 171,940,903	$ 44,752,964	$ 119,943,481
Operating Profit Margin					
Operating Profit Margin (hospitals included)	***7***	**80**	***201***	**139**	**340**
1st Quartile (Top)	-6.3%	-8.4%	18.0%	10.8%	16.6%
2nd Quartile	-12.3%	-31.5%	6.2%	-9.4%	2.2%
3rd Quartile	-26.9%	-42.6%	-1.8%	-34.6%	-10.7%
4th Quartile (Bottom)	-60.7%	-58.7%	-23.4%	-52.9%	-39.3%
Mean	-35.5%	-21.9%	4.1%	-6.3%	2.7%
Median	-21.8%	-37.5%	1.8%	-22.6%	-4.2%
% in Bottom 50% of all Hospitals	100.0%	93.8%	33.8%	74.1%	50.3%
% with Operating Loss last 2 Yrs	71.4%	82.5%	32.8%	64.0%	45.6%
Mean Top 50%	-21.7%	-17.9%	9.0%	-2.6%	6.2%
Mean Bottom 50%	-42.3%	-50.0%	-10.4%	-41.4%	-20.2%
Average Markup on Cost (weighted average)	301%	245%	399%	294%	379%

Notes:

1. For Average Bed Size, the Total Beds figure includes Specialty Hospitals
2. Daily Occupancy rate is based on Acute Inpatient Days
3. Revenue Per AOB is based on Average Total Operating Revenue Per AOB
4. All figures contained in this table use weighted average

All data contained in the table is sourced from the annual CMS cost reports.

Exhibit 10a - Short-term Hospitals Operating Profit by System Ownership (National vs TORCH hospitals)

Metric	Governmental (Inc. University)		All Short-term (Inc. University)		
	System	Non-System	System	Non-System	Total
National					
Average Hospital Profile					
Number of Hospitals (before any exclusions)	***216***	***833***	***2,409***	***2,369***	***4,778***
# of GACs within 35-miles of a Critical Access	42	318	314	619	933
Average Bed Size (total beds)	245	100	203	132	168
Average Bed Size (acute only)	199	69	179	105	142
Average Occupancy Rate (acute only)	68.9%	51.0%	61.1%	58.9%	60.3%
Average Daily Census (acute only)	137	35	109	61	85
Adjusted Occupied Beds (AOB)	309	114	226	158	191
Average Annual Operating Revenue	$ 254,917,225	$ 66,972,667	$ 198,438,672	$ 123,779,426	$ 161,266,070
Revenue Per AOB (weighted avg)	$ 2,212	$ 1,736	$ 2,479	$ 2,181	$ 2,370
Average Annual Operating Expense	$ 269,333,706	$ 72,119,142	$ 196,950,907	$ 128,341,400	$ 162,790,451
Operating Profit Margin					
Number of Hospitals (after any exclusions)	***190***	***785***	***2,268***	***2,249***	***4,517***
1st Quartile (Top)	4.8%	2.5%	13.6%	5.9%	10.4%
2nd Quartile	-5.8%	-7.2%	2.9%	-2.9%	-0.2%
3rd Quartile	-16.1%	-17.0%	-5.5%	-12.6%	-9.0%
4th Quartile (Bottom)	-42.6%	-41.3%	-22.9%	-33.4%	-26.9%
Mean	-5.7%	-7.7%	0.7%	-3.7%	-0.9%
Median	-8.7%	-10.5%	-0.2%	-5.9%	-3.1%
% in Bottom 50% of all Hospitals	65.3%	74.4%	39.5%	60.6%	50.0%
% with Operating Loss last 2 Yrs	60.0%	75.0%	40.4%	64.1%	52.2%
Mean Top 50%	-3.5%	-3.9%	4.2%	-1.2%	2.1%
Mean Bottom 50%	-21.4%	-27.2%	-11.5%	-18.2%	-15.1%
Average Markup on Cost (weighted average)	280%	237%	336%	269%	310%
Torch					
Average Hospital Profile					
Number of Hospitals (before any exclusions)	***2***	***91***	***33***	***110***	***143***
# of GACs within 35-miles of a Critical Access	-	38	13	44	57
Average Bed Size (total beds)	91	38	54	38	42
Average Bed Size (acute only)	73	33	52	34	38
Average Occupancy Rate (acute only)	35.4%	27.0%	34.5%	27.2%	29.5%
Average Daily Census (acute only)	26	9	18	9	11
Adjusted Occupied Beds (AOB)	97	36	49	35	37
Average Annual Operating Revenue	$ 92,477,648	$ 17,452,328	$ 37,019,823	$ 18,418,327	$ 23,257,740
Revenue Per AOB (weighted avg)	$ 2,625	$ 1,172	$ 2,012	$ 1,306	$ 1,551
Average Annual Operating Expense	$ 99,565,716	$ 22,374,282	$ 39,616,574	$ 22,904,588	$ 27,252,422
Operating Profit Margin					
Operating Profit Margin (hospitals included)	***2***	***75***	***32***	***91***	***123***
1st Quartile (Top)		-8.0%	6.3%	-5.2%	0.3%
2nd Quartile		-32.2%	-0.4%	-27.5%	-15.1%
3rd Quartile	-6.3%	-43.8%	-10.3%	-42.5%	-38.5%
4th Quartile (Bottom)	-7.8%	-59.4%	-42.5%	-58.7%	-56.4%
Mean	-7.7%	-28.2%	-7.0%	-24.4%	-17.2%
Median	-7.0%	-38.5%	-6.8%	-37.3%	-32.4%
% in Bottom 50% of all Hospitals	0.0%	65.3%	25.0%	60.4%	51.2%
% with Operating Loss last 2 Yrs	100.0%	81.3%	50.0%	80.2%	72.4%
Mean Top 50%	-6.3%	-22.2%	-2.0%	-18.7%	-11.9%
Mean Bottom 50%	-7.7%	-51.1%	-19.9%	-49.5%	-45.7%
Average Markup on Cost (weighted average)	302%	187%	372%	198%	257%

Notes:

1. For Average Bed Size, the Total Beds figure includes Specialty Hospitals
2. Daily Occupancy rate is based on Acute Inpatient Days
3. Revenue Per AOB is based on Average Total Operating Revenue Per AOB
4. All figures contained in this table use weighted average

All data contained in the table is sourced from the annual CMS cost reports.

Exhibit 10b - Short-term Hospitals Operating Profit by System Ownership (Texas vs TORCH hospitals)

Metric	Governmental (Inc. University)		All Short-term (Inc. University)		
	System	Non-System	System	Non-System	Total
Texas					
Average Hospital Profile					
Number of Hospitals (before any exclusions)	***11***	***100***	***222***	***174***	***396***
# of GACs within 35-miles of a Critical Access	1	39	15	47	62
Average Bed Size (total beds)	264	64	209	64	145
Average Bed Size (acute only)	236	58	194	59	135
Average Occupancy Rate (acute only)	70.1%	46.7%	61.3%	46.2%	58.0%
Average Daily Census (acute only)	165	27	119	27	78
Adjusted Occupied Beds (AOB)	405	69	221	70	152
Average Annual Operating Revenue	$ 174,642,336	$ 29,520,429	$ 179,319,660	$ 42,098,114	$ 123,220,263
Revenue Per AOB (weighted avg)	$ 1,186	$ 1,502	$ 2,370	$ 1,875	$ 2,300
Average Annual Operating Expense	$ 236,653,583	$ 35,978,305	$ 171,940,903	$ 44,752,964	$ 119,943,481
Operating Profit Margin					
Operating Profit Margin (hospitals included)	***7***	**80**	***201***	**139**	**340**
1st Quartile (Top)	-6.3%	-8.4%	18.0%	10.8%	16.6%
2nd Quartile	-12.3%	-31.5%	6.2%	-9.4%	2.2%
3rd Quartile	-26.9%	-42.6%	-1.8%	-34.6%	-10.7%
4th Quartile (Bottom)	-60.7%	-58.7%	-23.4%	-52.9%	-39.3%
Mean	-35.5%	-21.9%	4.1%	-6.3%	2.7%
Median	-21.8%	-37.5%	1.8%	-22.6%	-4.2%
% in Bottom 50% of all Hospitals	100.0%	93.8%	33.8%	74.1%	50.3%
% with Operating Loss last 2 Yrs	71.4%	82.5%	32.8%	64.0%	45.6%
Mean Top 50%	-21.7%	-17.9%	9.0%	-2.6%	6.2%
Mean Bottom 50%	-42.3%	-50.0%	-10.4%	-41.4%	-20.2%
Average Markup on Cost (weighted average)	301%	245%	399%	294%	379%
Torch					
Average Hospital Profile					
Number of Hospitals (before any exclusions)	***2***	***91***	***33***	***110***	***143***
# of GACs within 35-miles of a Critical Access	-	38	13	44	57
Average Bed Size (total beds)	91	38	54	38	42
Average Bed Size (acute only)	73	33	52	34	38
Average Occupancy Rate (acute only)	35.4%	27.0%	34.5%	27.2%	29.5%
Average Daily Census (acute only)	26	9	18	9	11
Adjusted Occupied Beds (AOB)	97	36	49	35	37
Average Annual Operating Revenue	$ 92,477,648	$ 17,452,328	$ 37,019,823	$ 18,418,327	$ 23,257,740
Revenue Per AOB (weighted avg)	$ 2,625	$ 1,172	$ 2,012	$ 1,306	$ 1,551
Average Annual Operating Expense	$ 99,565,716	$ 22,374,282	$ 39,616,574	$ 22,904,588	$ 27,252,422
Operating Profit Margin					
Operating Profit Margin (hospitals included)	***2***	**75**	***32***	**91**	**123**
1st Quartile (Top)		-8.0%	6.3%	-5.2%	0.3%
2nd Quartile		-32.2%	-0.4%	-27.5%	-15.1%
3rd Quartile	-6.3%	-43.8%	-10.3%	-42.5%	-38.5%
4th Quartile (Bottom)	-7.8%	-59.4%	-42.5%	-58.7%	-56.4%
Mean	-7.7%	-28.2%	-7.0%	-24.4%	-17.2%
Median	-7.0%	-38.5%	-6.8%	-37.3%	-32.4%
% in Bottom 50% of all Hospitals	0.0%	65.3%	25.0%	60.4%	51.2%
% with Operating Loss last 2 Yrs	100.0%	81.3%	50.0%	80.2%	72.4%
Mean Top 50%	-6.3%	-22.2%	-2.0%	-18.7%	-11.9%
Mean Bottom 50%	-7.7%	-51.1%	-19.9%	-49.5%	-45.7%
Average Markup on Cost (weighted average)	302%	187%	372%	198%	257%

Notes:

1. For Average Bed Size, the Total Beds figure includes Specialty Hospitals
2. Daily Occupancy rate is based on Acute Inpatient Days
3. Revenue Per AOB is based on Average Total Operating Revenue Per AOB
4. All figures contained in this table use weighted average

All data contained in the table is sourced from the annual CMS cost reports.

Labor Cost

Key Findings:

- Nationally and in Texas, government-owned hospitals have the highest labor cost as a percentage of net patient revenue.
- Nationally, government hospitals have FTEs per AOB that are 11% above the national average. Texas government hospitals are 12% above the national average for all GAC hospitals and 20% and 32% above the averages for their not-for-profit and for-profit competitors in Texas.
- Government and non-system hospitals have revenue per FTE that is consistently lower than their system counterparts.

Exhibit 11 - General Acute Care Hospitals Total Labor Cost by Ownership Type

Metric	National				Texas			
	Gov't	Not-for-profit	For profit	Total	Gov't	Not-for-profit	For profit	Total
Average Hospital Profile								
Number of Hospitals (before any exclusions)	***455***	***1,825***	***905***	***3,185***	***50***	***102***	***151***	***303***
Average Bed Size (total beds)	180	208	151	188	80	182	161	155
Average Bed Size (acute only)	128	180	135	160	71	170	150	144
Average Occupancy Rate (acute only)	53.5%	59.7%	53.7%	57.6%	45.0%	61.5%	56.7%	57.3%
Average Daily Census (acute only)	68	108	72	92	32	105	84	82
Adjusted Occupied Beds (AOB)	202	244	144	208	82	201	156	157
Average Annual Operating Revenue	$ 120,972,742	$ 202,161,584	$ 112,575,355	$ 166,190,337	$ 47,402,142	$ 153,813,980	$ 140,325,377	$ 130,316,871
Revenue Per AOB (weighted avg)	$ 1,613	$ 2,305	$ 2,149	$ 2,197	$ 1,533	$ 2,473	$ 2,388	$ 2,369
Average Annual Operating Expense	$ 128,652,081	$ 202,407,120	$ 104,402,885	$ 165,173,753	$ 57,783,578	$ 150,291,092	$ 125,592,875	$ 123,691,951
Total FTEs	372,418	2,063,242	489,818	2,925,477	21,593	83,808	86,653	192,054
Average Full Time Equivalent Staff (FTE)	820	1,132	550	924	432	822	589	642
Revenue per FTE	$ 141,242	$ 176,853	$ 203,710	$ 176,816	$ 105,458	$ 207,560	$ 233,223	$ 207,660
FTE (Inc. Contract Labor) per AOB (Mean)	5.3	5.0	4.1	4.8	5.4	4.5	4.1	4.4
Labor Cost as a % of Revenue								
Number of Hospitals (after any exclusions)	***404***	***1,717***	***809***	***2,941***	***37***	***96***	***119***	***253***
1st Quartile (Top)	37.3%	32.0%	25.5%	29.5%	40.7%	32.4%	26.4%	29.2%
2nd Quartile	47.9%	40.5%	31.3%	38.1%	59.4%	38.8%	31.2%	36.2%
3rd Quartile	57.3%	48.9%	38.6%	47.4%	72.7%	45.5%	37.2%	44.0%
4th Quartile (Bottom)	73.4%	61.5%	50.0%	61.4%	85.1%	56.2%	45.1%	62.1%
Mean	50.8%	43.8%	36.6%	43.1%	55.4%	39.4%	34.6%	38.0%
Median	54.2%	45.5%	36.0%	44.1%	68.5%	41.7%	33.7%	40.2%
% in Bottom 50% of all Hospitals	78.7%	52.3%	24.2%	48.3%	91.9%	47.9%	21.8%	41.9%
Mean Top 50%	46.8%	39.9%	33.0%	39.0%	50.9%	38.1%	32.6%	36.1%
Mean Bottom 50%	64.0%	54.3%	43.1%	53.0%	78.2%	47.9%	39.7%	48.0%

Notes:

1. For Average Bed Size, the Total Beds figure includes Specialty Hospitals
2. Daily Occupancy rate is based on Acute Inpatient Days
3. Revenue Per AOB is based on Average Total Operating Revenue Per AOB
4. All figures contained in this table use weighted average

All data contained in the table is sourced from the annual CMS cost reports.

Exhibit 11a - General Acute Care Hospitals Total Labor Cost by Ownership Type (National vs TORCH hospitals)

Metric	National				Torch			
	Gov't	Not-for-profit	For profit	Total	Gov't	Not-for-profit	For profit	Total
Average Hospital Profile								
Number of Hospitals (before any exclusions)	***455***	***1,825***	***905***	***3,185***	***42***	***23***	***4***	***69***
Average Bed Size (total beds)	180	208	151	188	57	66	83	62
Average Bed Size (acute only)	128	180	135	160	50	65	75	56
Average Occupancy Rate (acute only)	53.5%	59.7%	53.7%	57.6%	29.8%	35.5%	24.5%	31.6%
Average Daily Census (acute only)	68	108	72	92	15	23	18	18
Adjusted Occupied Beds (AOB)	202	244	144	208	52	58	47	53
Average Annual Operating Revenue	$ 120,972,742	$ 202,161,584	$ 112,575,355	$ 166,190,337	$ 28,606,161	$ 40,761,009	$ 46,206,342	$ 33,688,815
Revenue Per AOB (weighted avg)	$ 1,613	$ 2,305	$ 2,149	$ 2,197	$ 1,395	$ 1,850	$ 2,690	$ 1,661
Average Annual Operating Expense	$ 128,652,081	$ 202,407,120	$ 104,402,885	$ 165,173,753	$ 35,685,533	$ 44,593,711	$ 44,652,764	$ 39,223,336
Total FTEs	372,418	2,063,242	489,818	2,925,477	11,199	6,854	1,178	19,231
Average Full Time Equivalent Staff (FTE)	820	1,132	550	924	267	298	294	279
Revenue per FTE	$ 141,242	$ 176,853	$ 203,710	$ 176,816	$ 99,774	$ 131,714	$ 156,774	$ 114,648
FTE (Inc. Contract Labor) per AOB (Mean)	5.3	5.0	4.1	4.8	5.4	4.9	6.6	5.3
Labor Cost as a % of Revenue								
Number of Hospitals (after any exclusions)	***404***	***1,717***	***809***	***2,941***	***30***	***22***	***4***	***56***
1st Quartile (Top)	37.3%	32.0%	25.5%	29.5%	47.4%	36.0%	34.5%	38.6%
2nd Quartile	47.9%	40.5%	31.3%	38.1%	61.6%	50.9%	53.6%	53.6%
3rd Quartile	57.3%	48.9%	38.6%	47.4%	74.9%	56.5%	71.0%	64.2%
4th Quartile (Bottom)	73.4%	61.5%	50.0%	61.4%	83.4%	66.5%		78.8%
Mean	50.8%	43.8%	36.6%	43.1%	60.2%	45.6%	39.2%	52.1%
Median	54.2%	45.5%	36.0%	44.1%	68.9%	52.2%	46.9%	58.2%
% in Bottom 50% of all Hospitals	78.7%	52.3%	24.2%	48.3%	63.3%	31.8%	25.0%	48.2%
Mean Top 50%	46.8%	39.9%	33.0%	39.0%	57.3%	42.8%	39.2%	48.4%
Mean Bottom 50%	64.0%	54.3%	43.1%	53.0%	78.5%	61.9%	71.0%	70.0%

Notes:

1. For Average Bed Size, the Total Beds figure includes Specialty Hospitals
2. Daily Occupancy rate is based on Acute Inpatient Days
3. Revenue Per AOB is based on Average Total Operating Revenue Per AOB
4. All figures contained in this table use weighted average

All data contained in the table is sourced from the annual CMS cost reports.

Exhibit 11b - General Acute Care Hospitals Total Labor Cost by Ownership Type (Texas vs TORCH hospitals)

Metric	Texas				Torch			
	Gov't	Not-for-profit	For profit	Total	Gov't	Not-for-profit	For profit	Total
Average Hospital Profile								
Number of Hospitals (before any exclusions)	***50***	***102***	***151***	***303***	***42***	***23***	***4***	***69***
Average Bed Size (total beds)	80	182	161	155	57	66	83	62
Average Bed Size (acute only)	71	170	150	144	50	65	75	56
Average Occupancy Rate (acute only)	45.0%	61.5%	56.7%	57.3%	29.8%	35.5%	24.5%	31.6%
Average Daily Census (acute only)	32	105	84	82	15	23	18	18
Adjusted Occupied Beds (AOB)	82	201	156	157	52	58	47	53
Average Annual Operating Revenue	$ 47,402,142	$ 153,813,980	$ 140,325,377	$ 130,316,871	$ 28,606,161	$ 40,761,009	$ 46,206,342	$ 33,688,815
Revenue Per AOB (weighted avg)	$ 1,533	$ 2,473	$ 2,388	$ 2,369	$ 1,395	$ 1,850	$ 2,690	$ 1,661
Average Annual Operating Expense	$ 57,783,578	$ 150,291,092	$ 125,592,875	$ 123,691,951	$ 35,685,533	$ 44,593,711	$ 44,652,764	$ 39,223,336
Total FTEs	21,593	83,808	86,653	192,054	11,199	6,854	1,178	19,231
Average Full Time Equivalent Staff (FTE)	432	822	589	642	267	298	294	279
Revenue per FTE	$ 105,458	$ 207,560	$ 233,223	$ 207,660	$ 99,774	$ 131,714	$ 156,774	$ 114,648
FTE (Inc. Contract Labor) per AOB (Mean)	5.4	4.5	4.1	4.4	5.4	4.9	6.6	5.3
Labor Cost as a % of Revenue								
Number of Hospitals (after any exclusions)	***37***	***96***	***119***	***253***	***30***	***22***	***4***	***56***
1st Quartile (Top)	40.7%	32.4%	26.4%	29.2%	47.4%	36.0%	34.5%	38.6%
2nd Quartile	59.4%	38.8%	31.2%	36.2%	61.6%	50.9%	53.6%	53.6%
3rd Quartile	72.7%	45.5%	37.2%	44.0%	74.9%	56.5%	71.0%	64.2%
4th Quartile (Bottom)	85.1%	56.2%	45.1%	62.1%	83.4%	66.5%		78.8%
Mean	55.4%	39.4%	34.6%	38.0%	60.2%	45.6%	39.2%	52.1%
Median	68.5%	41.7%	33.7%	40.2%	68.9%	52.2%	46.9%	58.2%
% in Bottom 50% of all Hospitals	91.9%	47.9%	21.8%	41.9%	63.3%	31.8%	25.0%	48.2%
Mean Top 50%	50.9%	38.1%	32.6%	36.1%	57.3%	42.8%	39.2%	48.4%
Mean Bottom 50%	78.2%	47.9%	39.7%	48.0%	78.5%	61.9%	71.0%	70.0%

Notes:

1. For Average Bed Size, the Total Beds figure includes Specialty Hospitals
2. Daily Occupancy rate is based on Acute Inpatient Days
3. Revenue Per AOB is based on Average Total Operating Revenue Per AOB
4. All figures contained in this table use weighted average

All data contained in the table is sourced from the annual CMS cost reports.

Exhibit 12 - Critical Access Hospitals Total Labor Cost by Ownership Type

Metric	National				Texas			
	Gov't	Not-for-profit	For profit	Total	Gov't	Not-for-profit	For profit	Total
Average Hospital Profile								
Number of Hospitals (before any exclusions)	***528***	***720***	***82***	***1,330***	***53***	***16***	***10***	***79***
Average Bed Size (total beds)	34	37	28	35	24	23	22	23
Average Bed Size (acute only)	21	22	22	22	21	23	22	21
Average Occupancy Rate (acute only)	32.4%	35.5%	33.5%	34.2%	22.1%	32.1%	18.4%	23.8%
Average Daily Census (acute only)	7	8	7	7	5	7	4	5
Adjusted Occupied Beds (AOB)	65	78	41	70	30	33	19	29
Average Annual Operating Revenue	$ 17,694,051	$ 26,650,457	$ 14,872,967	$ 22,411,446	$ 10,303,230	$ 18,106,420	$ 14,430,133	$ 12,712,448
Revenue Per AOB (weighted avg)	734	948	1,070	873	822	1,498	1,943	1,065
Average Annual Operating Expense	$ 19,391,611	$ 27,990,295	$ 15,674,683	$ 23,861,090	$ 13,237,085	$ 19,149,009	$ 16,067,193	$ 15,020,676
Total FTEs	80,495	133,239	9,959	223,693	5,903	1,860	922	8,686
Average Full Time Equivalent Staff (FTE)	152	185	123	168	111	116	92	110
Revenue per FTE	$ 113,011	$ 142,949	$ 125,518	$ 131,400	$ 79,340	$ 150,396	$ 145,628	$ 101,597
FTE (Inc. Contract Labor) per AOB (Mean)	5.4	5.4	4.3	5.3	5.2	3.6	4.6	4.7
Labor Cost as a % of Revenue								
Number of Hospitals (after any exclusions)	***501***	***704***	***81***	***1,293***	***40***	***14***	***9***	***63***
1st Quartile (Top)	42.3%	37.8%	33.0%	38.5%	46.5%	30.2%	37.7%	35.8%
2nd Quartile	51.4%	47.8%	45.9%	48.9%	59.9%	39.0%	45.9%	54.8%
3rd Quartile	59.1%	55.3%	56.3%	56.7%	69.9%	48.0%	57.5%	62.3%
4th Quartile (Bottom)	70.8%	64.9%	70.9%	67.5%	80.4%	61.0%	63.7%	76.4%
Mean	54.3%	50.3%	46.7%	51.5%	59.7%	37.7%	45.2%	50.1%
Median	56.2%	51.7%	52.3%	53.4%	62.8%	39.9%	53.9%	58.6%
% in Bottom 50% of all Hospitals	86.6%	74.4%	60.5%	78.4%	97.5%	42.9%	77.8%	82.5%
Mean Top 50%	50.7%	46.9%	42.3%	48.0%	55.7%	35.2%	43.4%	45.4%
Mean Bottom 50%	64.0%	59.4%	62.8%	61.1%	74.6%	53.7%	60.7%	69.3%

Notes:

1. For Average Bed Size, the Total Beds figure includes Specialty Hospitals
2. Daily Occupancy rate is based on Acute Inpatient Days
3. Revenue Per AOB is based on Average Total Operating Revenue Per AOB
4. All figures contained in this table use weighted average

All data contained in the table is sourced from the annual CMS cost reports.

Exhibit 12a - Critical Access Hospitals Total Labor Cost by Ownership Type (National vs TORCH hospitals)

Metric	National				Torch			
	Gov't	Not-for-profit	For profit	Total	Gov't	Not-for-profit	For profit	Total
Average Hospital Profile								
Number of Hospitals (before any exclusions)	***528***	***720***	***82***	***1,330***	***51***	***14***	***9***	***74***
Average Bed Size (total beds)	34	37	28	35	24	23	22	23
Average Bed Size (acute only)	21	22	22	22	21	23	22	21
Average Occupancy Rate (acute only)	32.4%	35.5%	33.5%	34.2%	22.7%	32.7%	18.5%	24.2%
Average Daily Census (acute only)	7	8	7	7	5	7	4	5
Adjusted Occupied Beds (AOB)	65	78	41	70	30	33	13	29
Average Annual Operating Revenue	$ 17,694,051	$ 26,650,457	$ 14,872,967	$ 22,411,446	$ 10,431,942	$ 19,250,853	$ 10,149,988	$ 12,305,112
Revenue Per AOB (weighted avg)	734	948	1,070	873	819	1,531	1,972	1,049
Average Annual Operating Expense	$ 19,391,611	$ 27,990,295	$ 15,674,683	$ 23,861,090	$ 13,362,880	$ 20,562,653	$ 11,563,858	$ 14,682,961
Total FTEs	80,495	133,239	9,959	223,693	5,814	1,728	729	8,271
Average Full Time Equivalent Staff (FTE)	152	185	123	168	114	123	81	112
Revenue per FTE	$ 113,011	$ 142,949	$ 125,518	$ 131,400	$ 79,366	$ 149,529	$ 117,443	$ 97,385
FTE (Inc. Contract Labor) per AOB (Mean)	5.4	5.4	4.3	5.3	5.2	3.7	5.0	4.8
Labor Cost as a % of Revenue								
Number of Hospitals (after any exclusions)	***501***	***704***	***81***	***1,293***	***39***	***12***	***8***	***59***
1st Quartile (Top)	42.3%	37.8%	33.0%	38.5%	46.2%	30.2%	37.7%	35.5%
2nd Quartile	51.4%	47.8%	45.9%	48.9%	59.5%	41.1%	55.3%	55.8%
3rd Quartile	59.1%	55.3%	56.3%	56.7%	69.9%	51.3%	60.5%	63.7%
4th Quartile (Bottom)	70.8%	64.9%	70.9%	67.5%	80.4%	61.3%	68.6%	77.7%
Mean	54.3%	50.3%	46.7%	51.5%	59.7%	37.8%	45.4%	50.7%
Median	56.2%	51.7%	52.3%	53.4%	62.8%	43.0%	55.4%	58.7%
% in Bottom 50% of all Hospitals	86.6%	74.4%	60.5%	78.4%	64.1%	25.0%	25.0%	50.8%
Mean Top 50%	50.7%	46.9%	42.3%	48.0%	55.6%	35.5%	44.4%	46.4%
Mean Bottom 50%	64.0%	59.4%	62.8%	61.1%	74.6%	55.8%	62.2%	69.8%

Notes:

1. For Average Bed Size, the Total Beds figure includes Specialty Hospitals
2. Daily Occupancy rate is based on Acute Inpatient Days
3. Revenue Per AOB is based on Average Total Operating Revenue Per AOB
4. All figures contained in this table use weighted average

All data contained in the table is sourced from the annual CMS cost reports.

Exhibit 12b - Critical Access Hospitals Total Labor Cost by Ownership Type (Texas vs TORCH hospitals)

Metric	Texas				Torch			
	Gov't	Not-for-profit	For profit	Total	Gov't	Not-for-profit	For profit	Total
Average Hospital Profile								
Number of Hospitals (before any exclusions)	***53***	***16***	***10***	***79***	***51***	***14***	***9***	***74***
Average Bed Size (total beds)	24	23	22	23	24	23	22	23
Average Bed Size (acute only)	21	23	22	21	21	23	22	21
Average Occupancy Rate (acute only)	22.1%	32.1%	18.4%	23.8%	22.7%	32.7%	18.5%	24.2%
Average Daily Census (acute only)	5	7	4	5	5	7	4	5
Adjusted Occupied Beds (AOB)	30	33	19	29	30	33	13	29
Average Annual Operating Revenue	$ 10,303,230	$ 18,106,420	$ 14,430,133	$ 12,712,448	$ 10,431,942	$ 19,250,853	$ 10,149,988	$ 12,305,112
Revenue Per AOB (weighted avg)	822	1,498	1,943	1,065	819	1,531	1,972	1,049
Average Annual Operating Expense	$ 13,237,085	$ 19,149,009	$ 16,067,193	$ 15,020,676	$ 13,362,880	$ 20,562,653	$ 11,563,858	$ 14,682,961
Total FTEs	5,903	1,860	922	8,686	5,814	1,728	729	8,271
Average Full Time Equivalent Staff (FTE)	111	116	92	110	114	123	81	112
Revenue per FTE	$ 79,340	$ 150,396	$ 145,628	$ 101,597	$ 79,366	$ 149,529	$ 117,443	$ 97,385
FTE (Inc. Contract Labor) per AOB (Mean)	5.2	3.6	4.6	4.7	5.2	3.7	5.0	4.8
Labor Cost as a % of Revenue								
Number of Hospitals (after any exclusions)	***40***	***14***	***9***	***63***	***39***	***12***	***8***	***59***
1st Quartile (Top)	46.5%	30.2%	37.7%	35.8%	46.2%	30.2%	37.7%	35.5%
2nd Quartile	59.9%	39.0%	45.9%	54.8%	59.5%	41.1%	55.3%	55.8%
3rd Quartile	69.9%	48.0%	57.5%	62.3%	69.9%	51.3%	60.5%	63.7%
4th Quartile (Bottom)	80.4%	61.0%	63.7%	76.4%	80.4%	61.3%	68.6%	77.7%
Mean	59.7%	37.7%	45.2%	50.1%	59.7%	37.8%	45.4%	50.7%
Median	62.8%	39.9%	53.9%	58.6%	62.8%	43.0%	55.4%	58.7%
% in Bottom 50% of all Hospitals	97.5%	42.9%	77.8%	82.5%	64.1%	25.0%	25.0%	50.8%
Mean Top 50%	55.7%	35.2%	43.4%	45.4%	55.6%	35.5%	44.4%	46.4%
Mean Bottom 50%	74.6%	53.7%	60.7%	69.3%	74.6%	55.8%	62.2%	69.8%

Notes:

1. For Average Bed Size, the Total Beds figure includes Specialty Hospitals
2. Daily Occupancy rate is based on Acute Inpatient Days
3. Revenue Per AOB is based on Average Total Operating Revenue Per AOB
4. All figures contained in this table use weighted average

All data contained in the table is sourced from the annual CMS cost reports.

Exhibit 13 - Short-term Hospitals Total Labor Cost by System Ownership

Metric	Governmental (Inc. University)		All Short-term (Inc. University)		
	System	Non-System	System	Non-System	Total
National					
Average Hospital Profile					
Number of Hospitals (before any exclusions)	***216***	***833***	***2,409***	***2,369***	***4,778***
# of GACs within 35-miles of a Critical Access	42	318	314	619	933
Average Bed Size (total beds)	245	100	203	132	168
Average Bed Size (acute only)	199	69	179	105	142
Average Occupancy Rate (acute only)	68.9%	51.0%	61.1%	58.9%	60.3%
Average Daily Census (acute only)	137	35	109	61	85
Adjusted Occupied Beds (AOB)	309	114	226	158	191
Average Annual Operating Revenue	$ 254,917,225	$ 66,972,667	$ 198,438,672	$ 123,779,426	$ 161,266,070
Revenue Per AOB (weighted avg)	$ 2,212	$ 1,736	$ 2,479	$ 2,181	$ 2,370
Average Annual Operating Expense	$ 269,333,706	$ 72,119,142	$ 196,950,907	$ 128,341,400	$ 162,790,451
Total FTEs	338,374	425,455	2,517,140	1,855,228	4,372,367
Average Full Time Equivalent Staff (FTE)	1,567	511	1,050	786	919
Revenue per FTE	$ 152,153	$ 140,367	$ 191,266	$ 157,333	$ 176,868
FTE (inc Contract Labor) per AOB (Mean)	5.8	5.9	4.9	5.8	5.2
Total Labor Cost as a % of Revenue					
Number of Hospitals (after any exclusions)	***190***	***779***	***2,272***	***2,240***	***4,512***
1st Quartile (Top)	34.0%	39.7%	29.3%	36.0%	31.3%
2nd Quartile	42.2%	51.1%	36.8%	47.4%	40.8%
3rd Quartile	50.6%	59.4%	44.3%	56.3%	50.3%
4th Quartile (Bottom)	70.2%	73.9%	57.6%	70.1%	64.8%
Mean	47.5%	51.2%	40.7%	49.6%	44.1%
Median	49.2%	56.4%	41.3%	53.4%	47.2%
% in Bottom 50% of all Hospitals	63.7%	85.6%	38.4%	75.7%	56.9%
Mean Top 50%	41.8%	47.4%	37.1%	45.7%	40.3%
Mean Bottom 50%	59.6%	65.6%	49.7%	62.2%	56.3%
Texas					
Average Hospital Profile					
Number of Hospitals (before any exclusions)	***11***	***100***	***222***	***174***	***396***
# of GACs within 35-miles of a Critical Access	1	39	15	47	62
Average Bed Size (total beds)	264	64	209	64	145
Average Bed Size (acute only)	236	58	194	59	135
Average Occupancy Rate (acute only)	70.1%	46.7%	61.3%	46.2%	58.0%
Average Daily Census (acute only)	165	27	119	27	78
Adjusted Occupied Beds (AOB)	405	69	221	70	152
Average Annual Operating Revenue	$ 174,642,336	$ 29,520,429	$ 179,319,660	$ 42,098,114	$ 123,220,263
Revenue Per AOB (weighted avg)	$ 1,186	$ 1,502	$ 2,370	$ 1,875	$ 2,300
Average Annual Operating Expense	$ 236,653,583	$ 35,978,305	$ 171,940,903	$ 44,752,964	$ 119,943,481
Total FTEs	24,714	40,743	205,058	61,276	266,334
Average Full Time Equivalent Staff (FTE)	2,247	407	941	352	679
Revenue per FTE	$ 77,728	$ 92,568	$ 199,400	$ 134,760	$ 184,528
FTE (inc Contract Labor) per AOB (Mean)	7.2	6.1	4.5	5.6	4.7
Total Labor Cost as a % of Revenue					
Number of Hospitals (after any exclusions)	***6***	***73***	***200***	***127***	***327***
1st Quartile (Top)	34.9%	49.0%	29.2%	35.2%	30.0%
2nd Quartile	55.7%	60.3%	34.3%	49.3%	37.6%
3rd Quartile	62.7%	71.3%	40.9%	64.4%	47.2%
4th Quartile (Bottom)	70.8%	83.6%	50.2%	80.7%	68.5%
Mean	44.8%	60.2%	36.9%	48.2%	38.5%
Median	51.5%	65.6%	36.9%	58.2%	41.9%
% in Bottom 50% of all Hospitals	83.3%	95.9%	33.0%	76.4%	49.8%
Mean Top 50%	38.4%	55.8%	35.0%	44.7%	37.0%
Mean Bottom 50%	70.6%	77.1%	43.7%	71.1%	51.3%

Notes:

1. For Average Bed Size, the Total Beds figure includes Specialty Hospitals
2. Daily Occupancy rate is based on Acute Inpatient Days
3. Revenue Per AOB is based on Average Total Operating Revenue Per AOB
4. All figures contained in this table use weighted average

All data contained in the table is sourced from the annual CMS cost reports.

Exhibit 13a - Short-term Hospitals Total Labor Cost by System Ownership (National vs TORCH hospitals)

Metric	Governmental (Inc. University)		All Short-term (Inc. University)		
	System	Non-System	System	Non-System	Total
National					
Average Hospital Profile					
Number of Hospitals (before any exclusions)	***216***	***833***	***2,409***	***2,369***	***4,778***
# of GACs within 35-miles of a Critical Access	42	318	314	619	933
Average Bed Size (total beds)	245	100	203	132	168
Average Bed Size (acute only)	199	69	179	105	142
Average Occupancy Rate (acute only)	68.9%	51.0%	61.1%	58.9%	60.3%
Average Daily Census (acute only)	137	35	109	61	85
Adjusted Occupied Beds (AOB)	309	114	226	158	191
Average Annual Operating Revenue	$ 254,917,225	$ 66,972,667	$ 198,438,672	$ 123,779,426	$ 161,266,070
Revenue Per AOB (weighted avg)	$ 2,212	$ 1,736	$ 2,479	$ 2,181	$ 2,370
Average Annual Operating Expense	$ 269,333,706	$ 72,119,142	$ 196,950,907	$ 128,341,400	$ 162,790,451
Total FTEs	338,374	425,455	2,517,140	1,855,228	4,372,367
Average Full Time Equivalent Staff (FTE)	1,567	511	1,050	786	919
Revenue per FTE	$ 152,153	$ 140,367	$ 191,266	$ 157,333	$ 176,868
FTE (inc Contract Labor) per AOB (Mean)	5.8	5.9	4.9	5.8	5.2
Total Labor Cost as a % of Revenue					
Number of Hospitals (after any exclusions)	***190***	***779***	***2,272***	***2,240***	***4,512***
1st Quartile (Top)	34.0%	39.7%	29.3%	36.0%	31.3%
2nd Quartile	42.2%	51.1%	36.8%	47.4%	40.8%
3rd Quartile	50.6%	59.4%	44.3%	56.3%	50.3%
4th Quartile (Bottom)	70.2%	73.9%	57.6%	70.1%	64.8%
Mean	47.5%	51.2%	40.7%	49.6%	44.1%
Median	49.2%	56.4%	41.3%	53.4%	47.2%
% in Bottom 50% of all Hospitals	63.7%	85.6%	38.4%	75.7%	56.9%
Mean Top 50%	41.8%	47.4%	37.1%	45.7%	40.3%
Mean Bottom 50%	59.6%	65.6%	49.7%	62.2%	56.3%
Torch					
Average Hospital Profile					
Number of Hospitals (before any exclusions)	***2***	***91***	***33***	***110***	***143***
# of GACs within 35-miles of a Critical Access	-	38	13	44	57
Average Bed Size (total beds)	91	38	54	38	42
Average Bed Size (acute only)	73	33	52	34	38
Average Occupancy Rate (acute only)	35.4%	27.0%	34.5%	27.2%	29.5%
Average Daily Census (acute only)	26	9	18	9	11
Adjusted Occupied Beds (AOB)	97	36	49	35	37
Average Annual Operating Revenue	$ 92,477,648	$ 17,452,328	$ 37,019,823	$ 18,418,327	$ 23,257,740
Revenue Per AOB (weighted avg)	$ 1,186	$ 1,502	$ 2,370	$ 1,875	$ 2,300
Average Annual Operating Expense	$ 99,565,716	$ 22,374,282	$ 39,616,574	$ 22,904,588	$ 27,252,422
Total FTEs	1,135	15,878	8,060	19,442	27,502
Average Full Time Equivalent Staff (FTE)	567	174	244	177	192
Revenue per FTE	$ 162,979	$ 87,785	$ 147,991	$ 93,481	$ 109,456
FTE (inc Contract Labor) per AOB (Mean)	6.0	5.3	4.6	5.4	5.1
Total Labor Cost as a % of Revenue					
Number of Hospitals (after any exclusions)	***2***	***67***	***32***	***83***	***115***
1st Quartile (Top)	44.4%	48.4%	31.9%	47.4%	37.6%
2nd Quartile	46.0%	60.5%	43.0%	59.3%	53.9%
3rd Quartile		72.4%	51.0%	69.0%	63.8%
4th Quartile (Bottom)		81.9%	64.6%	80.3%	78.2%
Mean	44.5%	62.4%	41.1%	59.4%	51.8%
Median	45.2%	65.6%	46.4%	62.6%	58.6%
% in Bottom 50% of all Hospitals	0.0%	65.7%	21.9%	60.2%	49.6%
Mean Top 50%	44.5%	58.6%	38.4%	55.2%	47.7%
Mean Bottom 50%		76.7%	57.4%	74.8%	69.8%

Notes:

1. For Average Bed Size, the Total Beds figure includes Specialty Hospitals
2. Daily Occupancy rate is based on Acute Inpatient Days
3. Revenue Per AOB is based on Average Total Operating Revenue Per AOB
4. All figures contained in this table use weighted average

All data contained in the table is sourced from the annual CMS cost reports.

Exhibit 13b - Short-term Hospitals Total Labor Cost by System Ownership (Texas vs TORCH hospitals)

Metric	Governmental (Inc. University)		All Short-term (Inc. University)		
	System	Non-System	System	Non-System	Total
Texas					
Average Hospital Profile					
Number of Hospitals (before any exclusions)	***11***	***100***	***222***	***174***	***396***
# of GACs within 35-miles of a Critical Access	1	39	15	47	62
Average Bed Size (total beds)	264	64	209	64	145
Average Bed Size (acute only)	236	58	194	59	135
Average Occupancy Rate (acute only)	70.1%	46.7%	61.3%	46.2%	58.0%
Average Daily Census (acute only)	165	27	119	27	78
Adjusted Occupied Beds (AOB)	405	69	221	70	152
Average Annual Operating Revenue	$ 174,642,336	$ 29,520,429	$ 179,319,660	$ 42,098,114	$ 123,220,263
Revenue Per AOB (weighted avg)	$ 1,186	$ 1,502	$ 2,370	$ 1,875	$ 2,300
Average Annual Operating Expense	$ 236,653,583	$ 35,978,305	$ 171,940,903	$ 44,752,964	$ 119,943,481
Total FTEs	24,714	40,743	205,058	61,276	266,334
Average Full Time Equivalent Staff (FTE)	2,247	407	941	352	679
Revenue per FTE	$ 77,728	$ 92,568	$ 199,400	$ 134,760	$ 184,528
FTE (inc Contract Labor) per AOB (Mean)	7.2	6.1	4.5	5.6	4.7
Total Labor Cost as a % of Revenue					
Number of Hospitals (after any exclusions)	***6***	***73***	***200***	***127***	***327***
1st Quartile (Top)	34.9%	49.0%	29.2%	35.2%	30.0%
2nd Quartile	55.7%	60.3%	34.3%	49.3%	37.6%
3rd Quartile	62.7%	71.3%	40.9%	64.4%	47.2%
4th Quartile (Bottom)	70.8%	83.6%	50.2%	80.7%	68.5%
Mean	44.8%	60.2%	36.9%	48.2%	38.5%
Median	51.5%	65.6%	36.9%	58.2%	41.9%
% in Bottom 50% of all Hospitals	83.3%	95.9%	33.0%	76.4%	49.8%
Mean Top 50%	38.4%	55.8%	35.0%	44.7%	37.0%
Mean Bottom 50%	70.6%	77.1%	43.7%	71.1%	51.3%
Torch					
Average Hospital Profile					
Number of Hospitals (before any exclusions)	***2***	***91***	***33***	***110***	***143***
# of GACs within 35-miles of a Critical Access	-	38	13	44	57
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Total FTEs	1,135	15,878	8,060	19,442	27,502
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4th Quartile (Bottom)		81.9%	64.6%	80.3%	78.2%
Mean	44.5%	62.4%	41.1%	59.4%	51.8%
Median	45.2%	65.6%	46.4%	62.6%	58.6%
% in Bottom 50% of all Hospitals	0.0%	65.7%	21.9%	60.2%	49.6%
Mean Top 50%	44.5%	58.6%	38.4%	55.2%	47.7%
Mean Bottom 50%		76.7%	57.4%	74.8%	69.8%

Notes:

1. For Average Bed Size, the Total Beds figure includes Specialty Hospitals
2. Daily Occupancy rate is based on Acute Inpatient Days
3. Revenue Per AOB is based on Average Total Operating Revenue Per AOB
4. All figures contained in this table use weighted average

Exhibit 14 - TORCH Hospitals included in the analysis

Hospital Name	City	Hospital Name	City
Anson General Hospital	Anson	Knox County Hospital	Knox City
Ballinger Memorial Hospital	Ballinger	Lakeway Regional Medical Center	Lakeway
Baylor Scott & White Hospital-Brenham	Brenham	Lamb Healthcare Center	Littlefield
Baylor Scott & White Hospital-Llano	Llano	Lavaca Medical Center	Hallettsville
Baylor Scott & White Hospital-Taylor	Taylor	Liberty Dayton Regional Medical Center	Liberty
Bellville St Joseph Health Center	Bellville	Limestone Medical Center	Groesbeck
Big Bend Regional Medical Center	Alpine	Lynn County Hospital District	Tahoka
Bowie Memorial Hospital	Bowie	Madison St. Joseph Health Center	Madisonville
Brownfield Regional Center	Brownfield	Martin County Hospital District	Stanton
Brownwood Regional Medical Center	Brownwood	Matagorda Regional Medical Center	Bay City
Burleson St Joseph Health Center	Caldwell	McCamey County Hospital District	McCamey
Castro County Hospital District (Plains Memorial Hospital)	Dimmitt	Medical Arts Hospital	Lamesa
Chambers Health	Anahuac	Medina Regional Hospital	Hondo
Childress Regional Medical Center	Chlidress	Memorial Hospital/Seminole	Seminole
Chillicothe Hospital	Chillicothe	Memorial Medical Center	Port Lavaca
CHRISTUS Spohn Hospital-Beeville	Beeville	Memorial Medical Center	San Augustine
CHRISTUS St Michael Hospital	Atlanta	Mitchell County Hospital District	Colorado City
Citizens Medical Center	Victoria	Moore County Hospital District	Dumas
Clay County Memorial Hospital	Henrietla	Mother Frances Hospital Winnsboro	Winnsboro
Cogdell Memorial Hospital	Snyder	Mother Frances Hospital - Jacksonville	Jacksonville
Coleman County Medical Center	Coleman	Muenster Memorial Hospital	Muenster
Collingsworth General Hospital	Wellington	Muleshoe Area Medical Center	Muleshoe
Columbus Community Hospital	Columbus	Nacogdoches Memorial Health	Nacogdoches
Comanche County Medical Center	Comanche	Nocona General Hospital	Nacona
Concho County Hospital	Eden	North Runnels Hospital	Winters
Connally Memorial Medical Center	Floresville	North Texas Medical Center	Gainesville
Coon Memorial Hospital	Dalhart	Ochiltree General Hospital	Perryton
Coryell Memorial Healthcare System	Gatesville	Olney Hamilton Hospital	Olney
Covenant Hospital Levelland	Levelland	Otto Kaiser Memorial Hospital	Kenedy
Covenant Hospital Plainview	Plainview	Palacios Community Medical Center	Palacios
Crane Memorial Hospital	Crane	Palo Rinto General Hospital	Mineral Wells
Crosbyton Clinic Hospital	Crosbyton	Parkview Hospital	Wheeler
Cuero Community Hospital	Cuero	Parkview Regional Hospital	Mexia
Dimmit Regional Hospital	Carrizo Springs	Parmer Medical Center	Friona
Eastland Memorial Hospital	Eastland	Pecos County Memorial Hospital	Fort Stockton
El Campo Memonal Hospital	El Campo	Permian Regional Medical Center	Andrews
Electra Memorial Hospital	Electra	Peterson Regional Medical Center	Kerrville
ETMC Athens	Athens	Rankin County Hospital District	Rankin
ETMC Carthage	Carthage	Reagan Memorial Hospital	Big Lake
ETMC Fairfield	Fairfield	Reeves County Hospital	Pecos
ETMC Henderson	Henderson	Refugio Co Memonal Hospital	Refugio
ETMC Jacksonville	Jacksonville	Rice Medical Center	Eagle Lake
ETMC Pittsburg	Pittsburg	Riceland Medical Center	Winnie
ETMC Quitman	Quitman	Rolling Piains Memorial Hospital	Sweetwater
ETMC Trinity	Trinity	Sabine County Hospital	Hemphill
Faith Community Hospital	Jacksboro	Schleicher County Med Center	Eldorado
Falls Community Hospital & Clinic	Marlin	Seton Edgar B David Hospital	Luling
Fannin County Hospital Authority/DBA TM(Bonham Hospital	Bonham	Seton Highland lakes Hospital	Burnet
Fisher County Hospital Distnct	Rotan	Seton Smithville Regional Hospital	Smithville
Frio Regional Hospital	Pearsall	Seymour Hospital	Seymour
Glen Rose Medical Center	Glen Rose	Shamrock General Hospital	Shamrock
Golden Plains Community Hospital	Borger	St Mark's Medical Center	La Grange
Gonzales Healthcare System	Gonzales	Stamford Memorial Hospital	Stamford
Good Shepherd Medical Center- Marshall	Marshall	Starr County Memorial Hospital	Rio Grande City
Goodall-Witcher Hospital Authority	Clifton	Stephens Memorial Hospital	Breckenridge
Graham Regional Medical Center	Graham	Stonewall Memorial Hospital	Aspermont
Grimes St. Joseph Health Center	Navasota	Sutton County Hospital District	Sonora
Guadalupe Regional Med Center	Seguin	Sweeny Community Hospital	Sweeny
Hamilton Healthcare System	Hamilton	Swisher Memorial Healthcare System	Tulia

Exhibit 14 - TORCH Hospitals included in the analysis

Hospital Name	City	Hospital Name	City
Hamlin Memorial Hospital	Hamlin	Throckmorton County Memorial Hospital	Throckmorton
Hansford Hospital	Spearman	Titus Regional Medical Center	Mount Pleasant
Hardeman County Memorial Hospital	Quanah	Tyler County Hospital	Woodville
Haskell Memorial Hospital	Haskell	Uvalde Memorial Hospital	Uvalde
Heart Of Texas Healthcare System	Brady	Val Verde Regional Medical Center	Del Rio
Hemphil County Hospital District	Canadian	W.J. Mangold Memorial Hospital	Lockney
Hereford Regional Medical Center	Hereford	Ward Memorial Hospital	Monahans
Hill Country Memonal Hospital	Fredericksburg	Wilbarger General Hospital	Vernon
Hopkins County Memorial Hospital	Sulphur Springs	Winkler County Memorial Hospital	Kermit
Houston County Medical Center	Dockett	Wise Regional Health System	Decatur
Iraan General Hospital District	Iraan	Yoakum Community Hospital	Yoakum
Jackson County Hospital District	Edna	Yoakum County Hospital	Denver City
Kimble Hospital	Junction		

*Torch Hospitals excluded: Culberson Hospital in Van Horn and Weimar Medical Center
Source: Texas Organization of Rural & Community Hospitals

Free Online Resource

Additional hospital metrics covering the last six years by hospital bed size, and ownership type is available online at StateofYourHospital.com.

REVIEW OF STRATEGIC OPTIONS AVAILABLE TO TEXAS HOSPITALS

Because of the long-term structural disadvantages faced by government-owned hospitals, even profitable organizations should conduct an evaluation of changing reimbursement methodologies and other external market forces to determine if one of the strategic options summarized here can be employed.

For-Profit/Non-Profit Joint Ventures

Joint ventures between nonprofit and for-profit entities have been revived in popularity where non-profits are hungry for access to new sources of capital to fund efforts that will give them a competitive advantage in a rapidly changing environment.

Create a Free Standing ED

Free-standing emergency departments operate 24 hours a day and typically provide pharmacy, laboratory and radiology services. Specialty care may be provided through telemedicine. Patients with more serious health conditions must be stabilized and transferred to hospitals more equipped to care for them.

Free-standing emergency departments with access to specialty physicians and appropriate transfer agreements can offer quality care in rural communities. Some states require a Certificate of Need (CON) for free-standing emergency departments and certain ancillary services. Some states do not allow free-standing emergency departments at all, but the legislature may be willing to change the law given the impact on well-paying healthcare jobs in the community and non-healthcare jobs as well.

Transform into an Ambulatory Care Delivery Model

This strategy is particularly attractive for existing critical access hospitals. CAHs could be transformed into Federally Qualified Health Centers (FQHC) or Rural Health Clinics (RHC) with much more favorable reimbursement structures than traditional physician offices and without the high fixed cost associated with the operation of an acute care hospital. The FQHC or RHC could be affiliated with a large hospital (although FQHCs may not be owned or controlled by a hospital) for physician coverage and management and support services and focus all their efforts to meet the primary healthcare needs of their communities.

- **Rural Health Centers:** RHCs typically use mid-level providers, such as nurse practitioners (NP), physician assistants (PA), or certified nurse midwives (CNM) with physician supervision to provide primary care. The RHC program creates a unique opportunity for clinics that meet federal standards to be paid on a cost-per-visit basis under Medicare and Medicaid. The RHC program provides the opportunity for RHCs to take the total allowable costs for RHC services divided by allowable visits ("encounters") provided to RHC patients receiving "core" RHC services. From this equation, the clinic determines an interim payment rate. This interim payment rate is paid throughout the RHC's fiscal year and then reconciled at the end of the fiscal year through the cost reporting methodology. RHC conversion can increase reimbursement by 25-75% over fee-for-service reimbursement where the patient population equals or exceeds 50% Medicare and Medicaid combined. RHCs are authorized to serve as an originating site for telehealth services.
- **Federally Qualified Health Centers:** FQHCs are community-based, safety net providers. Federal 330 grants for new FQHCs may be available in amounts up to $650,000.[25] Effective October 1, 2014, Medicare pays FQHCs a single encounter-based rate per beneficiary per day for FQHC services, with some adjustments. Payment is 80% of either the PPS rate of $158.85 (to be adjusted annually with the MEI) (est.), or the total charges for services furnished, whichever is less. In addition to enhanced reimbursement, some of the primary advantages of FQHCs include participating in the 340B Drug Discount Pricing Program for purchasing prescription drugs at steep discounts, granting access to National Health Service Corp. providers and resources, the right to have out-stationed Medicaid eligibility workers on-site, and access to the Federal Vaccine for Children program. FQHCs that are funded under Section 330 also have access to free medical malpractice insurance under the Federal Tort Claims Act program and may be eligible for a myriad of grant and loan opportunities for both service and capital expansions.

Affiliations and Non-Control Transactions

A non-control transaction is a hospital affiliation that does not involve the sale of a majority interest in the hospital or a transfer of a majority of governance control over the hospital. While many names and variations exist, some of the more common non-control transactions include:

- **Special member models**, in which a larger hospital or system takes a minority interest in a smaller one, in exchange for financial and programmatic investments.
- **Branding arrangements**, which are designed to leverage the name, clinical expertise, or physician platform of a system or academic medical center on behalf of an unaffiliated hospital or system.
- **Management and joint operating arrangements (JOAs)**, either for discrete service lines or whole hospitals. JOAs are sometimes referred to as "virtual mergers." JOAs allow hospitals to pool resources and expertise and benefit from joint purchasing power. The hallmark of the JOA type of affiliation is that participating hospitals retain their separate identities, boards of directors, and a certain amount of autonomy even though considerable management and financial authority is shifted to the governing body of the JOA.

- **Shared Service Organizations (SSOs) Regional Collaboratives or Clinically Integrated Networks (CIN)**: A SSO, regional collaborative or CIN spanning multiple organizations can be an alternative to merger for organizations that want to retain their independence yet not go it alone in creating the infrastructure and capabilities to participate in shared savings and payor contracting.

Alliances such as these preserve independence and local control while collaborating with other like-minded organizations, serve as a ready format for providers to collaborate to share best practices to improve and lower costs, allow providers to take advantage of scale opportunities, and allow participants to commence in a conservative manner to work together more closely over time.

Telehealth

Medicare reimbursement for telehealth services was recently increased. Telehealth provides the ability for expanded specialty services to be offered in the community. In Texas, an order was entered enjoining the Texas medical board from requiring in-person visits prior to a telehealth visit. One study has reported that the average medical cost savings for a Teladoc user ranges from $170 to $1,483 per consult.

340B Drug Pricing Program

340B drug pricing allows participants to enjoy significantly reduced drug prices.

Urgent Care Centers

Urgent care centers deliver ambulatory care outside of a hospital emergency department on an unscheduled or walk-in basis. In order to increase reimbursement, many urgent care centers located in qualifying areas seek RHC designations. Urgent care centers present an attractive and cost-efficient model for providing community health services in areas where it is unlikely the community hospital will survive. They provide services such as mammography, ultrasounds, echocardiography, bone density, arterial brachial indices, x-ray, chemical analyses and lab services, physical therapy services, primary care services, specialist services and a number of other services that are provided close to home for community residents.

Management Services Agreements

Management Services Agreements allow hospitals to obtain management services from larger hospitals or systems.

Strategies to Increase Profitability that Would Require State Action

- **Medicaid Expansion:** AAdditional federal funding is available pursuant to the Affordable Care Act to expand Medicaid programs to cover adults under 65 with income up to 133% of the federal poverty level.
- **1115 Wavier/DSRIP Payments:** "Delivery System Reform Incentive Payment" or DSRIP initiatives are part of broader Section 1115 Waiver programs and provide states with significant funding that can be used to support hospitals and other providers in changing how they provide care to Medicaid beneficiaries. California, New York, and Texas each expect to receive several billion dollars from their DSRIP initiatives over a five-year period.

Acquire or Merge with Another System

The focus of this strategy is to create a new, self-supporting and governing hospital system that is legally and financially independent.

Sell the Hospital or System

By selling the hospital or health system to a for-profit or nonprofit multihospital system, the hospital accomplishes

the goals of preserving healthcare access and hospital jobs and optimizes the value of the assets to the county or state. Importantly, a sale can also eliminate the risk of future financial obligations. Even financially healthy hospitals or health systems should perform an assessment to consider this option.

Sale of currently profitable or particularly desirable facilities would monetize the assets for the sponsoring government body without impairing (and most likely improving) access to health services or eliminating jobs.

Close

If it is determined that the communities healthcare service needs cannot be met without further government ownership or support, the hospital could be closed or liquidated. Since 2010, a total of 48 rural hospitals have been closed.[26] It is anticipated that this trend will continue and accelerate.

Sole Community Provider Status

A SCH designation may be possible for your hospital. A SCH is designated by Medicare as meeting certain criteria based on location, size or distance. A SCH receives payment for its operating costs based on the Federal Inpatient Prospective Payment System (IPPS) rate or on its hospital-specific rate, whichever results in the greatest aggregate payment. This team has worked with a hospital who purchased a competitor in its community in order to achieve SCH status. So, this option should not be foreclosed solely because you do not currently meet SCH eligibility requirements.

EB5 Funding

Rural hospitals may be able to acquire funding for capital projects at a low cost using EB5 funding. EB5 is an employment-based preferenced immigrant visa category for high net-worth foreigners seeking to invest in a business that will benefit the U.S. economy and create a number of full-time jobs. The benefits are mutual, your hospital receives capital, and the immigrant investor receives an expedited green card.

HUD Program

The federal government's housing and Urban Development office has programs that can offer hospitals a lower cost of capital. The program is to assist with the construction or renovation of acute care hospitals. If eligible for the program, grantees can use the funds for, among others, architect costs, acquisition of land and buildings, demolition, and construction costs.

Community Fundraising

With a well-planned communication strategy capital projects can benefit from community fundraising.

Physisican Sharing

Identify nearby hospitals and share physicians as a way to offer new lines of service and to recruit providers.

Critical Access Hospital

Explore conversion into Critical Access Hospital status.

WHY ACT NOW

The best option for each hospital will depend on its unique market and circumstances. In the case of most standalone government-owned hospitals, however, a "right-sizing" or "reimagining" of operations should be undertaken for the facility to successfully meet the changing healthcare needs of the community it serves. Maintaining the status quo may indeed pose the greatest risk to the long-term availability of quality of healthcare services for the community and the existing enterprise value of the institution. Hospitals that delay may lose the ability to make the transformation or attract a suitable buyer or partner. Boards and community leaders carry a more challenging burden than ever before to preserve healthcare services in the face of such external pressures.

The organizational goals which require prompt strategic action by government-owned hospital boards and their government sponsors are to:Ensure the continued availability of high-quality healthcare services to the residents of your community;

- Ensure the continued availability of high-quality healthcare services to the residents of your community;
- Provide those services as close to patients' homes as possible;
- Create efficiencies to allow for the delivery of higher-quality, lower-cost care;
- Preserve jobs in your community;
- Preserve and maximize the value of your hospital for your citizens; and
- Enable the resulting healthcare service structure to continue to provide quality service in a financially self-sustaining manner (i.e., without direct taxpayer support).

Government-owned hospital boards and municipalities that respond quickly to these rapidly emerging market forces will experience the best outcome for the residents of their communities. Community leaders need to take appropriate action to maximize value and preserve healthcare services for the community.

EFFECTIVE CONSTITUENT COMMUNICATIONS

Communicating significant change for any community's hospital is a tremendous challenge. The task requires a different way of working and thinking. All the strategic initiatives undertaken by the hospital should include a communications plan.

As a hospital leadership team considers a change in its strategy – in its future direction – the way it delivers care, its financial objectives and its ownership structure, it is important for it to remember that every hospital faces its own unique situation. There are some common, yet incredibly challenging scenarios in a restructure or a partnership, including: financial obligations and concerns, pension issues, debt restructuring path, publicly owned to privately owned conversion, nonprofit to for-profit conversion, name change, antitrust concerns, public referendum, facility repurposing, union contracts, and others. Every communication plan must be finely tailored to meet each organization's specific needs and address its specific issues.

To build an effective communications campaign, leadership needs to know how a hospital's change of strategy will progress and how to think about the strategy as a whole rather than simply a series of disconnected, event-driven milestones. If you know that, you can ask the right questions to build your plan.

The architecture of today's hospital change strategies has become increasingly creative as organizations work to customize their future plans to meet their community's needs. Depending on the debt structure, legal and regulatory restraints, community needs, relationships with physicians, cultural needs – any number of factors – change strategies are as unique as the hospitals and healthcare organizations they bring together.

Every communication plan must be

FINELY TAILORED

to meet each organization's specific needs and address its specific issues.

Navigating change is nothing new for hospital leaders tasked with communicating. Change is the new normal – shifting federal regulations, competitive pressures and ever-evolving communications tools. However, a strategic shift discussion elevates all of this usual, day-to-day work and adds emotional, political, operational and financial elements to the mix.

Traditionally, hospital boards and leadership teams have a laser focus on the financial, operational, regulatory and clinical elements of a transaction. That makes sense. Communicators know, however, that a hospital restructure or partnership is much more than numbers and rules and charts. It's more than the timelines and the deal terms.

A hospital change of the magnitude of a restructure or partnership is an emotional, political event in the life of an organization. In fact, a strategic direction that makes financial, operational and clinical sense can die a quick death if it doesn't make political sense to a community or cultural sense inside the walls of the hospital.

Leaders know the unique and powerful emotional connection people have with their hospital. Nurses fulfill a mission through their care for their patients and for each other. Physicians have an emotional and economic relationship to the hospital that is vital to their livelihood and the hospital's success. Patients and their families experience life-changing events inside the hospital's doors. The sense of ownership by the community can be strong: It's my hospital. The emotions felt by patients, physicians and staff are powerful political forces.

This can all work for leadership and the board (or decidedly against, too) as it leads an organization to a new future. Managing these political forces is at the heart of the work of hospital communications.
In a time of change, the cost of ignoring the value of communications is high. The plans of the board and leadership to restructure, buy, sell or partner can fail if the message – the story – is not well-crafted or delivered in the right way by the right people at the right time.

Done correctly, a well-orchestrated, assertive campaign can energize the hospital's team and excite the patients and the general community. It puts the hospital's political strength to work for you and your organization when you need it most.

A strategic shift is a defining moment for an organization. It is a holistic event – everything and everyone matters because everything and everyone is impacted.

It is, in short, a big deal that will capture the attention of your key audiences – internal and external – from the first rumor through the change management and strategic integration process. Success in this hothouse environment requires relentless and comprehensive communication.

Throughout a major change, the hospital's key audiences must be engaged assertively, steadily and as transparently as possible, using a variety of communication tools (existing tools, social media, news media, personal interaction, etc.) with a smart and consistent core message that advances the cause and counters objections.

It is not just advertising or press releases or a Twitter feed or a special event, though the work may include all or none of those. Those are just tools, after all. A different way to approach this work is to think of changing communications as a political campaign to be waged and won. The political campaign analogy captures the comprehensive and intense work that successful change management needs.

Throughout a major change, the hospital's key audiences must be engaged assertively, steadily and as transparently as possible, using a variety of communication tools

Every successful political campaign has a crystal-clear goal: to win the most votes on Election Day. To get there, good campaigns run a tightly disciplined communication effort that mobilizes, unites and focuses a host of resources toward the single goal of winning. That is the task of a hospital's leadership team as well.

LEGAL ISSUES AFFECTING TEXAS GOVERNMENT HOSPITALS

Courts apply the "business judgment" rule to determine whether directors have satisfied their duty of care. If applicable, the business judgment rule generally provides strong protections for directors regarding their good-faith decisions, even if they are ultimately proven to be in error. Simply put, the historical foundation of the business judgment rule is that businesspeople, rather than courts, are better qualified to make decisions in the best interests of an organization. This concept is critical to the board's duty of care, particularly with respect to the board's ability to recruit qualified members and limit the board members' exposure to individual liability. In an increasingly complex regulatory environment, the business judgment rule has grown significantly more important, and board members must recognize the heightened need for both preparation for and participation in the decision-making process of the hospitals they serve. Especially where an organization is at financial risk, the failure to demonstrate the exercise of good faith business judgment may result in directors being exposed to personal liability, removal from the board and damage to reputation.

Even if a board member enjoys full or limited governmental immunity or quasi-immunity for his or her actions under state statutes, the standard for the duty of care is not reduced. In today's complex regulatory, legal and reimbursement environment, board members must, more than ever, take steps to demonstrate the exercise of their duty of care and good faith business judgment in the oversight of the hospital's operations or by implementing a plan to maintain essential healthcare services in the community through non-hospital services.

Board members must demonstrate the exercise of their fiduciary duties in order to take advantage of the business judgment rule. The fiduciary duties of directors require that board members take an active role in obtaining the information necessary to satisfy their duty of care. In order to make the proper inquiries of management, a director must be knowledgeable about the business of the hospital he or she is serving. This knowledge includes the rules and regulations that regulate the hospital's operation(s) and the hospital's financial condition.

Finally, a director or trustee must become knowledgeable about what the managers of the organization are doing to conduct the business of the hospital, how they are addressing the hospital's financial needs and the steps that are being taken to ensure that the hospital complies with applicable rules and regulations. Satisfaction of these duties requires board members to educate themselves continually about their organization. Once they have obtained this knowledge, board members have a duty then to provide strategic input into the organization's affairs. Doing both will likely demonstrate that a director is entitled to the protections of the business judgment rule.

Red Flags and the Zone of Insolvency

Under certain circumstances, the board's fiduciary duties can expand. When a director is presented with a warning or a "red flag," the duty to make a reasonable inquiry of the facts increases. Financial distress is a "red flag" that not only increases the director's duties, but broadens the number of constituencies the director has a duty to protect. When a board member is a director of a financially distressed hospital, a wide range of parties – the hospital's employees, the state attorney general, patients or the hospital's creditors – may seek to hold the board members personally liable for disruptions in business operations or patient care. When a hospital's assets are less than its liabilities or when it cannot pay its debts as they come due, it has entered the "zone of insolvency." In the zone of insolvency, a director's duties change, and a director may also take on a duty of care with regards to the hospital's creditors.[27]

The exposure to individual liability for decisions that are made in the zone of insolvency is more acute for members of nonprofit boards. Even where board members have statutory immunity, however, they may find themselves defendants in a lawsuit in which they have to assert their statutory immunity. Therefore, board members of government-owned hospitals can profit from understanding the rationale of certain courts which have recognized deepening insolvency as a tort. On January 26, 2015, the United States Court of Appeals for the Third Circuit issued a ruling in the case of In re *Lemington Home for the Aged,*[28] recognizing the individual liability of officers and directors of a nonprofit nursing home for "deepening insolvency."[29] Before filing a chapter 11 bankruptcy proceeding ,the nursing home had been 'beset with financial troubles' for decades, but had remained afloat with help from the City of Pittsburgh, Allegheny County and donations from private foundations."[30] In that case, two former officers and 14 former directors of the nursing home were found personally liable to the nursing home's creditors for breach of fiduciary duty and the tort of deepening insolvency.

In affirming the judgment against the members of the board for breach of their duty of care, the Court of Appeals considered the following factors:

- The board of directors was responsible for the hiring and firing of management;
- The directors had information demonstrating that the nursing home's administrator should be replaced; and
- The board of directors knew that the nursing home was not maintaining proper financial records.

The court went on to describe the tort of deepening insolvency, "defining it as 'an injury to the [enterprise's] corporate property from the fraudulent expansion of corporate debt and prolongation of corporate life."[31] In affirming the judgment against the members of the board for the tort of deepening insolvency, the Court of Appeals cited the following evidence:The directors concealed a decision to close the nursing home from creditors;

- The directors concealed a decision to close the nursing home from creditors;
- The directors knew its actions would further deteriorate the nursing home's finances to the detriment of creditors;
- Through their silence the directors consciously defrauded the nursing home's creditors; and
- The directors delayed filing bankruptcy.[32]

A consultant for the plaintiffs told the court that the directors' decisions resulted in a "slow death" of the nursing home's ability to generate revenue, and that the directors failed to disclose facts that would have increased the nursing home's chances of finding a buyer.[33] The Court of Appeals noted that the directors failed to oversee management, whose conduct hurt the value and financial viability of the nursing home.[34] All of this, the Court of Appeals concluded, supported a judgment against the directors for the tort of deepening insolvency.[35]

Corporate Responsibility and Corporate Governance in the Zone of Insolvency

If a hospital is in the zone of insolvency, its board members should take action to shore up the hospital's financial condition, and be certain to document their efforts to identify and combat the hospital's financial distress. Courts generally find that when exercising their business judgment, directors are entitled to rely on information, opinions, reports or statements prepared by legal counsel and other professionals. When a hospital nears the zone of insolvency, board members can demonstrate their effort to carry out their fiduciary duties to all constituencies by engaging turnaround managers and legal counsel. A turnaround manager is a consultant who has experience and expertise in examining an organization's operations in times of financial stress and making recommendations to improve the organization's operations and finances. Turnaround counsel are attorneys with experience advising organizations in the zone of insolvency, and they can assist an organization in restructuring its debt and in its efforts to deal with its vendors and other creditors during a restructuring or turnaround. Bringing in this outside expertise can evidence the board's effort to carry out its fiduciary duties.

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Turnaround counsel can also advise the board about options available to it if the hospital is unable to reach a consensual restructuring of its operations and finances. Those options may include filing a chapter 9 bankruptcy proceeding. Chapter 9 proceedings are similar to chapter 11 proceedings. A chapter 11 proceeding is generally used by businesses who plan to continue to operate and maintain control of their business as a way to restructure their finances and operations. Unlike a chapter 11 proceeding, however, because the municipality is a sovereign entity chapter 9 limits the bankruptcy court's ability to exercise control over the municipality, and its affairs during the bankruptcy proceeding. The Bankruptcy Code sets forth eligibility requirements necessary to be a debtor in a chapter 9 proceeding. Determining whether an entity is eligible to proceed with a chapter 9 bankruptcy proceeding can require a fact-intensive analysis.

The analysis requires an examination of state law. The Bankruptcy Code defines a "municipality" as a "political subdivision or public agency or instrumentality of a State."[36] Public agencies or instrumentalities of a State generally "refers to independent corporations, boards, districts, authorities and commissions that are organized to construct or operate public projects."[37] These would include public utilities, public improvement districts, and bridge and highway authorities that may raise revenues through taxes or user fees.[38] The answer to whether your hospital meets the Bankruptcy Code's definition of a municipality will lie in the details of its incorporation, funding and control. If your hospital qualifies as a municipality, generally, the next eligibility issue to address is whether the hospital is authorized to file a chapter 9 petition.

A government-owned hospital must also be authorized by state law to be a chapter 9 debtor. "Some states have very broad statutes that give municipalities almost blanket authority to file [for bankruptcy.] Some place conditions on the right to file, such as approval by the governor. Approximately half the states do not permit municipalities to file at all:

Municipalities in these states must ask the state legislature to pass a law authorizing chapter 9 before they are allowed to file [for bankruptcy.]"[39] Texas has not granted its municipalities specific authorization to file chapter 9 proceedings.[40] Even if bankruptcy is not an appropriate strategy, there are other actions board members can take to address financial stress when the hospital enters the zone of insolvency. Board members should require management to provide accurate and real-time financial reporting. A 13-week cash flow analysis is a tool used by many restructuring professionals that provides a snapshot of an organization's financial condition, that can reveal cash flow inadequacies.

Boards often wait too long to take action or fail to hire professionals with turnaround experience to advise them. The right time to engage a turnaround professional to assist you is at the beginning of a downward trend line, rather than when the organization has nearly run out of cash. Boards are generally not criticized for bringing in someone to address the organization's problems. Most often, boards are criticized when they are persuaded to believe that they cannot afford to engage turnaround professionals and either fail to timely bring in expert assistance or bring in assistance that does not have the experience to address today's complex healthcare environment.

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Director and Officer Liability

Many hospital board members and executives protect themselves from liability through director and officer liability insurance. Boards would be wise to evaluate their D&O policies to ensure that there is adequate protection, realizing that it might be impossible to increase coverage if the entity enters the zone of insolvency. While this caution might appear to have little relevance for hospital board members who enjoy governmental immunity, recent experience of board members for Singing River Hospital System, the community hospital in Jackson County, Mississippi, demonstrates that immunity does not protect board members against being sued or from public outcry directed at board members. There, the public disclosure that the hospital employees' pension plan was not being funded and efforts by the board to shut it down led to several lawsuits and public criticism of the board and management alike. Members of governmental hospital boards should analyze the limits of immunity that may be provided by state statute. If you are unsure of the extent of the immunity or if the immunity has limits, you might consider obtaining insurance to cover any acts that may potentially fall outside the immunity coverage provided by your state law.

Texas-Specific Issues

State Licensure Issues

In Texas, all acute care hospital beds are specifically licensed. A separate license is required for both ambulatory surgery centers and free-standing EDs.

Ownership Structure

Community hospitals in Texas are owned by local units of governments, typically a hospital district, authority, and in a few instances, a county or city. They are governed by boards of trustees either elected or appointed by local governing bodies, pursuant to their specific enabling statute. Depending on the type of community hospital, the enabling legislation governs the mechanism for the sale or lease of a community hospital or its ancillaries. A growing number of community hospitals have successfully navigated the process of a sale or lease in recent years.

Financing Structure

Generally, Texas law allows for the direct appropriation from municipal or county funds, and for the issuance of general obligation (GO) or revenue bonds for the financing of community hospitals. Appropriations and GO bonds, of course, directly tap the full faith and credit of the affected governmental entity; however, revenue bonds may or may not also be backed by the full faith and credit of the issuer. If, after a governing board has authorized the issuance of GO bonds for hospital financing, a determination is later made that a community hospital should be leased with an option to sell or sold outright, an elaborate framework including requirements in the enabling legislation as well as the bond documents, must be followed by the governing board of the hospital, including a number of professionally-certified findings and assessments, and the payment of any outstanding GO indebtedness as due from the sale proceeds. Leases of community hospitals, with or without an option to purchase, as well as outright sales, may be made to for-profit or nonprofit entities.

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Healthcare Management Partners (HMP), LLC is a firm led by a team of C-Level healthcare executives that quickly identify, define and solve problems to produce exceptional results for healthcare organizations and their stakeholders.

With its extensive experience, financial modeling and data analysis tools and action-based model, HMP provides senior executive led management, financial advisory, and litigation support services to hospitals and other healthcare organizations and their creditors, investors and business partners.
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Having served in state and county government and in hospital board rooms, the attorneys of Taggart, Rimes & Graham have the knowledge from both sides of the table necessary to help their clients grapple with the challenging regulatory and economic realities in healthcare delivery today. Founding member Andy Taggart is a former gubernatorial Chief of Staff, and former President of the Madison County Board of Supervisors. He has also served as outside counsel to a major non- profit healthcare system for more than 17 years. Attorneys in the firm have represented virtually every type entity in the healthcare industry, as well as county boards of supervisors and city councils.

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NOTES

1. Includes all state and local government owned short-term general acute care hospitals and critical access hospitals. Excludes university hospitals and all federal or specialty hospitals.
2. All hospitals that accept and bill for services to patients enrolled in Medicare are required by the terms contained in their Provider Agreement to file a complete and correct Medicare Cost Report within 150 days of the end of each fiscal year. Depending on the size and complexity of the individual hospital, its Medicare Cost Report can contain over 3,000 items of financial and statistical data. Upon receipt and processing of the Cost Report by the Federal Centers for Medicare and Medicaid Services (CMS), the data is electronically entered into the Healthcare Cost Report Information System (HCRIS) file.
3. Common corporate ownership of two or more hospitals with separate Medicare provider agreements.
4. A hospital that is not corporately owned or legally controlled by a multihospital system.
5. A special Medicare payment designation for hospitals that apply and have 25 or fewer beds and are located in rural areas. Critical access hospitals are paid by Medicare at 101% of Medicare cost, in lieu of participation in the prospective payment system.
6. Data is derived from Medicare Cost Reports or reports filed with the Center for Medicare and Medicaid Services (CMS) and reported in the Hospital Cost Report Information System (HCRIS). The data has been "scrubbed" to exclude partial period or statistically aberrant data elements for individual hospitals or health systems.
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9. Data is derived from Medicare Cost Reports or reports filed with the Center for Medicare and Medicaid Services (CMS) and reported in the Hospital Cost Report Information System (HCRIS). The data has been "scrubbed" to exclude partial period or statistically aberrant data elements for individual hospitals or health systems.
10. Bloomberg Business, U.S. Health-Care Spending is on the Rise Again (February 18, 2015), http://www.bloomberg.com/news/articles/2015-02-18/u-s-health-care-spending-is-on-the-rise-again
11. United States Census Bureau
12. Centers for Medicare & Medicaid Services (CMS), National Health Expenditures (NHE) Fact Sheet (December 3, 2015).
13. Data is derived from Medicare Cost Reports or reports filed with the Center for Medicare and Medicaid Services (CMS) and reported in the Hospital Cost Report Information System (HCRIS). The data has been "scrubbed" to exclude partial period or statistically aberrant data elements for individual hospitals or health systems.
14. Recovery Audit Contractor, a contractor of CMS which audits hospital bills on a contingent fee basis.
15. Data is derived from Medicare Cost Reports or reports filed with the Center for Medicare and Medicaid Services (CMS) and reported in the Hospital Cost Report Information System (HCRIS). The data has been "scrubbed" to exclude partial period or statistically aberrant data elements for individual hospitals or health systems.
16. Centers for Medicare & Medicaid Services (CMS), Critical Access Hospitals (April 9, 2013), http://www.cms.gov/Medicare/Provider-Enrollment-and-Certification/CertificationandComplianc/CAHs.html
17. Robert York at al, *Where Have All The Inpatients Gone? A Regional Study With National Implications,* Health Affairs (January 6, 2014) http://healthaffairs.org/blog/2014/01/06/where-have-all-the-inpatients-gone-a-regional-study-with-national-implications/
18. Based on 53,400 statewide Short-term general acute care beds at an average occupancy rate of 58% as compared to the Target AOR noted in Exhibit 3.

[19] Data is derived from Medicare Cost Reports or reports filed with the Center for Medicare and Medicaid Services (CMS) and reported in the Hospital Cost Report Information System (HCRIS). The data has been "scrubbed" to exclude partial period or statistically aberrant data elements for individual hospitals or health systems.

[20] Capital investment would include money set aside for the periodic replacement of facilities and/or the payment of debt service on long term debt incurred to finance capital expenditures.

[21] Data is derived from Medicare Cost Reports or reports filed with the Center for Medicare and Medicaid Services (CMS) and reported in the Hospital Cost Report Information System (HCRIS). The data has been "scrubbed" to exclude partial period or statistically aberrant data elements for individual hospitals or health systems.

[22] Based on 30-year bonds with a 5% coupon.

[23] Based upon an average cost of $1.5 million per bed to acquire the site, construct and equip a primary care general acute care hospital.

[24] Data is derived from Medicare Cost Reports or reports filed with the Center for Medicare and Medicaid Services (CMS) and reported in the Hospital Cost Report Information System (HCRIS). The data has been "scrubbed" to exclude partial period or statistically aberrant data elements for individual hospitals or health systems.

[25] Peter C. Damiaetal, *Federally Qualified Health Centers: Impact of the ACA and Health System Change on the Iowa Safety Net,* The University of Iowa Public Policy Center (September 27, 2013), http://ppc.uiowa.edu/sites/default/ files/ fqhc_report.pdf.

[26] University of North Carolina Cecil G. Sheps Center for Health Services Research Center, "Rural Hospital Closures: 2010 to Present".

[27] 5 Norton Bankr. L. & Prac. 3d § 96:3.

[28] *In re Lemington Home for the Aged,* No. 13-2707, 2015 WL 305505 (3rd Cir. Jan. 26, 2015).

[29] *In re Lemington Home for the Aged,* No. 13-2707, 2015 WL 305505, at *5-6 (3rd Cir. Jan. 26, 2015).

[30] *Id.* at *1.

[31] *Id.* at *6.

[32] *Id.* at *6

[33] *Id.* at *6

[34] *Id.* at *7.

[35] *Id.* at *7

[36] 11 U.S.C. § 101(40).

[37] H. Slayton Dabney, Jr., et. al., Municipalities in Peril, The ABI Guide to Chapter 9, at 10 (2nd ed. 2012).

[38] Id. at 10.

[39] Id. at 11.

[40] Tex. Rev. Civ. Stat. Ann. §140.001.

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