



When the hospital is the patient: Closing a hospital requires careful planning

By: Dawn Gideon, Brian Buebel, and Nick Zaccagnini

Becker's Hospital Review said that "for many financially troubled hospitals and health systems, 2014 has been a deciding year."¹ The decision at issue: should the hospital or health system shut down?

In spite of their increasing frequency, there are very few business decisions with the potential to create as many practical, political, and emotional issues as the closing of a hospital.

The reasons are understandable: Hospitals hold strong emotional bonds for communities; generations of families are born there and are cared for throughout their lives in local hospitals.

Hospitals also have significant economic impact in many communities, where they are often among the largest centers of direct and indirect employment in the local business community.

In many cases, particularly for hospitals that serve indigent and uninsured populations, a closing has a significant impact on access to care and the health status of the community. When hospitals close, physicians frequently relocate as well. The loss of a hospital and its physicians can create what is commonly called a "medical desert" – a population center with no ready access to medical care.

Accelerating pace, accelerating problems

Despite the community impact, the number of hospital closings in the last several years has been increasing. Since 2009, 130 U.S. hospitals have closed. There have been an average of 23 each year since then, and, with 20 closings during the first eight months of 2014, the pace seems to be higher in 2014 than the previous year.

The reasons for the closings are numerous and well documented, but the precipitating problems generally fit into one of two categories:

- Financial decline resulting from declining patient volumes and Medicare and Medicaid reimbursements that cover less than 90% of costs.
- Consolidation as a result of hospital mergers and system synergies.

These drivers will continue to exist for the foreseeable future, and hospitals will continue to close. But in spite of the increased frequency, the closing process very rarely receives the attention and care that the "patients" – in this case the hospital and its stakeholders – need and deserve. This raises the potential for serious problems for hospital boards, administrators, doctors, patients, and the community.

One recent case illustrates how badly things can go. A community hospital in Western Massachusetts, North Adams Regional Hospital (NARH), gave its employees, remaining patients, and communities 72 hours' notice before it closed its doors and filed for Chapter 7 Bankruptcy protection.²

The closed hospital and its affiliates employed 530 full- and part-time employees, making it the largest employer in the community of North Adams, and it was the only hospital and emergency room serving 40,000 residents of several towns in northern Berkshire County including Williamstown, home of Williams College.

¹ <http://www.beckershospitalreview.com/hospital-management-administration/20-hospital-closures-bankruptcies-so-far-in-2014.html>

² <http://www.bostonglobe.com/business/2014/03/25/nurses-union-says-was-told-north-adams-regional-hospital-will-close-friday/NO7iK2H4f2N8UNwoJyLgNI/story.html>

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A nearby hospital group has since purchased certain assets of NARH³, but the doctors, nurses, and other employees of the hospital; its patients; community; and other stakeholders have gone through some very trying times in the months since the surprise announcement was made.

Planning can ease the process

While the realities of healthcare economics today are likely to continue to cause additional hospital closings, good planning and seamless implementation can make the process smoother and provide the care that the hospital and its stakeholders deserve. Huron Business Advisory has worked closely with the boards and top management teams of a number of troubled hospitals to assess and determine the best course of action as the institution reaches a tipping point.

The process will vary, based on the severity of the situation, the status of any reorganization or restructuring plans, state and local regulatory requirements, and the timetable for completion. Based on our experience, we have identified the critical framework of an orderly and well-implemented plan.

Elements of a successful closing plan

The first step in any plan to close a hospital is to set a realistic timetable. Timing must be driven by cash-flow and other forecasts, and it must consider a very fundamental question: Is bankruptcy necessary for a smooth transition to closure?

From that baseline planning forward, the following are the critical areas that must be addressed, with a specific plan for timing and implementation of each:

1. Human resources: Issues to review include severance analysis; investigating Worker Adjustment and Retraining Notification Act (WARN) options, and delivery of the WARN notices, as applicable; decisions on and contracts for Employee Assistance Programs; scheduling of meetings and negotiations with unions; development of information for employees and scheduling of Q&A for all shifts; a review of workers compensation, retiree benefits plans, etc. with funding strategies; development of the reduction in force process and timeline; identification of key employees; and many other must-do's (copying and securely storing employee files, for example).
2. Medical staff: Set a plan for a special meeting with the medical leadership group; notify medical staff of decision, via letter; review any medical staff bylaws, and determine the process of dissolution of the organization; establish and execute a plan to retain credentialing files, and communicate to all staff members; plan for weekly physician leadership meetings.

3. Legal and regulatory: Prepare and submit closure plan to state regulatory agency (department of public health); file required notices with state pharmacy board; notify federal Drug Enforcement Administration (DEA); manage pharmacy inventory consistent with DEA guidelines, both in the pharmacy department and on each floor/department; notify Nuclear Regulatory Commission; notify accrediting agencies; notify environmental protection agencies (federal and state); develop and implement record retention plans.
4. Patient redistribution: Transfer recurring patients to other providers (wound care, rehab services that will not remain open); work with the county to determine and finalize its responsibilities under closure; communicate with local fire/ambulance/police departments; communicate with all other referral institutions (nursing home, home health agencies, etc.).
5. Contracts and subleases: Distribute termination notice to payers; depending on decisions made regarding the need for bankruptcy, review all contracts and agreements to make a rejection determination.
6. Clinical program closure: Inpatient units should stop elective admissions, and set a date for closing and transferring all remaining patients; outpatient services should stop scheduling new patients, and notify and transfer all appointments after the closing date (except for any outpatient units that will remain open); surgical services must notify and transfer all appointments after the closing date, and cannot set surgeries for after the closing date; set emergency services closing plan; set plans for closing all ancillary and support services.
7. Post-closure activities: Must-do's include mail collection and distribution; telephone messaging/forwarding; file storage; completion/closing of medical records and placing records and film into storage; asset sale or repurposing (supervised if under a bankruptcy process); resolution of any outstanding resources issues.
8. Communications: Making sure that all stakeholders are made aware of the decision to close is critical to the process, and clear communication may be what determines the success or failure of the plan. A clear and concise plan for informing all stakeholders throughout the process must be developed, addressing the information needs of patients, employees, medical staff, key public officials, and community stakeholders (such as police, fire, EMS, area nursing homes, and state medical and hospital associations). Media serving the community are also key stakeholders, in addition to being a conduit to reach the community at large. Additional options to communicate the closing of the hospital include postcard mailings, newspaper notices, hospital signage, and automated phone calls to residents in the community.

³ <http://pipeline.thedeal.com/tdd/ViewArticle.d?id=100051008189>

Clearly, the elements listed here are not intended to serve as the platform for negotiations leading to the restructuring of a hospital. This plan is intended to close a hospital in an orderly, transparent, and professional manner so that disruption can be mitigated to the maximum extent possible. Negotiation and restructuring will be done at any time around this process, with or without Court supervision.

Huron Business Advisory has substantial experience

Huron has assisted a number of hospitals as they weigh their options while they deal with the problems of declining patient populations and lower reimbursements.

Recently, we implemented a closing plan for Palm Drive Hospital in Sebastopol, California, with elements very similar to those described above. Instead of an environment of confusion and lack of information, each stakeholder group was informed fully and in many cases had a means of asking questions and making comments before and after the closing took place.

We facilitated the closing process and held team meetings with management and department heads, as well as individual meetings with each department head to guide them through the process and answer any questions they had. A key takeaway from the Palm Drive Hospital engagement is the importance of communicating the closure of the hospital to the community and the stakeholders.

Post-closure, we contracted with an EMS organization to keep an ambulance parked at the emergency room entrance to transport any patients to nearby hospitals in the event that they were not aware the hospital had closed. We utilized a variety of communication strategies to spread awareness of the hospital closing, including newspaper notices, postcard mailings to all residences in the county, and automated calls to residents in the community. Additionally, we worked closely with the Facility Director to place brightly colored signage at the hospital entrances communicating the hospital closure.

Each case is different and will require a customized approach, but experienced professionals can mean the difference between a free-fall and a soft-landing when a hospital closes.

About the authors

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Dawn has more than 30 years of diverse experience in healthcare organizational restructuring and turnaround, operations management, strategic planning and transactions, marketing, and business development. She assists organizations in the development and execution of turnaround and restructuring plans within and outside of bankruptcy, serving as both advisor and interim chief executive officer of hospitals and health systems moving through management transition. She provides consulting and management services, including operational performance improvement, program development, strategic planning, and merger and acquisition advisory services to hospitals, post-acute care providers, healthcare systems, and physician practices. Dawn also delivers advisory services to healthcare lenders regarding troubled credits. Dawn can be reached at 646-277-8818 or dgideon@huronconsultinggroup.com.

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