

Southwest Health System: **A PERFORMANCE TURNAROUND STORY**

SITUATION

When Southwest Health System (SHS), in Cortez, Colorado, contacted Community Hospital Corporation (CHC) early in 2018, the hospital had violated various bond covenants associated with its \$30 million expansion and renovation project. In fact, the organization had failed to meet the 80 days-cash-on-hand requirements for four consecutive quarters. This violation triggered technical default, which could have led to hospital bankruptcy and closure.



CHC developed a comprehensive plan that led to performance turnaround.

Lenders concerned with the financial situation communicated with the board directly and required an outside consulting firm to evaluate the situation and develop a plan of action.

Unfortunately, the financial crisis SHS experienced is not uncommon. Community hospitals across the country face serious financial distress. In fact, 196 rural hospitals have closed since January 2005 (153 closures since 2010; see North Carolina Rural Health Research Program).

PLAN

Several factors led to SHS' performance turnaround. The first was immediate action by SHS board members after receiving the serious news in 2018. First, they removed the administrative team. Next, they engaged CHC Consulting to develop a plan to turn around the hospital.

CHC first conducted a comprehensive operational assessment, which involved a deep dive into financial and operational processes. The comprehensive assessment included the development of departmental action plans and the implementation of recommendations for cost



reduction and revenue enhancement. SHS performance was benchmarked against other similar hospitals nationwide. Areas needing improvement included:

- High turnover in executive leadership
- High staffing ratios compared with similar-sized hospitals
- Underpayment for reimbursable services per cost report analysis

RESULTS

Once the operational assessment was finalized, the SHS board signed a multi-year management contract with CHC Consulting. Recommendations helped them improve and reposition the hospital for further success:

- A Medical Staff Development Plan helped improve physician relations and attract new physicians. More recently, SHS' innovative and personal approach to physician recruitment involving local residents, multi-day visits, and community tours resulted in acceptance by 17 physicians of 18 offers.

- Switching to CHC Supply Trust – and its GPO partner HealthTrust Performance Group – identified \$2 million in savings on supplies. When SHS needed to replace a leaky roof, they saved nearly \$1 million by using a reputable HealthTrust vendor.
- By the end of 2021, cash-on-hand exceeded the required 80 days, up from 15 days in 2018 when the hospital realized its critical state.
- SHS had a \$3.7 million performance improvement in 2018 after staff reductions brought benefit packages to competitive levels, and contract labor was reduced.
- The cost report reconciliation indicated the hospital had been underpaid for reimbursable services by more than \$419,000.
- Patient satisfaction continues to improve based in part on the cooperative efforts of the medical staff, support staff, and all members of the hospital care team.

Unique challenges require innovative solutions and strong community collaboration for rural healthcare success. 🌟

“The challenges facing rural healthcare are significant, but with strategic thinking, strong partnerships, and a commitment to community engagement, we are creating sustainable solutions.”

– Joe Theine, CEO
Southwest Health System



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