



STATE OF ARKANSAS  
**Department of Finance  
 and Administration**



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October 5, 2023

Senator Jonathan Dismang, Co-Chair  
 Representative Frances Cavanaugh, Co-Chair  
 Performance Evaluation & Expenditure Review Committee  
 Arkansas Legislative Council  
 State Capitol Building  
 Little Rock, AR 72201

RE: FY 24 American Rescue Plan Act Request

Dear Co-Chairs:

Pursuant to Section 36 (01) of Act 796 of 2023, I am forwarding the attached American Rescue Plan Act request(s) that have received my approval as Chief Fiscal Officer of the State.

- Department of Agriculture – Resilient Food Systems Infrastructure Cooperative Agreement \$5,613,424
- Department of Agriculture – Arkansas School Garden Project \$555,343

Pursuant to Section 36 (02) of Act 796 of 2023, I am forwarding the attached American Rescue Plan Act request(s) that have received my approval as Chief Fiscal Officer of the State.

- Department of Human Services – Medical Services Division – Emergency Aid Relief to Hospitals - Baxter Health \$4,589,119
- Department of Human Services – Medical Services Division – Emergency Aid Relief to Hospitals - Arkansas Methodist Medical Center \$3,301,356
- Department of Human Services – Emergency Aid Relief to Hospitals – Fulton County Hospital \$5,000,000
- Department of Human Services – Emergency Aid Relief to Hospitals – Howard Memorial Hospital \$3,441,839



STATE OF ARKANSAS  
**Department of Finance  
and Administration**

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- Department of Commerce – Office of Skills Development – Nursing \$25,000,000
- Department of Commerce – Office of Skills Development – Paris Community Workforce Development \$3,800,000

Sincerely,

A handwritten signature in blue ink, appearing to read 'J. L. Hudson', is written over a light blue horizontal line.

James L. Hudson  
Secretary

Attachment(s)

**AMERICAN RESCUE PLAN ACT OF 2021 PROGRAM APPROPRIATION  
AND PERSONNEL AUTHORIZATION REQUEST  
SECTION 36 OF ACT 796 OF 2023**

**C.1**

Agency: Arkansas Department of Agriculture Business Area Code: 0400  
 Program Title: Resilient Food Systems Infrastructure Cooperative Agreement  
 Granting Organization: USDA CFDA #: 10.190  
 Effective Date of Authorization: Beginning: 7/1/2023 Ending: 6/30/2024

Purpose of Grant / Reason for addition or change (include attachments as necessary to provide thorough information):  
 The Department is requesting \$5,613,424 for the Resilient Food Systems Infrastructure Agreement funded by the American Rescue Plan Act of 2021. The funding supports aggregation, processing, manufacturing, storing, transporting, wholesaling, and distribution of locally and regionally produced food products, including specialty crops, dairy, grains for human consumption, aquaculture, and other food products, excluding meat and poultry.

**American Rescue Plan Act Program Funding**

Func. Area: COMM Fund Code: NEW Direct Funding: X  
 Funds Center: NEW Internal Order/WBS Element: NEW Steering Comm. Approved: \_\_\_\_\_  
 Continuation: \_\_\_\_\_

	Program Funding Amount	
Regular Salaries		
Extra Help		
Personal Services Matching		
Operating Expenses		
Conference & Travel Expenses		
Professional Fees		
Capital Outlay		
Data Processing		
Grants and Aid (CI: 04)		
Other:	\$	5,613,424
Other:		
Total	\$	5,613,424

Anticipated Duration of Federal Funds: 05/25/2023-06/30/2024

	<b>Date</b>
<b>DFA IGS State Technology Planning</b>	
Items requested for information technology must be in compliance with Technology Plans as submitted to DFA IGS State Technology Planning.	
* unclassified positions only	

**Positions to be established: (list each position separately)**

Org Unit	Pers Area	Pers SubArea	Cost Center	Position Number	Cmnt Item	Position Title	Class Code	Grade	Line Item Maximum *

**State funds will not be used to replace federal funds when such funds expire, unless appropriated by the General Assembly and authorized by the Governor.**

Approved by: *[Signature]* 8-22-2023 Robert Brech 10/01/23  
 Cabinet Secretary/Agency Director Date Office of Budget Date Office of Personnel Mgmt Date

*[Signature]* 9/11/23

### Project Detail:

The overall goal is to create more and better processing options for local and regional producers across specialty crops, dairy, grain (for food), and other sectors by targeting gaps and opportunities in the pandemic assistance, Food Systems Transformation programs, and existing USDA grant programs that support the agricultural supply chain. The agreement has three components:

#### Administration:

- Monitoring subrecipients, ensuring award recipient and subrecipient compliance with regulations and requirements, and grant management training. Periodic site visits to review project accomplishments and monitor progress, to review financial and performance records, organizational procedures and financial control systems, and to provide technical assistance to subrecipients as required. These recommended site visits are meant to support accountability, compliance with regulations and requirements, and achievements of subrecipients.

#### Infrastructure Grant Subawards:

- The Department will develop a competitive two-phase Request for Application (RFA) similar to the RFA currently used by the Department for Specialty Crop Block Grant Applications. The first phase is a request for concept, a simple-to-use form that provides the review selection committee basic concept information. This process encourages more engagement by providing an application process that is less cumbersome at the start. Concepts that are selected by the review committee are then invited to the second stage to submit an application with more detail. The RFA will require past sales history to establish a baseline to compare post-project performance results. The RFA will require the applicant to agree to submit performance reports and to attend on-site meetings as determined by the Department. The form will ask applicants to self-identify possible eligibility for underserved, new and beginning, veteran, and socially disadvantaged status according to the USDA definition and those organizations that serve these populations.

#### Supply Chain Coordination:

- Activities to develop and/or enhance a supply chain coordination initiative that focuses on business support and market development to benefit local and regional food systems and contributes to the success and impact of the RFSI Infrastructure Grant investments.

**AMERICAN RESCUE PLAN ACT OF 2021 PROGRAM APPROPRIATION  
AND PERSONNEL AUTHORIZATION REQUEST  
SECTION 36 OF ACT 796 OF 2023**

**C.2**

Agency: Arkansas Department of Agriculture Business Area Code: 0400

Program Title: Arkansas School Garden Project

Granting Organization: Arkansas Department of Education CFDA #: 10.645

Effective Date of Authorization: Beginning: 7/1/2023 Ending: 6/30/2024

Purpose of Grant / Reason for addition or change (include attachments as necessary to provide thorough information):  
The Department is requesting \$555,343 to support the Arkansas School Garden Project agreement with ADE funded by the American Rescue Plan Act. The purpose is to implement and expand farm to school activities among institutions participating in Child Nutrition Programs. The activities will include financial incentive to support School Food Authorities for the development and/or the expansion of school gardens, training and ongoing assistance to Arkansas School Garden Project teams, and professional development and resource to Arkansas teachers at Arkansas School Garden Project schools.

**American Rescue Plan Act Program Funding**

Func. Area: COMM Fund Code: NEW Direct Funding: X  
Funds Center: NEW Internal Order/WBS Element: NEW Steering Comm. Approved: \_\_\_\_\_  
Continuation: \_\_\_\_\_

	Program Funding Amount
Regular Salaries	
Extra Help	
Personal Services Matching	
Operating Expenses	
Conference & Travel Expenses	
Professional Fees	
Capital Outlay	
Data Processing	
Grants and Aid (CI: 04)	
Other:	\$ 555,343
Other:	
Total	\$ 555,343

Anticipated Duration of Federal Funds: 07/01/2023-06/30/2023

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**DFA IGS State Technology Planning** Date  
Items requested for information technology must be in compliance with Technology Plans as submitted to DFA IGS State Technology Planning.

**Positions to be established: (list each position separately)**

\* unclassified positions only

Org Unit	Pers Area	Pers SubArea	Cost Center	Position Number	Comnt Item	Position Title	Class Code	Grade	Line Item Maximum *

State funds will not be used to replace federal funds when such funds expire, unless appropriated by the General Assembly and authorized by the Governor.

Approved by: Me W. MP 8-22-2023 Robert Brech 10/01/23  
Cabinet Secretary/Agency Director Date Office of Budget Date Office of Personnel Mgmt Date

*Jim 9/19/23*

Project Detail:

Grant Purpose:

The purpose of this grant is to implement and expand farm to school activity amount institutions participating in Child Nutrition Programs. The objectives is to build and increase the capacity of participating institutions to procure and use local food in program meals and/or to provide agricultural education opportunities for participating children.

Proposed activities include:

- Local food promotional and educational activities for participating institutions and children,
- Funds to partner organizations to conduct allowable activities, or to Child Nutrition Program participating institutions, through contracts, sub grants, or incentive payment.

**AMERICAN RESCUE PLAN ACT OF 2021 PROGRAM APPROPRIATION  
AND PERSONNEL AUTHORIZATION REQUEST  
SECTION 36 OF ACT 796 OF 2023**

Agency: Arkansas Department of Human Services Business Area Code: 0710  
 Program Title: Emergency Aid Relief to Hospitals  
 Granting Organization: American Rescue Plan Act of 2021 CFDA #: State Fiscal Recovery Funds (SFRF)  
 Effective Date of Authorization: Beginning: 7/1/2023 Ending: 6/30/2024

Purpose of Grant / Reason for addition or change (include attachments as necessary to provide thorough information):  
 Hospitals continue to experience severe financial strain due to the economic impacts of the ongoing COVID-19 pandemic. Increased costs and labor shortages have resulted in lesser revenues for the hospitals. This means that several hospitals across the state, particularly those that serve rural populations, are at immediate risk of closure.  
 Use of these funds will allow hospitals to maintain operations to ensure patients receive the care they need during and between the pandemic disease "surges". The purpose of these payments is to assist hospitals to offset extraordinary costs related to mitigating and preventing COVID-19 and retaining and acquiring frontline staff that have occurred as a result of the COVID-19 pandemic.  
 This request is for Baxter Health in support of their efforts to provide rural healthcare to Arkansans.

Func. Area: HHS Fund Code: FRP7178 Direct Funding: \_\_\_\_\_  
 Funds Center: AZ5 Internal Order/WBS Element: \_\_\_\_\_ State: X  
 Continuation: \_\_\_\_\_

	Program Funding Amount
Regular Salaries	
Extra Help	
Personal Services Matching	
Operating Expenses	
Conference & Travel Expenses	
Professional Fees	
Capital Outlay	
Data Processing	
Grants and Aid (CI: 04)	4,589,119
Other:	
Other:	
Total	\$ 4,589,119

Anticipated Duration of Federal Funds: 9/30/2024

DFA IGS State Technology Planning	Date
Items requested for information technology must be in compliance with Technology Plans as submitted to DFA IGS State Technology Planning.	

**Positions to be established: (list each position separately)**

Org Unit	Pers Area	Pers SubArea	Cost Center	Position Number	Comnt Item	Position Title	Class Code	Grade	Line Item Maximum *

**State funds will not be used to replace federal funds when such funds expire, unless appropriated by the General Assembly and authorized by the Governor.**

Approved by: Kristi Putnam Digitally signed by Kristi Putnam Date: 2023 08 30 14:30:04 -05'00' Robert Brech 10/01/23  
 Cabinet Secretary/Agency Director Date Office of Budget Date Office of Personnel Mgmt Date  
*Joshua Kenyon* 8/30/23



ARKANSAS  
DEPARTMENT OF  
**HUMAN  
SERVICES**

DHS Secretary Kristi Putnam  
Office of the Secretary

P.O. Box 1437, Slot S201, Little Rock, AR 72203-1437  
P: 501.682.8650 F: 501.682.6836 TDD: 501.682.8820

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August 30, 2023

Secretary Jim Hudson  
Department of Finance and Administration  
1509 West Seventh Street, Suite 401  
Little Rock, AR 72201

Re: Release of ARPA Funding – Hospital Assistance

Dear Secretary Hudson,

On behalf of the Department of Human Services, I respectfully request release of a portion of the American Rescue Plan Act of 2021 (ARPA) State Fiscal Recovery Funds (SFRF) Arkansas Allotment to address the negative impacts of the public health emergency due to the COVID-19 pandemic (PHE), such as staffing and bed shortages; extraordinary costs of providing COVID-19 mitigation, prevention, and treatment; and disruptions in utilization of health care services across payers.

Participating hospitals have undergone an independent study and are developing and implementing a sustainability plan. The agency is requesting \$4,589,119 in ARPA funding and appropriation which will be disbursed through the Arkansas Medicaid payment system to Baxter Health for their efforts to provide rural healthcare to Arkansans.

Thank you for your assistance. If you need additional information, please contact Misty Eubanks, DHS CFO, at 501-320-6327.

Sincerely,

Kristi Putnam, Secretary  
Arkansas Department of Human Services

KP:mbe

cc: Robert Brech, Administrator  
DFA – Office of Budget

Andy Babbitt, Administrator  
DFA- Office of Accounting

# Arkansas Rural Hospital Assessment

*Final Report*

Arkansas Department of Finance & Administration

*Prepared by Alvarez & Marsal Public Sector Services, LLC*

May 2023



Cover image: Mint Images – stock.adobe.com

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This Final Report (the "Report") was prepared at the request of Arkansas Department of Finance and Administration (the "Client"), pursuant to the contract executed between the Client and A&M (the "Contract"), for the express purpose of assessing the eighteen participating hospitals (the "Hospitals") that are the subject of the review for which A&M was engaged under the Contract (individually and collectively the "Purpose"), and has been prepared based on information (the "Information") and instructions given by Client, and information provided by the Hospitals, to Alvarez & Marsal Public Sector Services, LLC ("A&M").

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## Baxter Regional Medical Center

### Quick Facts

- Classification: Non-CAH
- Licensed Beds: 268
- Closest Facility: 21.06 miles
- Average Age of Plant: 15.6 years
- Average Daily Patient Occupancy Rate: 48.8%
- Average length of stay (ALOS): 3.7 days
- Total full-time employees (FTEs): 1,601

Location: Mountain Home, Baxter County  
 County Population: 42,144 (2021)



Table 9: Baxter's Summary Statistics

Operating Statistics	
C&C Equivalents	\$ 64.3 M
Current Assets	\$ 107.9 M
Net A/R	\$ 27.2 M
Total Assets	\$ 189.4 M
Days Cash on Hand	82.85
Quick Ratio	2.41
Current Ratio	2.75
Debt Service Coverage Ratio	1.83
Days in Net AR	34.12
Average Age of Plant	15.60
Income Statement	
<i>(Trailing 6 Months Annualized)</i>	
Net Patient Service Revenue (NPSR)	\$ 289.0 M
Other Revenue	\$ 15.6 M
Total Revenue	\$ 304.5 M
Salaries, Wages & Benefits	\$ 149.8 M
EBITDA	\$ 22.9 M
Operating Income	\$ 11.6 M
Non-Operating Income/(Expense)	\$ (4.5 M)
Net Income	\$ 7.1 M
Operating Margin %	4%

*Key Challenges*

- Baxter Regional has faced significant labor challenges during the pandemic, although in recent months the hospital has made progress in mitigating those challenges.

1

*Patient Volume Trends*

- Baxter Regional has an acute average daily census (ADC) of 100, a total ADC of 130.9, and did not report issues with decreasing patient volumes during our review

2

*Financial Status*

- As of February 2023, Baxter Regional has \$6.0M of cash-on-hand and a restricted \$58.3M “funded depreciation” account that is held in liquid assets but would require board approval to use for any purpose other than capital expenditures. Excluding the restricted account, days-cash-on-hand is 7.7 and quick ratio is .93. Including the restricted account, the figures are 82.8 days and a quick ratio of 2.4

3

*Labor Challenges*

- Baxter Regional’s use of travel nurses during the pandemic peaked at 60 nurses in March 2022. As of end of January 2023 that number is down to 15 and hospital leadership hopes to further reduce it below ten. The prevailing hourly rate for travel nurses has also come down from a peak of \$160 per hour to \$120 per hour. The hospital has raised entry-level wages through the pandemic in order to remain competitive with other businesses in the area

4

*Technology Challenges<sup>29</sup>*

- Baxter Regional did not report any major IT challenges

5

*Sustainability Plan*

- Baxter Regional has 40 locations serving residents from 11 counties and is intent on continuing to grow its footprint. A new building to house oncology services was recently completed and the hospital will begin using it once the back-ordered linear accelerator is delivered in several months
- In the last two years, the hospital has added 26 new providers and intends to add three more before the end of their FY in June. The hospital has numerous other initiatives that are planned or in process to decrease costs and increase revenues/footprint

6

*Physical Plant*

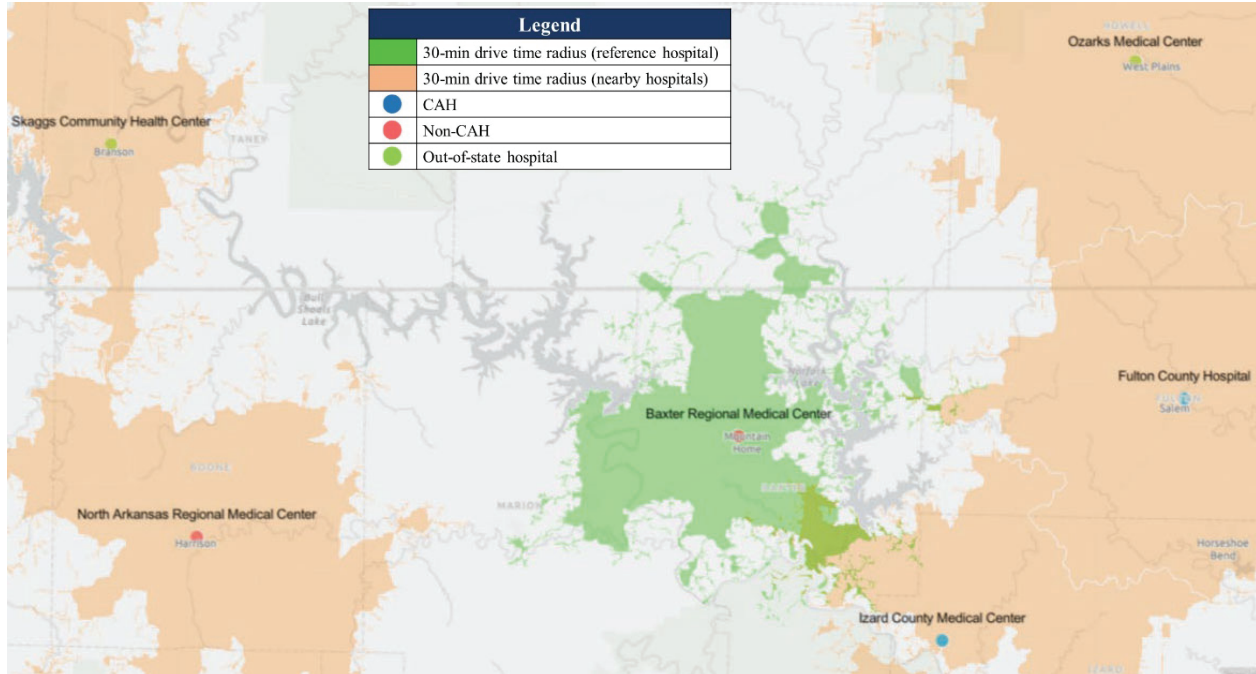
- Overall, the hospital’s facilities are in average shape, and the hospital has maintained the restricted “funded depreciation” account in order to finance needed capital expenditures. One issue is that the hospital’s chillers are not currently connected to the emergency power system, and the hospital is in the process of replacing several older generators with new, larger generators that will be able to also support the chillers in the event of a power outage

<sup>29</sup> The A&M Team was not engaged in a formal Information Technology (IT) assessment across the hospital's technology stack, platforms, cybersecurity, data infrastructure and reporting. This would be considered separate work and as such, does not reflect consolidative findings captured within this report as it impacts financial budget and operations.

### Drive Time Assessment - Alternatives in the Surrounding Community

A population estimated at 67,915 is located within a 30-mile radius of Baxter Regional.<sup>30</sup> The three closest alternative hospitals to Baxter Regional are on average 21 miles away: IZARD County Medical Center is 34 miles to the southeast in neighboring IZARD County; Ozarks Medical Center is 40 miles to the northeast in the State of Missouri; and North Arkansas Regional Medical Center is 41 miles to the west in Boone County. IZARD County is a CAH, and Ozarks Medical and North Arkansas Regional are more than an hour by car.

Figure 9: Baxter’s Drive Time Assessment



### Observations Related to Operational Outlook

The FY22 acute average length of stay (ALOS) was 3.7 days and the average daily census (ADC) for acute care was 100, up from 93 in FY21.<sup>31</sup> The occupancy rate for the FY22 was 48.8%.

For comparison, the national benchmark average LOS for non-CAH facilities is 5.4 days and average occupancy rates range widely from 40 to 60% depending on location (*i.e.*, rural vs urban). For rural hospitals

<sup>30</sup> “Hoosiers by the Numbers.” Large Area Radius Tool: Hoosiers by the Numbers. Accessed April 28, 2023. [https://www.hoosierdata.in.gov/big\\_radius/radius.asp](https://www.hoosierdata.in.gov/big_radius/radius.asp).

<sup>31</sup> Baxter Regional also provides rehabilitation and adult behavioral health inpatient services. The FY22 ADCs of those areas were 17.4 and 9.5, respectively.

in Arkansas, in 2016, average occupancy rates hovered around 30%.<sup>32</sup> Baxter had both a lower ALOS than the benchmark and a higher occupancy rate than most Arkansas hospitals did in 2016.

In fiscal year 2022, Baxter Regional reported 9,859 inpatient discharges with an adjustment factor of 3.0 resulting in total adjusted discharges of 29,352. Total acute care patient days in that year were 36,517, beating the hospital’s forecast by just under 3,000 and indicating an increase of 7.7% over the prior year’s results.

As of December 2022, Baxter Regional employed 1,601 full time employees (FTEs), of which 1,301 were direct patient care related (“clinical” FTEs or CFTEs). FTEs per each adjusted occupied bed (also called “FTEs per adjusted ADC”) was 4.1, just under the state benchmark of 4.6–5.72 FTEs per adjusted ADC.<sup>33</sup> Labor cost as a percent of net patient revenue was ~52% compared to the benchmark of 50% - 60% for rural non-CAHs.<sup>34</sup> That Baxter is on the low-end of labor cost as a percent of net patient revenues and below the benchmark for FTEs per adjusted occupied bed indicates that the hospital is deploying its staff resources efficiently.

#### Observations Related to Current Fiscal Condition

The assessment and observations below are based on analysis of the latest financial data received from Baxter Regional’s leadership, which is as of February 2023.

Table 10: Baxter’s Operational Indicators

<b>Key Indicators - Operational Outlook</b>	
<i>(Sep. 2022 - Feb. 2023 Annualized)</i>	
<b>Total Acute Discharges</b>	9,859
<b>Adjustment Factor</b>	3.0
<b>Total Acute Adjusted Discharges</b>	29,352
<b>Acute Hospital Patient Days</b>	36,517
<b>Acute Adjusted Patient Days</b>	108,716
<b>Acute Average Daily Census</b>	100.0
<b>Total Average Daily Census</b>	130.9
<b>Average Length of Stay (YTD)</b>	3.7
<b>Emergency Department Visits</b>	33783
<b>Occupancy Rate</b>	48.8%
<b>Total FTEs</b>	1,601
<b>Total CFTEs</b>	1,301
<b>Case Mix Index (if available)</b>	N/A
<b>Labor Cost / Net Patient Revenue</b>	52%
<b>FTEs per each Adjusted Occupied Bed</b>	4.1

Table 11: Baxter’s Balance Sheet Metrics

<b>Balance Sheet Metrics</b>	
<i>(as of Feb. 2023)</i>	
<b>C&amp;C Equivalents</b>	\$ 64,303,184
<b>Inventory and Prepaid Expenses</b>	\$ 13,215,199
<b>Current Assets</b>	\$ 107,900,312
<b>Total Assets</b>	\$ 189,368,745
<b>Current Liabilities</b>	\$ 39,223,653
<b>Total Long-Term Debt</b>	\$ 40,315,721
<b>Total Liabilities</b>	\$ 81,539,159
<b>Net Position</b>	\$ 107,829,586
<b>Daily Expenditures</b>	\$ 776,148
<b>Days Cash on Hand</b>	82.9
<b>Quick Ratio</b>	2.4
<b>Current Ratio</b>	2.75
<b>Debt Service Coverage Ratio</b>	1.83
<b>Average Age of Plant</b>	15.60
<b>Days in Net Accounts Receivable</b>	34.12
<b>Debt to Operating Revenue</b>	13%

<sup>32</sup> Acute Care and Critical Access Hospital Occupancy Rate Variability by Location (2016, HFMA). <https://www.hfma.org/finance-and-business-strategy/analytics/61098/>

<sup>33</sup> See Figure 4: Comparison of FTE / Adjusted Average Daily Census by Hospitals.

<sup>34</sup> See Figure 3: Comparison of Labor Cost to Net Patient Revenue Across Hospitals.

### Cash Position

As of February 2023, the hospital’s cash and cash equivalents was \$64.3M including \$58.3M of liquid funds internally designated as “funded depreciation” to be used for investment in the hospital’s physical plant. Daily expenditures for the 6-month period ending in February 2023 were, on average, \$776k, indicating that Baxter Regional had roughly 83 days of cash on hand at the end of February. The average days in net accounts receivable for the time period was 34.1, indicating robust revenue cycle management (RCM). A cash flow runout analysis was conducted based on data received from September 2022 through February 2023. As seen in the table below, cash flows vary month to month, with certain months showing high outflows and other showing inflows. It is also important to note that the \$58M in funded depreciation does not flow through the facility’s cash flow statements.

Table 12: Baxter’s Cash Flow Runout

	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
Beginning Balance	\$ 6,589,749	\$ 8,918,474	\$ 6,516,792	\$ 5,245,274	\$ 7,664,885	\$ 3,051,572
Patient Receipts <sup>1</sup>	24,873,003	22,228,010	22,907,281	25,898,751	20,650,209	23,879,048
Other	1,457,389	1,427,691	3,385,104	2,038,271	4,346,385	1,460,558
Total Receipts	26,330,392	23,655,701	26,292,385	27,937,022	24,996,594	25,339,606
Total Disbursements	24,001,667	26,057,383	27,563,904	25,517,411	29,609,907	22,390,398
Net Increase (Decrease)	2,328,725	(2,401,682)	(1,271,519)	2,419,611	(4,613,313)	2,949,208
Ending Balance	\$ 8,918,474	\$ 6,516,792	\$ 5,245,274	\$ 7,664,885	\$ 3,051,572	\$ 6,000,780

Notes:

(1) December patient receipts have been adjusted from the initial data submission to reflect more recent figures

### Debt

The primary component of Baxter Regional’s current debt profile consists of hospital revenue bonds originated in 2016 in an original amount of \$45M. The remaining portion of the hospital’s \$40.3M of long-term debt as February 2023 is composed of various notes and lines of credit that were used to fund capital investments. Baxter Regional has a debt to operating ratio of 13% and a debt service coverage ratio of 3.07 as of February 2023.

### Revenue

For the sixth-month period from September 2022 through February 2023, Baxter Regional achieved an annualized net patient service revenue (NPSR) of almost \$289M and other revenues of \$15.6M. These figures — 6% and 27% growth over FY 2021,<sup>35</sup> respectively — represent Baxter Regional’s growing footprint: The hospital added nine new physicians in 2022 and six new providers in the first months of 2023. The gains in NPSR and non-NPSR operating income drove a 156% increase in operating income from fiscal year 2021 to the annualized six-month period ending February 2023. An important note is that Baxter Regional has recognized all COVID-19 related stimulus funding as part of “other operating revenues,” and so fluctuations in this category may be due to differences in recognized amounts year-over-year.

<sup>35</sup>Baxter Regional’s fiscal year ends December 31<sup>st</sup> and the hospital’s fiscal 2022 results were not yet available as of the time of this report. As such, the prior fiscal year results used in this section are based on fiscal 2021 data.

Table 13: Baxter's Income Statement Metrics

Income Statement Metrics			
	FY 22	Trailing 6 Months Annualized	Difference*
Net Patient Service Revenue (NPSR)	\$ 273,408,457	\$ 288,974,450	6%
Other Revenue	\$ 12,247,758	\$ 15,563,912	27%
<b>Total Revenue</b>	<b>\$ 285,656,215</b>	<b>\$ 304,538,362</b>	<b>7%</b>
Salaries, Wages & Benefits (SWB) Expense	\$ 145,832,172	\$ 149,838,064	3%
Supplies Expense	\$ 104,719,656	\$ 73,938,024	-29%
Other Operating Expense	\$ 17,973,423	\$ 57,905,226	222%
<b>EBITDA</b>	<b>\$ 17,130,964</b>	<b>\$ 22,857,048</b>	<b>33%</b>
Depreciation Expense	\$ 12,598,615	\$ 11,245,690	-11%
<b>Operating Income</b>	<b>\$ 4,532,349</b>	<b>\$ 11,611,358</b>	<b>156%</b>
Non-Operating Income (Expense)	\$ 10,318,580	\$ (4,497,402)	-144%
<b>Net Income</b>	<b>\$ 14,850,929</b>	<b>\$ 7,113,956</b>	<b>-52%</b>
Operating Margin	2%	4%	140%
NPSR / Adj Discharge		\$ 9,845	
Expense / Adj Discharge		\$ 9,980	

\*Difference is calculated as the percent change from the prior to current period relative to the absolute value of the metric in the prior period

### Expenses

Baxter Regional's spend related to salaries, wages, and benefits (SWB) grew modestly from fiscal 2021 to the six months ending February 2023. Two factors contributing to that modest growth were offsetting developments: A decrease in the use of travel nurses, which are more expensive than directly employed staff, and increases in staff wages to keep pace with rising wages in the local market.

### Supplemental Funding

Baxter Regional has previously received supplemental funding during the pandemic in the form of both federal dollars and state dollars. The table below summarizes the significant supplemental funding that was received.

Table 14: Baxter's Supplemental Funding

Supplemental Funding	Total Amount Received
<b>Federal Sources</b>	\$ 31,480,027
<b>State of Arkansas Cares Support</b>	\$ 6,501,005
<b>FEMA (Received 2022)</b>	\$ 1,413,225
<b>Arkansas Economic Development</b>	\$ 600,000
<b>Arkansas Direct Worker Grant</b>	\$ 991,650
<b>Other</b>	\$ 141,001
<b>Total</b>	<b>\$ 41,126,908</b>

### Break-Even Analysis

Based on the trailing six months of financial data, the break-even analysis table below shows that Baxter Regional is now on track to break-even over the annualized period of Sept. 2022 through Feb. 2023. This achievement is a testament to the organization’s recognition halfway through 2022 that the current operating picture was not sustainable, and that they needed to begin to move in a different direction. Since July 2022, Baxter Regional has taken numerous steps to shore up their financial position and looks to continue to find ways to improve and better serve the community.

Table 15: Baxter’s Break-even Analysis

Baxter Income Statement	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Breakeven Over the Last 2 Quarters	12-Month Total	18-Month Total
Net patient service revenue	\$ 25,246,938	\$ 24,393,700	\$ 23,293,976	\$ 26,003,586	\$ 23,158,107	\$ 22,390,918	\$ 144,487,225	\$ 288,974,450	\$ 433,461,675
Other Operating Revenues	1,490,977	1,750,370	2,894,699	4,269,655	614,086	677,350	11,697,137	15,563,912	19,430,687
Total Operating Revenue	26,737,915	26,144,070	26,188,675	30,273,241	23,772,193	23,068,268	156,184,362	304,538,362	452,892,362
Salaries, Wages, Benefits and Payroll Taxes	12,103,462	13,277,348	12,013,061	13,189,378	12,672,170	11,663,613	74,919,032	149,838,064	224,757,096
Supplies	6,246,842	6,696,681	6,660,082	5,621,465	5,519,056	6,224,886	36,969,012	73,938,024	110,907,036
Total Operating Expenses Less D&A	23,209,878	24,460,481	23,500,118	23,870,893	23,107,344	22,891,943	140,840,657	281,681,314	422,521,971
<b>EBIDA</b>	<b>\$ 3,528,037</b>	<b>\$ 1,683,589</b>	<b>\$ 2,688,557</b>	<b>\$ 6,402,348</b>	<b>\$ 664,849</b>	<b>\$ 376,325</b>	<b>\$ 15,343,705</b>	<b>\$ 22,857,048</b>	<b>\$ 30,370,391</b>
Depreciation	955,856	948,057	941,274	924,621	931,063	921,974	5,622,845	11,245,690	16,868,535
Total Operating Expenses	24,165,734	25,408,538	24,441,392	24,795,514	24,038,407	23,613,917	146,463,502	292,927,004	439,390,506
<b>Operating Income (Loss)</b>	<b>\$ 2,572,181</b>	<b>\$ 735,532</b>	<b>\$ 1,747,283</b>	<b>\$ 5,477,727</b>	<b>\$ (266,214)</b>	<b>\$ (545,649)</b>	<b>\$ 9,720,860</b>	<b>\$ 11,611,358</b>	<b>\$ 13,501,856</b>
Interest	140,239	138,500	138,920	137,187	126,090	125,415	806,351	1,612,702	2,419,053
Non-Operating Revenues (Expenses)	(5,097,654)	2,620,939	1,971,748	(2,059,396)	2,375,082	(2,059,420)	(2,248,701)	(4,497,402)	(6,746,103)
<b>Net Income (Loss)</b>	<b>\$ (2,525,473)</b>	<b>\$ 3,356,471</b>	<b>\$ 3,719,031</b>	<b>\$ 3,418,331</b>	<b>\$ 2,108,868</b>	<b>\$ (2,605,069)</b>	<b>\$ 7,472,159</b>	<b>\$ 7,113,956</b>	<b>\$ 6,755,753</b>

### Capital Considerations

Baxter Regional has an average age of physical plant of 15.6 years. The hospital’s facilities and equipment are relatively well-maintained but there are several areas that need or could benefit from ~\$6M of additional capital investment within the current fiscal year. A top item on the list is upgrading the facility’s emergency generators. Currently some of the equipment responsible for cooling the hospital during hot weather are not connected to the generators, meaning that in the event there is a power outage on a hot summer day the hospital would not be able to keep the indoor environment sufficiently cool. Baxter Regional has budgeted \$1.7M for generator upgrades that will be made during the 2023 and 2024 fiscal years. Other capital investment items budgeted for fiscal 2023 include \$2M for remodeling and updating the emergency department, \$600k for installing a new fire panel in the boiler area, and \$1M for updating or replacing some parts of the hospital’s IT infrastructure and servers.

There are a number of other capital investments planned over a 12 to 24-month timeframe depending on availability of funds. These include updating and maintaining air handlers and the roofs of several of the hospital’s buildings, renovation and expansion of the women’s clinic, radiology equipment upgrades or replacements, and renovations to the cardiovascular intensive care unit (CVICU). In total the 12 to 24-month capital items total \$29.5M. There are roughly 20 bigger ticket investments that Baxter Regional will eventually need to make in the two to five-year time horizon. Those longer-term purchases include maintenance of the hospital’s helipad, equipment for multiple areas such as endoscopy and central sterile, and replacement of six ambulances that are nearing end of life. In total these longer timeframe items are estimated to cost Baxter Regional a total of \$50.5M.

### Upcoming Obligations

Outside of the items discussed above in “Debt” and “Capital Considerations”, Baxter Regional has no major upcoming obligations.

## Sustainability Plan

Baxter Regional has identified several opportunities to increase revenues and cut costs. A majority of these initiatives had been implemented by early March 2023, although many of the changes will take time for their full effect to flow through to the hospital's bottom line.<sup>36</sup> *Table 16* is a breakdown of many of Baxter Regional's sustainability initiatives.

Table 16: Baxter's Sustainability Plan

Baxter Regional Medical Center Sustainability Plan	Financial Impact		
	Action Complete	Action Pending	Total
<b>Revenue Enhancement:</b>			
Invest in hospital growth (various, see narrative below)	\$ 2,300,000	\$ 2,300,000	\$ 4,600,000
Use 340(b) program for home infusion contract pharmacy		850,000	850,000
Increase reimbursement rates (various, see narrative below)	4,114,000		4,114,000
Continue growth in population health management	1,398,000		1,398,000
RCM improvements in hospital and clinics	1,158,000		1,158,000
<b>TOTAL REVENUE ENHANCEMENTS IMPACT</b>	<b>8,970,000</b>	<b>3,150,000</b>	<b>12,120,000</b>
<b>Expense Reduction:</b>			
Reduce travelers from high of 60 to fewer than 10	\$ 6,000,000	\$ 666,667	\$ 6,666,667
Discontinue the Community Paramedic Program	256,000		256,000
Curtail non-critical capital expenditures	9,000,000		9,000,000
Changes and reductions to employee benefits	325,000		325,000
Expand use of 340(b) pharmacy discount program	300,000		300,000
Improve department processes for flexing staff hours	<i>Impact Unknown</i>		<i>Impact Unknown</i>
Change RN/LPN mix to a higher LPN ratio	275,000		275,000
Change EMT/Paramedic mix to higher EMT ratio	120,000		120,000
Reduce staff turnover rates	<i>Impact Unknown</i>		<i>Impact Unknown</i>
Reduce supply costs (various, see narrative below)	1,245,000		1,245,000
Start new, more efficient LPN and CAN residency program	145,000		145,000
Expand LPN program so students start in high school	<i>Impact Unknown</i>		<i>Impact Unknown</i>
<b>TOTAL EXPENSE REDUCTION IMPACT</b>	<b>17,666,000</b>	<b>666,667</b>	<b>18,332,667</b>
<b>TOTAL IMPACT</b>	<b>26,636,000</b>	<b>3,816,667</b>	<b>30,452,667</b>

### Revenue Enhancements

- Invest in hospital growth:
  - Baxter Regional aims to grow service volume by signing new providers and broadening the range of services provided
  - The hospital added 20 providers during FY 2021 and 2022. To date in 2023, Baxter Regional has added six providers and intends to hire three more by the end of the year
  - The hospital intends to grow its cardiac catheterization lab and cardiovascular surgery volume through signing a new cardiologist, having existing cardiologists assist more with clinic work, and expanding the range of existing service lines to include additional procedures (TAVR [percutaneous aortic valve replacement] and Watchman procedures)
  - Baxter Regional is expanding its diagnostic capabilities with the addition of two nuclear cameras and a new echo echocardiography machine

<sup>36</sup> A&M makes no representation or warranty as to the accuracy or reliability of the future financial or operational performance discussed in any of the Hospitals' sustainability plans.

- Hospital leadership is also considering the addition of a second suboxone clinic and broadening its pain management program
- Depending upon the availability of funds, hospital leadership would like to expand the emergency department to accommodate patient growth in that area
- Expand 340B program capabilities:
  - In addition to using 340B to reduce the cost of employee prescriptions, Baxter Regional plans to broaden revenues using 340B by performing home infusions, growing hepatitis-C testing, and adding a new clinic and physician
- Higher reimbursement rates:
  - Baxter Regional expects to realize increased reimbursements from both Medicare and commercial payer services in 2023. Hospital leadership expects both inpatient and outpatient Medicare services to have increased reimbursements of approximately \$2.9M in total. Renegotiated contracts with two commercial payers are forecast to increase commercial payer reimbursements by an additional \$1.2M
- Continue growth in population health management:
  - Baxter Regional's growing population health management program is anticipated to bring in an additional \$1.4M of annual revenue
  - Working on additional growth of Population Health Teams in Family Practice Enterprise
  - Switched from an independent Medicare Shared Savings Plan (MSSP) to Caravan which has over 200,000 covered lives
  - Partnered with Main Street Health in late 2022
  - Partnered with Trilogy Care Connect
- Revenue cycle management (RCM) improvements in hospital and clinics:
  - The hospital is working to improve RCM processes in both the hospital and the clinics, with a specific focus on services for patients covered by Medicare Advantage plans. These RCM updates are estimated to result in \$1.2M in increased annual revenue once fully implemented

### Expense Reductions

- Reduce travel nurses from high of 60 to fewer than ten:
  - Baxter Regional's use of travel nurses peaked at 60 nurses in March 2022. The hospital has since brought its utilization of travel nurses down to 15 as of March 2023 and intends to further reduce the number to fewer than ten. Elimination of the 45 travel positions to date will save roughly \$6M of annual labor expense, with another \$667k of cost savings anticipated for moving from the current 15 positions to the target of ten or fewer
- Discontinue the Community Paramedic Program:
  - Baxter Regional closed the community paramedic program that it previously ran in 2022. The program historically generated approximately \$350k in net annual losses. The hospital hopes to fill the gap left by the closure of the community paramedic program with its chronic care management, remote patient monitoring, and transitional care services
- Curtail non-critical capital expenditures:

- Historically, capital expenditures to maintain and update the facility and equipment ran at roughly \$15M annually. As discussed in the “Capital Considerations” section above, the hospital has reduced annual capital expenditures to \$6M and plans to continue the curtailment until the hospital is on more stable financial footing
- Changes and reductions to employee benefits:
  - Baxter Regional has implemented several changes to the benefits that it provides to employees, including changes to the formulary/drug plans
- Expand use of 340B pharmacy discount program:
  - Baxter Regional has begun to leverage its 340B program to provide pharmacy services to employees at a reduced cost, resulting in a \$95k savings over the course of the two months that the changes have been in place. This indicates annualized likely savings for \$300k going forward
- Improve department processes for flexing staff hours:
  - The hospital is working to improve the efficiency of its staffing model by making it more dynamic and responsive to real-time hospital needs to save labor costs associated with unnecessary hours or overtime
- Change mix of Registered Nurses (RNs) and Licensed Practical Nurses (LPNs):
  - By leveraging less-expensive LPNs instead of RNs for the types of work that both are qualified to perform, hospital leadership expects to save approximately \$275k annually
- Change mix of Emergency Medical Technicians (EMTs) and Paramedics:
  - Similar to the previous item, the hospital anticipates an annual savings of \$120k from prioritizing the use of less-expensive EMTs rather than paramedics for work that both positions are qualified to do
- Reduce staff turnover rates
  - Decreasing staff turnover rates will reduce the cost of hiring and training replacement staff. They aim to do this via a combination of having adjusted wages upwards to more competitive levels and by fostering a collaborative and positive work environment. This piece of the sustainability plan did not yet have a quantified savings associated with it
- Reduce supply costs
  - Baxter Regional is a member of the purchasing coalition TPC and expects to save approximately \$800k annually through TPC rebates on purchases
  - The hospital recently renegotiated the terms for its purchases of supplies for spinal procedures for a go-forward annual savings of \$300k
  - There is an additional \$145k of annual savings that will be realized from changes to the vendor terms that Baxter Regional uses for its RN residency program

# Baxter County Regional Hospital Sustainability Plan Summary

## February Baseline Metrics

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- 82.8 Days Cash on Hand and 34 Days in AR, Net
- 52 % in Labor/Net Patient Service Revenue (NPSR)
- -1% Operating Margin<sup>1</sup>
- 4.1 for FTEs per Adjusted Occupied Bed (AOB)
- 130.9 in Average Daily Census

## Challenges

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Baxter Health is a 268 licensed-bed general hospital within Baxter County. Baxter Health has been experiencing challenges in collecting revenue due to increased denials from third party payers. The hospital has also noted difficulties in staffing key provider positions throughout the hospital. This reliance on travelers to fill positions post-pandemic (due to provider labor shortage) has burdened the hospital with high labor costs, upwards of \$180 an hour, and impacted overall operating margins.

## Sustainability Approach - Track 2

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Baxter Health selected *Track 2: Strategic Hospital Improvement* and chose to focus on improving Days in Accounts Receivable, Net and Operating Margin.

## Initiatives

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*Days in Accounts Receivable, Net* improvements focus on improving revenue cycle processes. Baxter Health plans to work more closely to challenge non-paying payers more aggressively and to meet with commercial payers every 1-2 months to ensure claims adjudication is in accordance with regulations and contracts. Baxter Health is also working to negotiate improved rates with commercial payers to positively impact net revenue and cash flow.

*Operating Margin* and strong management of operational performance is especially important given the high concentration of governmental payers and low reimbursement rates experienced at Baxter. New margin initiatives include:

- Addition of approximately 10 new physicians (including an orthopedic surgeon and a vascular surgeon) in 2023 to increase referrals and revenue growth
- Increased drug discounts and rebates
- Increased population health services
- Continued reduction of travelers
- Reduction of staff positions and
- Closure of certain service lines

## Noted Progress/Updates

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Baxter Health has historically funded growth and enhanced medical services through margin improvement initiatives. For the seven months ending July 2023, Net Income from Operations has improved \$6.1M from the same period in 2022. The hospital has experienced success within their chronic care management and remote monitoring, which went from 100-200 CCMs<sup>2</sup>/month (peak in 2023) to 2500 CCMs/month. Baxter was recently approved for CMS Bundled Payments for Care Improvement (BPCI) and has partnered with Main Street for population health management. Active marketing and awareness campaigns are underway to increase surgery cases within the community.

## Cybersecurity Checklist

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Baxter's Director of Information Technology reviewed the six Internet Security Basic Controls and eight Cyber Defense Minimum Standards. Baxter will work with Legislative Audit to complete an on-site cyber review.

<sup>1</sup> Baxter's operating margin was re-calculated to remove one-time events from the calculation in the May 2023 report.

<sup>2</sup> CCM is care coordination services done outside of the regular office visit for patients with two or more chronic conditions expected to last at least 12 months or until the death of the patient, and that place the patient at significant risk of death, acute exacerbation/decompensation, or functional decline. [Source: CMS.Gov]

**BAXTER**  
**HEALTH**  
**SUSTAINABILITY PLAN**

## **PURPOSE**

The purpose of this document is to define the actions Baxter County Regional Hospital (Baxter Health) will take to maintain financial viability and continue to provide a level of critical healthcare to the communities it serves. This plan provides a clear path to balance long-term debt, protect the value of current assets, support ongoing operations and maintenance of the physical plant, manage expenses, and increase operating revenues.

## **OVERVIEW OF STRENGTHS, CHALLENGES, AND OPPORTUNITIES**

Baxter Health is committed to championing access to compassionate high-quality care by remaining independent, strategically comprehensive and community-focused. Baxter Health is a Magnet® Recognized hospital offering compassionate emergency, primary, and specialty care in over 40 locations. Baxter Health is focused on providing compassionate care beyond measure and has been serving patients of North Central Arkansas and South Central Missouri since 1963. The counties they serve in Arkansas includes Baxter, Marion, Fulton, Sharp, Izard, Stone, Searcy, Newton, and Boone. Baxter Health also serves two counties in Missouri. Although Baxter Health serves rural counties and the hospital is located in a retirement community of fewer than 15,000 people, according to the Arkansas Business Journal, Baxter Health is the 11<sup>th</sup> largest hospital in Arkansas, and the 42<sup>nd</sup> largest business in Arkansas.

The healthcare team consists of a medical staff of over 220 primary care and specialty care providers, an ANCC Magnet® Recognized nursing program, and a healthcare support staff that exemplify compassion and excellence. The healthcare organization encompasses a 268-bed short-term acute care hospital, outpatient surgery center, and approximately 40 primary care clinics and specialty care clinics. This allows Baxter Health to offer some of the latest advancements in medicine across a comprehensive array of specialties that include: family medicine, emergency medicine, cardiology, heart and vascular surgery, neuro-spine surgery, general surgery, orthopaedics, women's health, and more.

In consecutive years, Baxter Health has been recognized as one of the Best Places to Work in Healthcare by Modern Healthcare Magazine and Best Places to Work in Arkansas by Arkansas Business Magazine, as well as a Top 100 Rural & Community Hospital by Chartis Center for Rural Health.

Baxter Health has significant community support as evidenced by the second largest hospital volunteer organization in the state of Arkansas, with almost 500 individuals dedicating their time and resources. In 2022, the volunteers dedicated more than 64,500 hours to improving the services of Baxter Health, the most hours of any hospital volunteer organization in Arkansas.

Baxter Health has been and will continue to be a safety net hospital for the North Central Arkansas. Being in a rural retirement area, Baxter Health relies disproportionately more on Government Funding (more than most hospitals in the nation and the State of Arkansas). Due to this high reliance on Medicare and Medicaid, Baxter's operating margins have always been very slim, ranging pre-COVID in the 1%-2% range. The impact of the pandemic and subsequent labor and supply inflation had a significant negative impact on Baxter Health's financial status. Days Cash on Hand recently hit an all-time low and operating losses continue, albeit less than prior years.

## **THE CURRENT STRENGTHS AND CHALLENGES TO THE FINANCIAL VIABILITY AND SUSTAINABILITY OF THE HOSPITAL ARE AS FOLLOWS:**

### **STRENGTHS**

- 1. Excellence in Quality Patient Care:** Baxter Health, a non-profit health system, has been esteemed as a Magnet® Recognized Health System, which is a significant testament to its commitment to excellent patient care. This prestigious designation is only conferred to healthcare organizations that demonstrate superior nursing practices. Being a Magnet-designated health system means that Baxter Health consistently meets and exceeds national standards for healthcare quality and safety, leading to improved patient outcomes and overall patient satisfaction.
- 2. One of the Best Places to Work in Healthcare:** Baxter Health's commitment to quality patient care has garnered Baxter Health a great reputation within the healthcare industry. Baxter Health has been consecutively recognized as one of the Best Places to Work in Healthcare by Modern Healthcare Magazine for three years in a row, one of the Best Places to Work in Arkansas by Arkansas Business Magazine for 5 years in a row, and a Top 100 Rural & Community Hospital by Chartis Center for Rural Health. These accolades reinforce Baxter Health's position as a leading provider of quality healthcare in their region.
- 3. Resilience to Perform in Difficult Financial Environments:** Baxter Health has demonstrated great resilience year after year and found ways to achieve operational earnings and growth, with very limited reimbursement increases. Baxter Health's payor mix is highly concentrated with Medicare, Medicaid and other Government payors. Medicare represents approximately 65% of the total revenue, and Baxter Health's Medicare reimbursement rates are in the lowest 1% of all rural hospitals nationally. CMS sets reimbursement fee schedules with average annual increases of approximately 3.6%. Inpatient Medicaid fee schedules have not increased since 2007. With over 80% of revenue limited from either no increases to approximately 3.6% annually, Baxter Health must find pathways to overcome the revenue limitations and achieve positive margins.

For the five years preceding the pandemic, Baxter Health achieved increased margins each year. The pandemic halted operational earnings and Baxter Health is working diligently to return to profitability. Although Baxter Health has incurred \$1.0 Mil of operational losses in the first six months of 2023, significant financial improvement totaling \$6.0 Mil has been achieved over the same period prior. This demonstrates the dedicated focus of the Baxter Health team to repeatedly overcome challenges associated with a limited reimbursement environment where increased costs can't be passed on to the consumer or payor.

- 4. Revenue Cycle Management:** Baxter Health is proud of the Revenue Cycle Management achievements including Net Days in Accounts Receivable averaging 33 Days over the last five years. The Revenue Cycle team focuses on optimal performance from the moment a patient arrives for care to the complete collection of the account. This performance level is critical to the sustainability of Baxter Health.
- 5. Value Base Care and Population Health Management:** Over the last three years, Baxter Health has excelled in Value-Based Care and Population Care Management with more improvements expected in 2023. The achievements have improved the overall quality of care provided to patients as well as provided financial benefit to the organization. Baxter Health has participated in Medicare Shared Savings Program (MSSP) since the development of its Accountable Care Organization and Clinically Integrated Network over eight years ago. Within the last three years, shared savings and profitability

have been achieved in both MSSP (traditional Medicare) and Medicare Advantage programs. Baxter Health has recently received a national award for successes associated with Annual Wellness Visits.

Care Management outreach to patients has recently reached an all-time high ensuring patient care enhancements. Currently, Baxter Health is evaluating Medicare Bundle Payment opportunities for the upcoming year. The acceleration of Value Base Care and Population Health have improved quality of care of patients while providing a significant revenue stream for the organization.

## **CHALLENGES**

### **1. Days in Accounts Receivable/Aggressive Denials of Payment by Insurance Companies**

With the advancement of artificial intelligence, third party payers are becoming more and more aggressive in denials of services provided and for denials of services provided that have been paid. Audits of charts that services have been completed and payments were made two or three years ago are on the rise due to the insurance companies' ability to put the charts through algorithms created by artificial intelligence. This type of aggressive behavior by third party insurers is very time consuming and costly for Baxter Health to either receive or keep the money that should be considered theirs for providing the service and expending the resources to take care of the patient.

### **2. Staffing, Recruitment, and Managing Salary Expense**

Staffing and recruitment for the right number of staff and the right mix of staff continues to be a challenge and area of focus for Baxter Health. It is difficult to find people to work in just about every area of the organization whether it is nursing, environmental services, radiology, surgery or physicians.

In March of 2022, Baxter Health had 60 travelers working to fill positions throughout the hospital. Some of those traveler positions were costing the organization as much as \$180 an hour. Being in a rural area of Arkansas, with the Medicare wage index being extremely low and serving a population skewed heavy towards Medicare, it is critical to the organization to not only reduce the number of travelers due to their high costs, but also to recruit and retain all positions so everyone is working at the top of their expertise or license to help reduce overall salary and wage costs.

### **3. Other Challenges**

As referenced above, the high volume of government payers associated with Medicare reimbursement at the lowest 1% of all rural hospitals in the nation causes significant financial strain on Baxter Health. Baxter Health leadership works diligently with CMS, legislators and consultants to improve future reimbursement. This avocation for improved reimbursement for rural hospitals is a slow process but one we are dedicated to continuing.

With the challenging healthcare environment and high mix of Medicare business, Baxter Health strives to diversify with new lines of profitable business to support the growth which helps improve hospital margins. Recent expansions into new counties have improved Baxter Health's payer mix to less Medicare and increased commercial business. To capitalize on this positive trend, Baxter Health desires to expand business lines in Fulton County. Expansion requires significant leadership attention creating stress on Baxter Health's lean staff. Remaining focused on current and foundational lines of business while managing new growth in other lines of service will be an increased challenge.

## **IMPROVEMENT EFFORTS AND FUNDING OPPORTUNITIES**

### **1. Days in Account Receivable, Net/Revenue Cycle Improvement**

Days in Account Receivable and Net/Revenue Cycle Improvements are a critical part of the long-term sustainability for Baxter Health. Given the reimbursement environment discussed above, Days in Accounts Receivable and Revenue Cycle Management must remain strong to ensure cash flows appropriately. Baxter Health has maintained a well-respected Days in AR metric historically but must diligently watch processes closely to ensure the payers are paying accurately and timely. Baxter Health is dedicated to ensuring strong revenue cycle management processes including working closely with payers to challenge vigorously any payer that may not be paying timely or accurately. Meetings with commercial payers will be held monthly or every two months to ensure claims adjudication is in accordance with regulations and/or contracts. Denials from payers will be worked aggressively. In addition, Baxter Health will work with insurance payers to negotiate improved increases with commercial payers to help improve net revenue and improve cash flow.

Baxter Health is committed to meet the following targets:

- 6-month target – Days in A/R, net within 20% of the benchmark of 43.7
- 12-month target – Days in A/R, net within 5% of the benchmark of 43.7

### **2. Operating Margin**

With the high concentration of government payer mix and low reimbursement levels as noted above, the return of profitability and sustainability of Baxter Health will require strong management of operational performance. Significant progress in Net Operating Income began in the last half of 2022 and continued in 2023. For the seven months ending July 2023, Net Income from Operations has improved \$6.1 Mil from the same period in 2022. Even with these continued improvements, newly developed market pressures produced by urologists and orthopaedic surgeons opening an Ambulatory Surgical Center (ASC), are expected to cause outpatient surgical volume and related Gross Revenue to soften late in 2023 continuing into 2024. Effective May 15, 2023, all Baxter Health chemotherapy services were transferred to Highland Oncology at Baxter Health to enhance cancer care and access to cancer research studies for Arkansans in North Central Arkansas. The opening of the competing ASC and the transfer of the profitable oncology service line will cause significant margin pressure in the coming months. To offset these margin constraints, margin improvement initiatives continue to be a primary focus. Baxter Health has proven year after year to fund growth and enhanced medical services through strong margin improvement initiatives even with little to no reimbursement increases from Medicare, Medicaid, and other government payers and aggressive behavior from commercial and Medicare Advantage payers. New margin initiatives including the addition of approximately 10 new physicians (including an orthopaedic surgeon and a vascular surgeon) in 2023 to increase referrals and revenue growth, increased drug discounts and rebates, increased population health services, continued reduction of travelers, reduction of staff positions, and unfortunate closure of certain service lines will improve Operating Margins and offset market pressures noted above. Baxter Health is committed to improving financial performance to support its purpose of championing access to compassionate high-quality care by remaining independent, strategically compressive and community-focused.

Baxter Health is committed to meet the following targets:

#### **Operating Margin**

- 6-month target – 20%-40% improvement from February 2023 baseline of negative 1.0%
- 12-month target – 70%-90% improvement from February 2023 baseline of negative 1.0%

## Additional Funding Opportunity

In addition to the sustainability focus as part of Tract 2 – Strategic Hospital Improvement, Baxter Health has committed and signed a Letter of Intent to support Fulton County Hospital in a Tract 1 – Transformative Hospital Reform plan. Baxter Health’s support of the transformation of Fulton County Hospital will take significant resources, time of an already lean Baxter Health staff and financial investment, during the next year. We, respectfully, request your consideration of this additional responsibility when determining the ARPA funding award for Baxter Health. A copy of the Fulton County Hospital Sustainability Plan noting Baxter Health’s commitments is attached hereto.

## SUMMARY

### Track 2 – Strategic Hospital Improvement

Benchmark	Initiative	Description	Start Date	Time to Implement	Revenue Impact	Expense Impact	Status
<p>Days in A/R</p> <p>c. 6-month target – Days in A/R, net within 20% of the benchmark of 43.7</p> <p>d. 12-month target – Days in A/R, net within 5% of the benchmark of 43.7</p>	<ul style="list-style-type: none"> <li>Meetings with Commercial Payers</li> <li>Strong denial management</li> <li>Improved commercial contract rates</li> </ul>	<p>Goal to improve payment flow, reduce denials and increase net reimbursements. Additional AR Days will remain within the stated benchmark targets</p>	September 1, 2023	6 Months and 12 Months, respectively, for the two targets	Estimated \$800,000 annualized net revenue	Personnel time associated with the management of revenue cycle and holding payers accountable; no additional employees expected to be added	
<p>Operating Margin</p> <p>a. 6-month target - 20%-40% improvement from February baseline</p> <p>b. 12-month target – 70%-90% improvement from February baseline</p>	<p>Implementation of new margin improvement initiatives including recruitment of physicians to support referrals and growth, increasing drug discounts and rebates, increase population health services, reduction of staff/travelers, closure of services lines, etc.</p>	<p>Leadership will monitor margin improvement initiatives through monthly meetings with initiative leaders.</p>	Immediately	6 Months and 12 Months, respectively, for the two targets	<p>Recruitment of physicians and new population health revenue streams will support growth and increased Patient Service Revenue.</p> <p>Drug rebates will improve Net Revenues</p>	<p>Continued reduction of travelers and related hourly cost, reduction in staff and closure of certain service lines will reduce existing expenses</p>	

## **CYBERSECURTY DEFENSE**

Baxter's Director of Information Technology reviewed the six Internet Security Basic Controls and eight Cyber Defense Minimum Standards. Baxter will work with Legislative Audit to complete an on-site cyber review.

**AMERICAN RESCUE PLAN ACT OF 2021 PROGRAM APPROPRIATION  
AND PERSONNEL AUTHORIZATION REQUEST  
SECTION 36 OF ACT 796 OF 2023**

**C.4**

Agency: Arkansas Department of Human Services Business Area Code: 0710  
 Program Title: Emergency Aid Relief to Hospitals  
 Granting Organization: American Rescue Plan Act of 2021 CFDA #: State Fiscal Recovery Funds (SFRF)  
 Effective Date of Authorization: Beginning: 7/1/2023 Ending: 6/30/2024

Purpose of Grant / Reason for addition or change (include attachments as necessary to provide thorough information):  
 Hospitals continue to experience severe financial strain due to the economic impacts of the ongoing COVID-19 pandemic. Increased costs and labor shortages have resulted in lesser revenues for the hospitals. This means that several hospitals across the state, particularly those that serve rural populations, are at immediate risk of closure.  
 Use of these funds will allow hospitals to maintain operations to ensure patients receive the care they need during and between the pandemic disease "surges". The purpose of these payments is to assist hospitals to offset extraordinary costs related to mitigating and preventing COVID-19 and retaining and acquiring frontline staff that have occurred as a result of the COVID-19 pandemic.  
 This request is for Baxter Health for the management of Fulton County Hospital in support of their efforts to provide rural healthcare to Arkansans.

Func. Area: HHS Fund Code: FRP7178 Direct Funding: \_\_\_\_\_  
 Funds Center: AZ5 Internal Order/WBS Element: \_\_\_\_\_ State: X  
 Continuation: \_\_\_\_\_

	Program Funding Amount
Regular Salaries	
Extra Help	
Personal Services Matching	
Operating Expenses	
Conference & Travel Expenses	
Professional Fees	
Capital Outlay	
Data Processing	
Grants and Aid (CI: 04)	5,000,000
Other:	
Other:	
<b>Total</b>	\$ <b>5,000,000</b>

Anticipated Duration of Federal Funds: 9/30/2024

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**DFA IGS State Technology Planning** Date  
 Items requested for information technology must be in compliance with Technology Plans as submitted to DFA IGS State Technology Planning.

**Positions to be established: (list each position separately)**

\* unclassified positions only

Org Unit	Pers Area	Pers SubArea	Cost Center	Position Number	Comnt Item	Position Title	Class Code	Grade	Line Item Maximum *

**State funds will not be used to replace federal funds when such funds expire, unless appropriated by the General Assembly and authorized by the Governor.**

Approved by:

Kristi Putnam Digitally signed by Kristi Putnam  
Date: 2023.08.30 14:28:29 -0500  
 Cabinet Secretary/Agency Director

Robert Brech 10/01/23  
 Office of Budget

Office of Personnel Mgmt Date

*Joshua Kenyon*  
8/30/23



DHS Secretary Kristi Putnam  
Office of the Secretary

P.O. Box 1437, Slot S201, Little Rock, AR 72203-1437  
P: 501.682.8650 F: 501.682.6836 TDD: 501.682.8820

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August 30, 2023

Secretary Jim Hudson  
Department of Finance and Administration  
1509 West Seventh Street, Suite 401  
Little Rock, AR 72201

Re: Release of ARPA Funding – Hospital Assistance

Dear Secretary Hudson,

On behalf of the Department of Human Services, I respectfully request release of a portion of the American Rescue Plan Act of 2021 (ARPA) State Fiscal Recovery Funds (SFRF) Arkansas Allotment to address the negative impacts of the public health emergency due to the COVID-19 pandemic (PHE), such as staffing and bed shortages; extraordinary costs of providing COVID-19 mitigation, prevention, and treatment; and disruptions in utilization of health care services across payers.

Participating hospitals have undergone an independent study and are developing and implementing a sustainability plan. The agency is requesting \$5,000,000 in ARPA funding and appropriation which will be disbursed through the Arkansas Medicaid payment system to Baxter Health for the management of Fulton County Hospital in their efforts to provide rural healthcare to Arkansans.

Thank you for your assistance. If you need additional information, please contact Misty Eubanks, DHS CFO, at 501-320-6327.

Sincerely,

Kristi Putnam, Secretary  
Arkansas Department of Human Services

KP:mbe

cc: Robert Brech, Administrator  
DFA – Office of Budget

Andy Babbitt, Administrator  
DFA- Office of Accounting

# Arkansas Rural Hospital Assessment

*Final Report*

Arkansas Department of Finance & Administration

*Prepared by Alvarez & Marsal Public Sector Services, LLC*

May 2023



Cover image: Mint Images – stock.adobe.com

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This Final Report (the "Report") was prepared at the request of Arkansas Department of Finance and Administration (the "Client"), pursuant to the contract executed between the Client and A&M (the "Contract"), for the express purpose of assessing the eighteen participating hospitals (the "Hospitals") that are the subject of the review for which A&M was engaged under the Contract (individually and collectively the "Purpose"), and has been prepared based on information (the "Information") and instructions given by Client, and information provided by the Hospitals, to Alvarez & Marsal Public Sector Services, LLC ("A&M").

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## Fulton County Hospital

### Quick Facts

- Classification: CAH
- Licensed Beds: 25
- Closest Facility: 24.8 miles
- Average Age of Plant: 27.1 years
- Average Daily Patient Occupancy Rate: ~19%
- Average length of stay (ALOS): 5.0
- Total full-time employees (FTEs): 108

Location: Salem, Fulton County  
 County Population: 12,145 (2021)



Table 62: Fulton's Summary Statistics

Operating Statistics	
C&C Equivalents	\$ (0.0 M)
Current Assets	\$ 5.1 M
Net A/R	\$ 4.3 M
Total Assets	\$ 8.3 M
Days Cash on Hand	-0.44
Quick Ratio	4.01
Current Ratio	4.25
Debt Service Coverage Ratio	-0.76
Days in Net AR	154.94
Average Age of Plant	27.06
Income Statement	
<i>(Trailing 6 Months Annualized)</i>	
Net Patient Service Revenue (NPSR)	\$ 9.9 M
Other Revenue	\$ 0.3 M
Total Revenue	\$ 10.2 M
Salaries, Wages & Benefits	\$ 5.7 M
EBITDA	\$ 0.1 M
Operating Income	\$ (0.4 M)
Non-Operating Income/(Expense)	\$ 0.6 M
Net Income	\$ 0.2 M
Operating Margin %	-4%

## Executive Summary

### *Key Challenges*

Fulton County is in a dire financial position and at risk of closure. That risk is compounded by the lack of other hospitals within a 30-minute drive time of Fulton County (see the Drive Time Assessment section immediately below for this visualization) and by its extremely high average days in accounts receivable (A/R) due in part to a problematic electronic medical record (EMR) implementation and timely billing difficulties. Hospital leadership is not confident in the ability to continue current operations in the medium- or long-term. They have had discussions with Baxter Regional about a potential partnership or acquisition and are also considering converting to the rural emergency hospital (REH) designation.

1

#### *Patient Volume Trends*

- The average daily census of the hospital has been deteriorating over the last few years. On the day of our visit there were only two inpatients in the hospital
- Leadership reported that sometimes there will be as many as 14 patients in the inpatient ward, but census is often quite low

2

#### *Financial Status*

- Fulton County had only \$494k (17.5 days) of cash on hand at the end of December 2022. This days of cash on hand metric has further deteriorated to a negative position in February 2023
- In early 2023, the hospital obtained a \$250k line of credit from their local bank that they have started using

3

#### *Labor Challenges*

- In large part due to its location, the hospital is struggling with maintaining staffing levels across all levels and areas. Many staff members are filling multiple roles (*e.g.*, the Chief Nursing Officer (CNO) is also the scope procedure nurse and has been taking extra night shifts to fill staffing gaps)

4

#### *Technology Challenges<sup>85</sup>*

- In October 2021, the hospital had a problematic conversion of their EMR system that they are still working to mitigate. For the first five months following the transition, the hospital was entirely unable to bill for services. This has contributed to a massive spike in average accounts receivable (A/R) days, which were 172.9 as of December 2022. Back-end functionality of the system is still not in place, requiring significant manual work to translate internal records to the billing system

5

#### *Sustainability Plan*

- Fulton County does not have a robust sustainability plan. Given the limited capital available for investment and deteriorating average daily census (ADC), many components of the hospital's plan involve reducing costs rather than increasing revenues and lack quantification

6

#### *Physical Plant*

- Fulton County's physical plant is in poor condition with an average age of plant of 27.1 years and little to no funds available for capital expenditure. The facility has been creative and obtained numerous grants over the years to fund capital upgrades, but much is still needed from a physical plant perspective

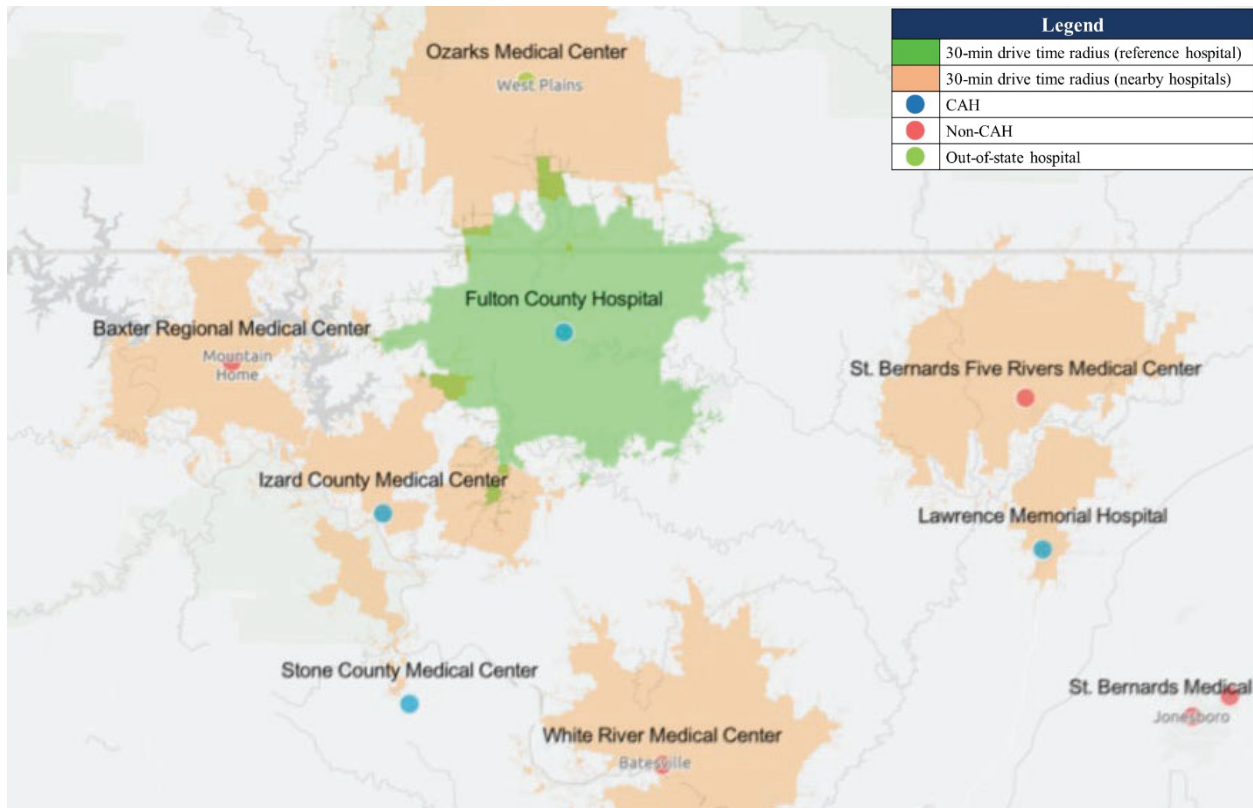
<sup>85</sup> The A&M Team was not engaged in a formal Information Technology (IT) assessment across the hospital's technology stack, platforms, cybersecurity, data infrastructure and reporting. This would be considered separate work and as such, does not reflect consolidative findings captured within this report as it impacts financial budget and operations.

- In the older portion of the facility, which houses the inpatient units, there is insufficient documentation of the electrical system wiring, which means that the facilities staff must guess-and-check what breakers control what systems/rooms
- One of the hospital’s two boilers is nonfunctional. The hospital doesn’t use chillers, instead using several condensers and many dedicated AC units throughout the building. Seven air handlers need to be replaced
- There is no ability to turn off water to only a specific part of the building, only to turn off water to the entire facility if a repair is needed somewhere

### Drive Time Assessment - Alternatives in the Surrounding Community

A population estimated at 83,724 is located within a 30-mile radius of Fulton County.<sup>86</sup> The two closest alternative hospitals are Ozarks Medical Center, which is 24.8 miles to the north across the Missouri border, and Izard County Medical Center, which is 25 miles southwest in Calico Rock.

Table 63: Fulton County Drive Time Assessment



<sup>86</sup> “Hoosiers by the Numbers.” Large Area Radius Tool: Hoosiers by the Numbers. Accessed April 28, 2023. [https://www.hoosierdata.in.gov/big\\_radius/radius.asp](https://www.hoosierdata.in.gov/big_radius/radius.asp).

## Observations Related to Operational Outlook

The fiscal year-to-date as of February 2023 acute average length of stay at Fulton County was 5.0 days and the acute average daily census (ADC) was 2.8. The total ADC (including swing beds) is 4.8 while the occupancy rate was 19%.

For comparison, the national benchmark ALOS for CAH facilities is 4 days and average occupancy rates range widely from 40 to 60% depending on location (*i.e.*, rural vs urban). For rural hospitals in Arkansas, in 2016, average occupancy rates hovered around 30%.<sup>87</sup> Fulton County had an ALOS that was 1 day over the national benchmark and an occupancy rate that was well under benchmark, indicating that the hospital has fewer patients on average than other CAHs and that those patients tend to stay for longer than patients at other CAHs.

To date in fiscal 2023 Fulton County reported an annualized 204 annual acute inpatient discharges with an adjustment factor of 7.44, resulting in total adjusted discharges of 1,518.

Total annualized acute inpatient days in fiscal year 2023 were 1,022, indicating an adjusted patient days of 7,602. Fulton County leadership reported that ADC has been declining recently, potentially due to patient concerns about the risk of contracting COVID-19 in the hospital.

As of February 2023, the hospital had 108 full-time employees (FTEs). This leads to 3 FTEs for each adjusted occupied bed. The state benchmark for FTEs per adjusted occupied bed was 4.6-5.72.<sup>88</sup> Labor cost as a percent of Net Patient Service Revenue (NPSR) was 57.8% for fiscal year 2023 to date, compared to the benchmark of 50% - 60% for CAHs.<sup>89</sup> That the FTEs per adjusted occupied bed are significantly under benchmark while the labor cost as a percent of NPSR may indicate that Fulton County

Table 64: Fulton's Operational Outlook

Key Indicators - Operational Outlook	
(Calendar Year 2022)	
Total Inpatient Discharges	204
Adjustment Factor	7.44
Total Adjusted Discharges	1,518
Hospital Patient Days	1,022
Adjusted Patient Days	7,602
Average Daily Census	2.8
Average Length of Stay	5.0
Emergency Department Visits	3,366
Occupancy Rate	19.1%
Total FTEs	108
Total CFTEs	Not provided
Case Mix Index	Not provided
Labor Cost / Net Patient Revenue	57.8%
FTEs per Adjusted Occupied Bed	3.0

Table 65: Fulton's Balance Sheet Metrics

Balance Sheet Metrics	
(as of Feb. 2023)	
C&C Equivalents	\$ (12,390)
Inventory and Prepaid Expenses	\$ 298,218
Current Assets	\$ 5,094,602
Total Assets	\$ 8,270,517
Current Liabilities	\$ 1,197,582
Total Long-Term Debt	\$ 2,624,754
Total Liabilities	\$ 3,822,337
Net Position	\$ 4,448,179
Daily Expenditures	\$ 27,907
Days Cash on Hand	(0.4)
Quick Ratio	4.0
Current Ratio	4.25
Debt Service Coverage Ratio	(0.76)
Average Age of Plant	27.06
Days in Net Accounts Receivable	154.94
Debt to Operating Revenue	26%

<sup>87</sup> Acute Care and Critical Access Hospital Occupancy Rate Variability by Location (2016, HFMA).

<https://www.hfma.org/finance-and-business-strategy/analytics/61098/>

<sup>40</sup>CAH Financial Indicators Report: Summary of Indicator Medians by State. May 2022 State Medians Report 2022 (FLEX)

<sup>88</sup> See Figure 4: Comparison of FTE / Adjusted Average Daily Census by Hospitals.

<sup>89</sup> See Figure 3: Comparison of Labor Cost to Net Patient Revenue Across Hospitals.

is having trouble hiring and retaining staff and has raised compensation and benefits to account for that difficulty.

#### Observations Related to Current Fiscal Condition

The assessment and observations related to the current fiscal condition below are based on the latest data received from Fulton County leadership, which is as of February 2023.

#### *Cash Position*

As of February 2023, the hospital's cash and cash equivalents dipped into a negative balance. This cash position is in part due to issues that occurred in October 2021 during a transition to a new electronic medical record (EMR) and revenue cycle management (RCM) system. Back-end system errors during the migration of data to the new system have impeded the hospital's ability to send any patient bills out until the spring of 2022, and lingering issues have continued to hamper Fulton County's ability to collect net patient service revenues in a timely manner. As of February, the average days that net patient service revenues took to be collected had grown to 155, far above standard benchmarks.

#### *Debt*

The lion's share of Fulton County's \$2.6M of debt as of February 2023 is a series of hospital revenue bonds that were issued by the county in 2007 to finance improvements and additions to the hospital facility. The original principal of the bonds was \$3.4M and they carry a fixed interest rate of 4.5%. The bonds are due to mature in March 2037. There was additionally a \$1.8M series of sales and use tax bonds issued by the county in September 2013 that carry a lower interest rate of 2.9% and are being repaid by the proceeds of a 0.5% county sales tax. The 2013 series will mature in March 2025.

#### *Revenue*

Comparing the prior fiscal year results against numbers annualizing the six months of financials ending February 2023, Fulton County has grown its NPSR by 13%. However, as discussed in the section above, the hospital has been struggling to bill and collect NPSR for the patient services being provided, so this growth in revenues has had a limited impact on the hospital's short-term financial position.

Table 66: Fulton’s Income Statement Metrics

Income Statement Metrics			
	FY 22	Trailing 6 Months Annualized	Difference*
Net Patient Service Revenue (NPSR)	\$ 8,753,853	\$ 9,933,760	13%
Other Revenue	453,627	292,800	-35%
<b>Total Revenue</b>	<b>9,207,480</b>	<b>10,226,560</b>	<b>11%</b>
Salaries, Wages & Benefits (SWB) Expense	5,396,545	5,741,146	6%
Supplies Expense	2,803,584	1,664,114	-41%
Other Operating Expense	2,207,136	2,673,978	21%
<b>EBITDA</b>	<b>(1,199,785)</b>	<b>147,322</b>	<b>112%</b>
Depreciation Expense	449,633	523,452	16%
<b>Operating Income</b>	<b>(1,649,418)</b>	<b>(376,130)</b>	<b>77%</b>
Non-Operating Income (Expense)	1,317,636	587,726	-55%
<b>Net Income</b>	<b>(331,782)</b>	<b>211,596</b>	<b>164%</b>
Operating Margin	-18%	-4%	79%
NPSR / Adj Discharge		\$ 8,730	
Expense / Adj Discharge		\$ 9,318	

\*Difference is calculated as the percent change from the prior to current period relative to the absolute value of the metric in the prior period

### Expenses

Fulton County has seen a moderate six percent increase in SWB expenses and a significant 54% reduction in supplies expense from fiscal year 2022 to the current period. Supply expense is generally variable and correlated to patient volumes, and the reduction in supply expense is roughly proportional to the decrease in ADC that Fulton County has seen since fiscal year 2022.

### Supplemental Funding

Over the course of fiscal years 2020 through 2022, Fulton County has recognized \$5.4M of supplemental funding from the CARES Act Provider Relief Fund and a Paycheck Protection Program loan that was forgiven in 2021.

Table 67: Fulton County Supplemental Funding

Supplemental Funding	Total Amount Received
<b>CARES Act Provider Relief Fund</b>	\$ 4,427,719
<b>Paycheck Protection Program (PPP)</b>	\$ 923,665
<b>Total</b>	<b>\$ 5,351,384</b>

### Break-Even Analysis

The below break-even analysis is based on a trailing six-month annualization of Fulton County’s income statements. As seen in the Break-even analysis table below, their annualized net income for that period was \$211.6k. However, as discussed in the section above, there is a significant lag between when NPSR is recognized on the income statement and when those amounts are collected.

Table 68: Fulton’s Break-even Analysis

Fulton County Income Statement	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Breakeven Over the Last 2 Quarters	12-Month Total	18-Month Total
Net patient service revenue	\$ 1,201,329	\$ 941,088	\$ 430,395	\$ 1,002,147	\$ 739,379	\$ 652,542	\$ 4,966,880	\$ 9,933,760	\$ 14,900,640
Other Operating Revenues	18,068	21,699	43,784	24,847	4,918	33,084	146,400	292,800	439,200
Total Operating Revenue	1,219,397	962,787	474,179	1,026,994	744,297	685,626	5,113,280	10,226,560	15,339,840
Salaries, Wages, Benefits and Payroll Taxes	466,330	507,352	472,726	481,863	511,669	430,033	2,870,573	5,741,146	8,611,719
Supplies	79,519	106,064	62,629	134,225	154,827	112,206	649,470	1,298,940	1,948,410
Total Operating Expenses Less D&A	820,214	908,531	798,756	871,247	890,150	750,721	5,039,619	10,079,238	15,118,857
<b>EBIDA</b>	<b>\$ 399,183</b>	<b>\$ 54,256</b>	<b>\$ (324,577)</b>	<b>\$ 155,747</b>	<b>\$ (145,853)</b>	<b>\$ (65,095)</b>	<b>\$ 73,661</b>	<b>\$ 147,322</b>	<b>\$ 220,983</b>
Depreciation	43,621	43,621	43,621	43,621	43,621	43,621	261,726	523,452	785,178
Total Operating Expenses	863,835	952,152	842,377	914,868	933,771	794,342	5,301,345	10,602,690	15,904,035
<b>Operating Income (Loss)</b>	<b>\$ 355,562</b>	<b>\$ 10,635</b>	<b>\$ (368,198)</b>	<b>\$ 112,126</b>	<b>\$ (189,474)</b>	<b>\$ (108,716)</b>	<b>\$ (188,065)</b>	<b>\$ (376,130)</b>	<b>\$ (564,195)</b>
Interest	9,210	9,109	8,658	21,634	(4,131)	9,018	53,498	106,996	160,494
Non-Operating Revenues (Expenses)	51,545	51,510	51,358	62,186	29,011	48,253	293,863	587,726	881,589
<b>Net Income (Loss)</b>	<b>\$ 407,107</b>	<b>\$ 62,145</b>	<b>\$ (316,840)</b>	<b>\$ 174,312</b>	<b>\$ (160,463)</b>	<b>\$ (60,463)</b>	<b>\$ 105,798</b>	<b>\$ 211,596</b>	<b>\$ 317,394</b>

### Capital Considerations

The original Fulton County building was constructed in 1963 and an expansion housing the emergency department, outpatient department, and small surgical suite for performing scopes was added in 2007. There are a number of parts of the hospital’s infrastructure that are in critical need of capital investment. Of greatest concern is the electrical system in the older, original portion of the facility. Over the 50 years since construction was completed, the electrical system’s documentation insufficient documentation of the electrical system wiring, which means that the facilities staff must guess-and-check what breakers control what systems/rooms. It is unclear how much investment would be required to comprehensively address this issue.

The facility has two boilers, one of which is out of commission and needs to be replaced. Air conditioning is handled by using condensers and individual AC units throughout the hospital. The air handlers responsible for patient areas have been replaced relatively recently, but there are five or six additional handlers that need replacement. Generally, the HVAC infrastructure in the 2007 expansion is in better repair than the original building.

### Sustainability Plan

Fulton County is exploring several potential initiatives to increase hospital volume and revenues as well as to reduce expenses. Hospital leadership’s ability to focus on the creation of a long-term strategic sustainability plan has been hampered by the more urgent liquidity and operational issues that require immediate action. As such, many of these initiatives are currently in a tentative or exploratory phase and have not been quantified.<sup>90</sup>

<sup>90</sup> A&M makes no representation or warranty as to the accuracy or reliability of the future financial or operational performance discussed in any of the Hospitals’ sustainability plans.

Table 69: Fulton’s Sustainability Plan

Fulton County Sustainability Plan Summary	Financial Impact		
	Action Complete	Action Pending	Total
<b>Revenue Enhancement/Expense Reductions:</b>			
Increase number of scope procedures performed		<i>Impact Unknown</i>	<i>Impact Unknown</i>
Change hospitalist provider to cut cost and increase patient volume	56,000	<i>Impact Unknown</i>	56,000 / <i>Impact Unknown</i>
Sell or merge EMS service to reduce losses		<i>Impact Unknown</i>	<i>Impact Unknown</i>
Potential partnership for swing bed program		<i>Impact Unknown</i>	<i>Impact Unknown</i>
Consolidate two discrete nurse stations into one to create labor efficiencies		<i>Impact Unknown</i>	<i>Impact Unknown</i>
Increase clinic volumes		<i>Impact Unknown</i>	<i>Impact Unknown</i>
Replace original windows with more efficient glass		<i>Impact Unknown</i>	<i>Impact Unknown</i>
Assess a potential adult behavioral health unit		<i>Impact Unknown</i>	<i>Impact Unknown</i>
Assess a potential conversion to Rural Emergency Hospital (REH)		<i>Impact Unknown</i>	<i>Impact Unknown</i>
<b>TOTAL IMPACT</b>	<b>56,000</b>	<b>-</b>	<b>56,000</b>

Revenue Enhancements and Expense Reductions

- Increase number of scope procedures performed:
  - Fulton County offers scope procedures out of the small surgical suite that was added with the facility’s 2007 expansion. Leadership is exploring potential avenues to increase the volume of scopes performed and, as a result, increase revenue in the service area.
- Change hospitalist provider to cut cost and increase patient volume:
  - The hospital is in the final stages of contracting a new hospitalist provider to replace the current provider. On the cost side, the new contract will save roughly \$56k annually. Hospital leadership also believes that the new hospitalist will contribute to growing inpatient volumes and mitigating the long-term trend of decreasing ADC.
- Sell or merge EMS service to reduce losses:
  - Fulton County currently operates the county’s ambulance service at a loss. The county provides a small amount of financial support for the operation of the service, not nearly enough to offset the significant expense that it costs to run per hospital leadership. Fulton County has been looking into potential mergers or partnerships for the EMS service that it hopes can help minimize losses.
- Potential partnership for swing bed program:
  - The hospital is in the preliminary stages of considering a merger or partnership with a significantly larger hospital that could drive additional patient volumes and revenue for the facility.
- Consolidate two discrete nurse stations into one:
  - Currently there are separate nurse stations at the opposite ends of an L-shaped corridor that contains the swing bed and med/surg patient areas. Construction of a consolidated nurse station at the junction of the two areas would allow the hospital to make more efficient use of its nursing staff and, as a result, reduce labor costs over time.
- Increase clinic volumes:
  - Fulton County currently operates a wound care clinic with a physician that travels to the facility one day a week. Hospital leadership is considering adding an additional physician to run the wound care clinic another day each week as well as potentially adding new services or specialties.
- Replace original windows with more efficient glass:

- Heating and cooling the hospital is currently more expensive than it would be if there were funds available to invest in more efficient infrastructure such as updated windows that limit the amount of energy required to keep the hospital at appropriate temperatures and humidity.
- Assess a potential adult behavioral health unit:
  - Expanding services to include an adult behavioral health unit could be an additional source of revenue that may be relatively less resource-intensive to get started than adding other new services or specialties.
- Assess a potential conversion to Rural Emergency Hospital (REH)
  - Converting the facility to an REH could offer Fulton County the opportunity to focus its limited resources on the provision of emergency services to the community while obtaining advantageous reimbursement rates from Medicare patient services.

## Fulton County Hospital Sustainability Plan Summary

### **February Baseline Metrics**

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• -0.44 Days Cash on Hand and 155 Days in AR, Net</li> <li>• 57.8% in Labor/Net Patient Service Revenue (NPSR)</li> <li>• -4% Operating Margin</li> </ul> | <ul style="list-style-type: none"> <li>• 3 for FTEs per Adjusted Occupied Bed (AOB)</li> <li>• 2.8 in Average Daily Census</li> </ul> |
|--|---|

### **Challenges**

Fulton is a 25 licensed-bed Critical Access Hospital (CAH) within Fulton County. Fulton's current financial status has deteriorated over the last few years due to consistent decreases in average daily census (ADC) and increased financial obligations. A problematic conversion of their Electronic Medical Records (EMR) and administrative software increase Days in AR, which still needs to be remedied. Due to purchase of recent imaging equipment (CT and US), lease obligations have increased which has further weakened their cash position. In early 2023, the hospital obtained a \$250k line of credit from their local bank to cover expenses. Like many rural hospitals, Fulton's staffing and recruitment is limited due to financial constraints. Shortage of staff has resulted in the inability to adequately staff hospital, resulting in limited hospital inpatient and swing bed volume. The physical plant is also in poor condition with an average age of 27 years.

### **Sustainability Approach - Track 1**

Fulton selected *Track 1: Transformative Hospital Reform (Reclassification or Consolidation/Merger)* and is taking steps towards a long-term relationship with Baxter Health. This affiliation with Baxter Health (including management and operational support) will address administrative challenges and enhance the Hospital's growth opportunities in the inpatient, swing bed and procedural areas. Noted benefits from this affiliation for Fulton include:

- Effective coordination of patient care to increase volumes, improve payor mix to maximize cost-based reimbursement, and enhance quality of patient care at the most appropriate place of service through Baxter Health's Hospitalist support
- Patient quality enhancement and payor contracts management through Baxter's Clinically Integrated Network and a Physician Hospital Organization
- Evaluate and negotiate more affordable supply purchases through Baxter's group purchasing organizations
- Support for increased procedural volume enhancing the profitability of the Hospital

### **Track 1 Benchmarks**

✓ Letter of Intent	July 31, 2023
✓ Management Agreement Signed by both parties	August 15 <sup>th</sup> , 2023
□ Due Diligence Complete	December 31 <sup>st</sup> , 2023
□ Execution of acquisition documents/ long-term management agreement and issue public press release	February 15 <sup>th</sup> , 2024

### **Noted Progress/Updates**

Since February, Fulton has drawn on an additional line of credit to meet expenses and its financial position has continued to deteriorate. On July 31<sup>st</sup>, 2023 the Fulton County Quorum Court passed a resolution in support of the hospital exploring an official long-term relationship with Baxter Regional Health System and allowing management of the day-to-day operation of Fulton County Hospital by an administrator selected by Baxter Regional Health System. Upon execution of the Management Agreement on August 15<sup>th</sup>, 2023, Baxter immediately kicked efforts to improve internal controls, address billing challenges, and address other issues such as a \$200 fine/day by CMS for lack of transparency. Baxter has deployed its staff and engaged consultants to address the issues impacting billing. According to information provided by Baxter, census has also increased since February. A potential conversion to a Rural Emergency Hospital (REH) may be considered in the future depending on in-patient volume trends.

### **Cybersecurity Checklist**

Baxter is currently in progress of reviewing cybersecurity controls in place for Fulton, as part of the Due Diligence (scheduled for completion in December). Baxter will work with Legislative Audit to complete an on-site cyber review.

# Fulton County Hospital Sustainability Plan

## Purpose

The purpose of this document is to define the actions Fulton County Hospital (the Hospital) will take to maintain financial viability and continue to provide a level of critical healthcare to its community. This plan provides a clear path to balance long-term debt, protect the value of current assets, support ongoing operations and maintenance of the physical plant, manage expenses, and increase operating revenues.

## Overview of Strengths, Challenges, and Opportunities

The Hospital is committed to providing all individuals in the community and surrounding area with quality medical care, education, and service while fostering the art of compassion, caring, and healing.

Like most small rural hospitals, the Hospital has faced many financial challenges throughout its history. However, the Hospital has significant community support as evidenced by the ½% sales tax passed by voters in 2004. Despite this support, the impact of the pandemic and subsequent reduction in volume has had a significant negative impact on the Hospital's financial stability.

We believe that an affiliation with Baxter Health in the form of a management agreement would provide industry expertise, medical support, and leverage for payor and vendor contracting that would return the Hospital to firmer financial ground. A management agreement for 180 days will allow Baxter Health to continue due diligence and develop a long-term acquisition/merger plan with the Hospital. Baxter Health has recently begun facilitating hospitalist coverage that has improved the quality and timeliness of care and increased volume. An expansion and formalization of this relationship would further stabilize the Hospital and healthcare in the community. Baxter Health would also assist with an assessment of whether Rural Emergency Hospital status would be more appropriate for the Hospital.

The current strengths and challenges to the financial viability and sustainability of the Hospital are as follows:

### *Strengths*

#### 1. Affiliation with Baxter Health

Baxter Health, a Magnet-Recognized rural hospital encompassing a 268-bed short-term acute care hospital, outpatient surgery center and approximately 40 primary care and specialty clinics, is located approximately 38 miles from the Hospital. An affiliation with Baxter Health including management and operational support will enhance the Hospital's growth opportunities in the inpatient, swing bed and procedural areas. Baxter Health's Hospitalist support will allow effective coordination of patient care to increase volumes, improve payor mix to maximize cost-based reimbursement, and enhance quality of patient care at the most appropriate place of service, close to home. Baxter Health hosts a Clinically Integrated Network and a Physician Hospital Organization that promote patient quality and manages payor contracts which will allow effective evaluation and negotiation of favorable reimbursement contracts. Baxter Health will, also, share experience in working with group purchasing organizations and provide strength through evaluation and negotiation for more affordable supply purchases. Baxter Health will lend support, including equipment and staffing, for increased procedural volume enhancing the profitability of the Hospital. As discussed below, Baxter Health's recruiting experience and access to clinical and administrative staff will be necessary to support the expected growth.

#### 2. Community Support

Salem, Arkansas, is a rural community of about 1,500 residents. The presence of the Hospital is critical for the well-being of its citizens. As noted above, the citizens have evidenced their support by passing and maintaining a sales tax to maintain the Hospital.

### 3. Critical Access Hospital Classification

The Hospital's Critical Access Hospital (CAH) classification provides reimbursement advantages not afforded to other rural hospital classifications. Allowable cost of care for CAH Medicare and Medicaid patients are reimbursed at 101% and 100%, respectively, and is an important advantage when Medicare and Medicaid patient mix is optimized. As a CAH the Hospital has advantages with swing bed services, 340(b) eligibility, professional provider opportunities, and flexible staffing requirements. An affiliation with Baxter Health and continuation of the utilization of Baxter Health's Hospitalist Service will allow coordination of patient care in order to maximize Medicare and Medicaid patient utilization and increase related reimbursement.

Also, as a CAH the Hospital may consider the conversion to a Rural Emergency Hospital (REH). Baxter Health will assist with a thorough assessment to estimate the impact of a conversion to REH to determine its viability and benefits. Consideration of the loss of inpatient services and 340(b) benefits, conversion and reduction of reimbursement from cost-based to Outpatient Prospective Payment System based reimbursement and the expected reduction in Skilled Nursing Facility reimbursement will be critical in the evaluation of the impact of a conversion REH.

### *Challenges*

#### 1. Hospital's Current Financial Status

The Hospital's financial status is dire with minimal cash on hand along with increased obligations, requiring recent draws on line of credit to meet operational demands such as payroll and insurance payments. An implementation of a new electronic medical record and administrative system caused a spike in account receivable days which has yet to be completely remedied causing reduced and slower cash receipts. Lease obligations have increased with the recent purchase of imaging equipment (CT and Ultrasound equipment) for use in patient care areas.

#### 2. Physical Plant

The Hospital's physical plant is in poor condition with an average age of 27 years. The Hospital has little to no funds available for capital expenditures. The Hospital has been creative and obtained numerous grants over the years to fund capital upgrades but much is still needed from a physical plant perspective.

#### 3. Staffing and Recruitment

Like most hospitals across the nation, the Hospital has suffered a severe staffing crisis since the beginning of the pandemic. Hospital inpatient and swing bed volumes are often limited due to the inability to adequately staff the hospital to meet standards of care. Recruitment is limited due to financial constraints and unstable future of the organization.

Partnering with Baxter Health, an ANCC Magnet-Accredited organization, will improve the overall image of the organization as an employer and will improve the probability that health care workers (who are currently driving 30-50 miles outside of Fulton County) will remain at home. Baxter Health's recruiting expertise and access to staff, will allow the Hospital to improve current staffing which is now limiting procedures and patient care.

#### 4. Lean Organizational Structure

With limited finances and an even more limited workforce, middle and upper-level management have been

forced to take on multiple roles with limited expertise in these areas. For instance, the Chief Nursing Officer also covers multiple night shifts in the Emergency Room each week and also serves as their only Endoscopy nurse and the Chief Financial Officer also serves as the IT Director. Situations such as this will ultimately lead to burnout and open the doors for preventable errors, which can be harmful to the organization and ultimately lead to increased turnover amongst management.

Baxter Health will provide supportive, management expertise that will allow for improved outcomes in both the short and long-term future. Baxter Health management team can lend expertise not only in clinical management for inpatient and ancillary services, but also information management, revenue cycle and financial leadership.

**Benchmarks**

As part of the process of formalizing our relationship with Baxter Health, we have identified the following benchmarks:

**Track 1 – Transformative Hospital Reform**

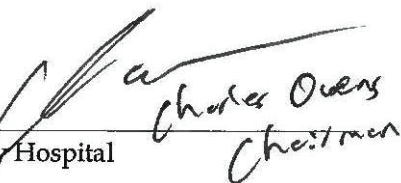
1. Affiliation via Management Agreement and Development of Acquisition/Merger Plan
  - a. Letter of Intent from both parties
  - b. Due diligence complete, plan for execution for final Acquisition/Merger documents, public press release

**Summary**

Track 1

Action	Description	Anticipated Completion Date
Letter of Intent	Both parties will formally express their intent to execute a management agreement and begin formulation of long-term acquisition plans	July 31, 2023
Management Agreement signed by both parties	Baxter Health will immediately begin management of all FCH operations and c due diligence	August 15, 2023
Due Diligence Complete	Baxter Health will complete due diligence process and make a final decision regarding best long- term plan.	December 31, 2023
Execution of acquisition documents or long-term management agreement and issue public press release	Following the completion of due diligence and if the parties are in agreement that the management of the Hospital by Baxter Health is in their interests, the management agreement will be executed, and a public press release will be issued.	February 15, 2024

Approved by  
Fulton County Hospital



Charles Owens  
Chairman

Approved by  
Baxter Health  
Ron Peterson, President/CEO







ARKANSAS  
DEPARTMENT OF  
**HUMAN  
SERVICES**

DHS Secretary Kristi Putnam  
Office of the Secretary

P.O. Box 1437, Slot S201, Little Rock, AR 72203-1437  
P: 501.682.8650 F: 501.682.6836 TDD: 501.682.8820

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August 30, 2023

Secretary Jim Hudson  
Department of Finance and Administration  
1509 West Seventh Street, Suite 401  
Little Rock, AR 72201

Re: Release of ARPA Funding – Hospital Assistance

Dear Secretary Hudson,

On behalf of the Department of Human Services, I respectfully request release of a portion of the American Rescue Plan Act of 2021 (ARPA) State Fiscal Recovery Funds (SFRF) Arkansas Allotment to address the negative impacts of the public health emergency due to the COVID-19 pandemic (PHE), such as staffing and bed shortages; extraordinary costs of providing COVID-19 mitigation, prevention, and treatment; and disruptions in utilization of health care services across payers.

Participating hospitals have undergone an independent study and are developing and implementing a sustainability plan. The agency is requesting \$ 3,301,356 in ARPA funding and appropriation which will be disbursed through the Arkansas Medicaid payment system to Arkansas Methodist Medical Center for their efforts to provide rural healthcare to Arkansans.

Thank you for your assistance. If you need additional information, please contact Misty Eubanks, DHS CFO, at 501-320-6327.

Sincerely,

Kristi Putnam, Secretary  
Arkansas Department of Human Services

KP:mbe

cc: Robert Brech, Administrator  
DFA – Office of Budget

Andy Babbitt, Administrator  
DFA- Office of Accounting

# Arkansas Rural Hospital Assessment

*Final Report*

Arkansas Department of Finance & Administration

*Prepared by Alvarez & Marsal Public Sector Services, LLC*

May 2023



Cover image: Mint Images – stock.adobe.com

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This Final Report (the "Report") was prepared at the request of Arkansas Department of Finance and Administration (the "Client"), pursuant to the contract executed between the Client and A&M (the "Contract"), for the express purpose of assessing the eighteen participating hospitals (the "Hospitals") that are the subject of the review for which A&M was engaged under the Contract (individually and collectively the "Purpose"), and has been prepared based on information (the "Information") and instructions given by Client, and information provided by the Hospitals, to Alvarez & Marsal Public Sector Services, LLC ("A&M").

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## Hospital-Specific Analyses

### Arkansas Methodist Medical Center

#### Quick Facts

- Classification: Non-CAH
- Licensed Beds: 129
- Closest Facility: 18.7 miles
- Average Age of Plant: 22.2 years
- Average Daily Patient Occupancy Rate: 31%
- Average length of stay (ALOS): 3.9
- Total full-time employees (FTEs): 674
- Corporate Structure: 501(c)3

Location: Paragould, Greene County  
County Population: 46,317 (2021)



Table 2: Arkansas Methodist's Key Statistics

Operating Statistics	
C&C Equivalents	\$ 13.8 M
Current Assets	\$ 31.4 M
Net A/R	\$ 11.4 M
Total Assets	\$ 56.3 M
Days Cash on Hand	68.46
Quick Ratio	6.93
Current Ratio	7.65
Debt Service Coverage Ratio	-5.62
Days in Net AR	59.96
Average Age of Plant	22.20
Income Statement	
<i>(Trailing 6 Months Annualized)</i>	
Net Patient Service Revenue (NPSR)	\$ 68.7 M
Other Revenue	\$ 1.8 M
Total Revenue	\$ 70.6 M
Salaries, Wages & Benefits	\$ 40.1 M
EBITDA	\$ (2.5 M)
Operating Income	\$ (5.6 M)
Non-Operating Income/(Expense)	\$ (0.1 M)
Net Income	\$ (5.7 M)
Operating Margin %	-8%

## Executive Summary

### Key Challenges

- Per hospital leadership, Arkansas Methodist is out of compliance with an affirmative debt service coverage ratio on two different notes held with a local bank totaling \$13.8M
- The nearby (~18 miles) NEA Baptist facility that opened five years ago has contributed to a long-term decline in patient volumes

1

#### *Patient Volume Trends*

- St. Bernards Medical Center and the recently opened NEA Baptist facility in Jonesboro have been drawing patients that would have otherwise gone to Arkansas Methodist, resulting in an average daily census (ADC) that has decreased to ~40 for the fiscal year across all hospital areas as of December 2022. Through the same period in FY2022, the ADC was 46.5

2

#### *Financial Status*

- Cash & Reserves: Arkansas Methodist has roughly \$13.8M of cash on hand, although \$10M of that amount is internally designated and would require board approval to use for any other purpose. These funds are also allowing the hospital to maintain a days cash on hand requirement tied to their debt
- Debt: Per hospital leadership, Arkansas Methodist is out of compliance with an affirmative debt service coverage ratio on two different notes with a local bank totaling \$13.8M. A \$9.2M note matures August 2023 and a \$4.6M note matures October 2024. The hospital does not have a contingency plan in place should the bank call the loans early or decline to refinance the remaining principle upon maturity. Along with the debt service coverage ratio requirement, there is a days cash on hand (DCOH) requirement of 60 days. The hospital has an “internally designated” line item on their balance sheet that is ideally reserved for capital improvements but is currently being kept so that the facility does not trip the 60 DCOH requirement (as noted in the table above, DCOH at Feb 28, 2023, was ~68.5 days when including internally designated funds)
- Accounts Receivable (A/R): Days in A/R is ~60 days. A primary driver is the growth of Medicare Advantage (MA) plans in their payer mix; leadership reported that MA plans tend to initially deny almost all claims, requiring significant time and expense of follow-up to ultimately receive reimbursement

3

#### *Labor Challenges*

- Arkansas Methodist has lost several employed providers recently, including multiple family practitioners, a urologist, an orthopedic surgeon, and a general surgeon. They have been struggling to fill these key roles
- The hospital has not been able to keep up with local competition on hourly wages for entry-level positions

4

#### *Technology Challenges<sup>21</sup>*

- Following a cybersecurity incident three years ago, the hospital has made significant investments in cybersecurity
- The Electronic Medical Record (EMR) used for inpatient services lacks the flexibility and range of function that hospital leadership would like to have

5

#### *Sustainability Plan*

<sup>21</sup> The A&M Team was not engaged in a formal Information Technology (IT) assessment across the hospital's technology stack, platforms, cybersecurity, data infrastructure and reporting. This would be considered separate work and as such, does not reflect consolidative findings captured within this report as it impacts financial budget and operations.

6

- The hospital has identified numerous initiatives to decrease costs across the organization and is making progress on many of them. Absent from the sustainability plan are initiatives to grow the business or increase revenues; the plan is focused exclusively on cost-cutting

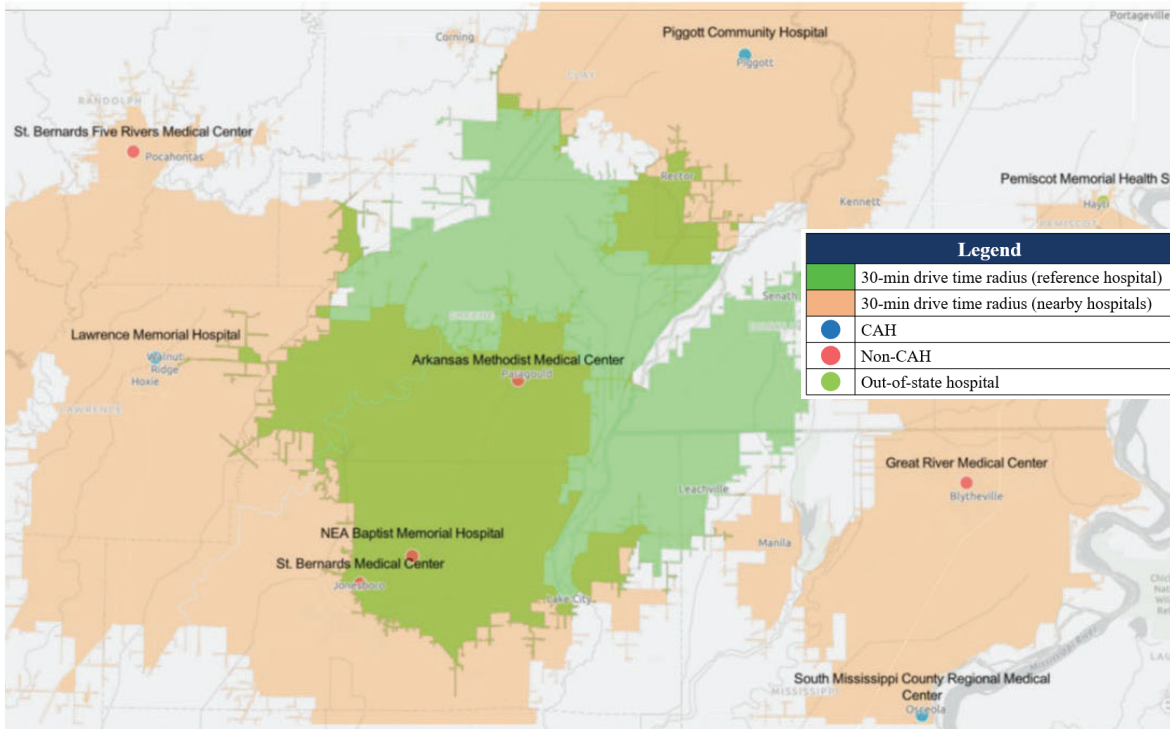
#### *Physical Plant*

- Several critical pieces of infrastructure need investment:
  - Roofs over the MRI/Cath Lab, ICU, and Med/Surg wings require replacement as soon as financially possible. The cost of continuously patching leaks and replacing water-damaged ceiling tiles has become a significant drain
  - The facility has two chillers and two chiller towers, both of which are required to cool the facility in peak heat; both chiller towers are leaking significant amounts of water and nearing end of life
  - The transfer switch for several important but non-Life Safety systems must be manually operated by hospital staff in the event of a power outage

## Drive Time Assessment - Alternatives in the Surrounding Community

An estimated population of 200,258 is located within a 30-mile radius of Arkansas Methodist.<sup>22</sup> The three closest alternative hospitals are on average 21 miles away: St. Bernards Medical Center and NEA Baptist Memorial Hospital are 18.7 and 19.6 miles, respectively, to the southwest in neighboring Craighead County; and Lawrence Memorial is 26.3 miles to the west in Lawrence County. Additional alternatives which lie beyond a 30-minute drive include Piggott Community Hospital to the north and Great River Medical Center to the east.

Figure 8: Arkansas Methodist's Drive Time Assessment



## Observations Related to Operational Outlook

The YTD acute average length of stay was 3.9 days, and the YTD acute average daily census was 28.8. Total average daily census (ADC) for the facility was 40.3 (inclusive of swing bed, rehab, and observation stays), while the occupancy rate for FY23 was 31%.

For comparison, the national benchmark average length of stay (ALOS) for non-CAH facilities is 5.4 days and average occupancy rates range widely from 40 to 60% depending on location (*i.e.*, rural vs urban). For rural hospitals in Arkansas, in 2016, average occupancy rates hovered around 30%.<sup>23</sup>

<sup>22</sup> "Hoosiers by the Numbers." Large Area Radius Tool: Hoosiers by the Numbers. Accessed April 28, 2023. [https://www.hoosierdata.in.gov/big\\_radius/radius.asp](https://www.hoosierdata.in.gov/big_radius/radius.asp).

<sup>23</sup> Acute Care and Critical Access Hospital Occupancy Rate Variability by Location (2016, HFMA). <https://www.hfma.org/finance-and-business-strategy/analytics/61098/>

From Sept 2022 – Feb 2023, Arkansas Methodist reported 4,444 inpatient discharges<sup>24</sup> on an annualized basis, with a YTD adjustment factor of 3.00,<sup>25</sup> resulting in total adjusted discharges of 13,311.

Total inpatient days on an annualized basis were 14,892, with adjusted patient days of 44,604.

As of January 2023, Arkansas Methodist had 674 full-time employees (FTEs), of which 492 were clinically related. This leads to just over 5 FTEs for each adjusted occupied bed. The state benchmark for FTEs per adjusted occupied bed was 4.6-5.72.<sup>26</sup> Labor cost per net patient revenue was 58% for fiscal year 2023 to date, compared to the benchmark of 50% – 60% for rural non-CAHs.<sup>27</sup>

#### Observations Related to Current Fiscal Condition

The below assessment and observations related to the current fiscal condition are based on the latest data received from Arkansas Methodist leadership, which is as of February 2023. As of February 2023, the hospital’s cash and cash equivalents was \$13.8M, which includes \$10.1M of internally restricted liquid assets. These restricted assets are helping Arkansas Methodist ensure they do not trip their remaining debt covenant, as outlined further below. Daily expenditures range for the most recent 6-month period were \$202k, resulting in a calculated 68.5 days cash on hand (COH) as of February 2023.

#### Cash Position

As discussed above, COH as of February 2023 is 68.5 days. The average period to collect patient accounts receivable (A/R) for the same period was 60 days. Arkansas Methodist does not regularly produce cash flow statements, and as such we do not have cash flow information for any period since the end of the hospital’s 2022 fiscal year in June 2023.

Table 3: Arkansas Methodist’s Operational Indicators

Key Indicators - Operational Outlook	
<i>(Sept 2022 - Feb 2023 Annualized; YTD Figures from July 2022 - Feb 2023)</i>	
Total Inpatient Discharges	4,444
Adjustment Factor (YTD)	3.0
Total Adjusted Discharges	13,311
Hospital Patient Days	14,892
Adjusted Patient Days	44,604
Average Daily Census YTD	40.3
Acute Average Length of Stay	3.9
Emergency Department Visits	21,628
Occupancy Rate	31%
Total FTEs (Jan 2023)	674
Total CFTEs (Jan 2023)	492
Medicare Case Mix Index (YTD)	1.53
Labor Cost / Net Patient Revenue	58%
FTEs per each adjusted occupied bed	5.6

Table 4: Arkansas Methodist’s Balance Sheet Metrics

Balance Sheet Metrics	
<i>(as of Feb. 2023)</i>	
C&C Equivalents	\$ 13,831,957
Inventory and Prepaid Expenses	\$ 2,945,525
Current Assets	\$ 31,425,443
Total Assets	\$ 56,270,445
Current Liabilities	\$ 4,109,688
Total Long-Term Debt	\$ 13,636,800
Total Liabilities	\$ 17,746,488
Net Position	\$ 38,523,957
Daily Expenditures	\$ 202,035
Days Cash on Hand	68.5
Quick Ratio	6.9
Current Ratio	7.65
Debt Service Coverage Ratio	(5.62)
Average Age of Plant	22.20
Days in Net Accounts Receivable	60.00
Debt to Operating Revenue	19%

<sup>24</sup> Arkansas Methodist provided only inpatient admissions and not discharge data. Admissions have been used as a proxy for discharges throughout this section.

<sup>25</sup> The adjustment factor is a hospital performance measure that compares a hospital’s inpatient revenue to its total revenue to account for the effect of outpatient care volume on total hospital discharges. It is calculated by dividing a hospital’s Total Gross Revenue by its Total Gross Inpatient Revenue.

<sup>26</sup> See Figure 4: Comparison of FTE / Adjusted Average Daily Census by Hospitals.

<sup>27</sup> See Figure 3: Comparison of Labor Cost to Net Patient Revenue Across Hospitals.

## Debt

Arkansas Methodist's current debt profile is primarily made up of two notes payable with a regional bank. The notes totaled roughly \$13.8M as of June 2022 and both include covenants related to minimum debt service coverage ratios and cash on hand requirements. Per hospital leadership, the hospital has not tripped the 60 days cash on hand covenants but is out of compliance with the debt service coverage ratio requirements. While the hospital is out of compliance, the regional bank has the option to either accelerate repayments or recall the loans in whole. The bank has previously waived prior year breaches of the covenants but has declined to provide an ongoing waiver for future periods. The note payable that constitutes the majority of this debt matures in August 2023, and the remainder matures in October 2024, both with sizeable balloon payments (or the need to refinance the remaining principal) due at maturity. The bank has not made clear its willingness to refinance the remaining loan principle as these notes mature.

## Revenue

Comparing the prior fiscal year results against numbers annualizing the six months of financials ending February 2023, Arkansas Methodist has had a slight 2% decrease in Net Patient Service Revenue (NPSR), and a more marked 24% decrease in other operating revenues. Supplemental funding is outlined in Table 5.

Table 5: Arkansas Methodist's Income Statement Metrics

Income Statement Metrics			
	FY 22	Trailing 6 Months Annualized	Difference*
Net Patient Service Revenue (NPSR)	\$ 70,236,885	\$ 68,706,872	-2%
Other Revenue	\$ 2,440,126	\$ 1,846,883	-24%
<b>Total Revenue</b>	<b>\$ 72,677,011</b>	<b>\$ 70,553,755</b>	<b>-3%</b>
Salaries, Wages & Benefits (SWB) Expense	\$ 45,396,991	\$ 40,083,508	-12%
Supplies Expense	\$ 11,363,237	\$ 11,205,658	-1%
Other Operating Expense	\$ 18,288,268	\$ 21,798,768	19%
<b>EBITDA</b>	<b>\$ (2,371,485)</b>	<b>\$ (2,534,180)</b>	<b>-7%</b>
Depreciation Expense	\$ 3,434,116	\$ 3,108,539	-9%
<b>Operating Income</b>	<b>\$ (5,805,601)</b>	<b>\$ (5,642,718)</b>	<b>3%</b>
Non-Operating Income (Expense)	\$ 3,617,474	\$ (71,678)	-102%
<b>Net Income</b>	<b>\$ (2,188,127)</b>	<b>\$ (5,714,396)</b>	<b>-161%</b>
Operating Margin	-8%	-8%	0%
NPSR / Adj Discharge		\$ 8,559	
Expense / Adj Discharge		\$ 9,492	

\*Difference is calculated as the percent change from the prior to current period relative to the absolute value of the metric in the prior period

## Expenses

Arkansas Methodist has reduced salaries, wages, and other benefits (SWB) moderately between the end of fiscal year 2022 and the months ending January 2023. Those savings are partially offset by increases in

other non-SWB expenses, resulting in a net 3% reduction in total operating expenses. The hospital's operating margin has held steady at -8% in both the prior and current period.

### Supplemental Funding

Arkansas Methodist has previously received supplemental funding from federal sources totaling roughly \$19M from FY2020 through FY2022. The amounts of those funds that were recognized in fiscal year 2021 and 2022 are broken out by source in the table below.

Table 6: Arkansas Methodist's Supplemental Funding

Supplemental Funding	
CARES Act Provider Relief Fund	\$ 12,226,000
CARES Act (CRF)	1,700,000
American Rescue Plan Act	5,162,000
<b>Total</b>	<b>\$ 19,088,000</b>

### Break-Even Analysis

A break-even analysis was performed using a trailing six-month annualization of Arkansas Methodist's income statement. As flagged in Table 7, their annualized net income is (\$5.7M), implying that the hospital will lose just under \$8.6M of funds over the next 18 months. The currently quantified sustainability plan, if all anticipated dollars are achieved, has a potential impact of ~\$5.4M.

Table 7: Arkansas Methodist's Break-even Analysis

Arkansas Methodist Income Statement	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Breakeven Over the Last 2 Quarters	12-Month Total	18-Month Total
Net patient service revenue	\$ 5,172,610	\$ 5,099,835	\$ 5,422,968	\$ 6,798,735	\$ 5,888,939	\$ 5,970,349	\$ 34,353,436	\$ 68,706,872	\$ 103,060,308
Other Operating Revenues	153,240	155,966	133,669	146,115	184,329	150,123	923,441	1,846,883	2,770,324
Total Operating Revenue	5,325,850	5,255,801	5,556,637	6,944,850	6,073,268	6,120,471	35,276,877	70,553,755	105,830,632
Salaries, Wages, Benefits and Payroll Taxes	3,518,396	3,576,453	2,966,967	3,490,599	3,339,250	3,150,089	20,041,754	40,083,508	60,125,262
Supplies	904,131	690,242	912,491	1,171,870	1,034,560	889,535	5,602,829	11,205,658	16,808,487
Total Operating Expenses Less D&A	6,059,093	6,141,440	5,837,819	6,483,927	6,319,396	5,702,292	36,543,967	73,087,935	109,631,902
<b>EBIDA</b>	<b>\$ (733,243)</b>	<b>\$ (885,639)</b>	<b>\$ (281,182)</b>	<b>\$ 460,923</b>	<b>\$ (246,128)</b>	<b>\$ 418,179</b>	<b>\$ (1,267,090)</b>	<b>\$ (2,534,180)</b>	<b>\$ (3,801,270)</b>
Depreciation	264,667	262,342	261,414	258,627	255,048	252,172	1,554,269	3,108,539	4,662,808
Total Operating Expenses	6,323,760	6,403,782	6,099,233	6,742,554	6,574,443	5,954,464	38,098,237	76,196,473	114,294,710
<b>Operating Income (Loss)</b>	<b>\$ (997,910)</b>	<b>\$ (1,147,981)</b>	<b>\$ (542,596)</b>	<b>\$ 202,296</b>	<b>\$ (501,175)</b>	<b>\$ 166,007</b>	<b>\$ (2,821,359)</b>	<b>\$ (5,642,718)</b>	<b>\$ (8,464,077)</b>
Interest	55,961	53,855	55,327	53,261	54,703	54,380	327,487	654,974	982,461
Non-Operating Revenues (Expenses)	(520,828)	280,846	249,896	(272,534)	315,515	(88,734)	(35,839)	(71,678)	(107,517)
<b>Net Income (Loss)</b>	<b>\$ (1,518,738)</b>	<b>\$ (867,135)</b>	<b>\$ (292,700)</b>	<b>\$ (70,238)</b>	<b>\$ (185,660)</b>	<b>\$ 77,273</b>	<b>\$ (2,857,198)</b>	<b>\$ (5,714,396)</b>	<b>\$ (8,571,595)</b>

### Capital Considerations

The original building that Arkansas Methodist currently occupies was built in the 1940s and has been added to over time—most recently in 2000. The average age of the hospital's physical plant is 22.2 years, and many components need capital investment. Arkansas Methodist has three boilers, two of which are smaller than the third and all of which are required to keep the hospital warm during winter months, meaning the failure of any of the three during a cold spell would meaningfully disrupt hospital operations. In peak summertime heat, both of the hospital's two chillers are required to keep the hospital sufficiently cool, which poses a risk similar to that of the boilers—failure of either chiller would meaningfully disrupt operations. The two chiller towers on the roof are both leaking and in need of repair or replacement, and many of the air handlers across the facility need repair or maintenance. As a result of these environmental management issues, two of the hospital's six operating rooms are currently out of use because they cannot maintain adequate temperature and humidity levels. Several other areas of the hospital are also in disuse as a result of declining patient volumes, lack of staffing, and/or physical plant issues. The hospital has multiple

roofs in need of repair, including the roofs over the med/surg and ICU units. Hospital leadership is aware of these capital investment needs but does not currently have sufficient funds to address them.

### Sustainability Plan

Arkansas Methodist has a multi-point sustainability plan with many initiatives either fully implemented or in process. Most of the initiatives are reductions in expense, such as reducing total FTEs and improving the efficiency of their staffing process. In total, the hospital forecasts roughly \$5.4M in cost savings or revenue enhancements annually, \$3.5M of which have been implemented over the past several months. This annual run rate of \$5.4M is nearly enough to offset the \$5.7M of annual losses described in the break-even analysis above.<sup>28</sup>

Table 8: Arkansas Methodist's Sustainability Plan Summary

Arkansas Methodist Sustainability Plan Summary	Financial Impact		
	Action Complete	Action Pending	Total
<b>Revenue Enhancement:</b>			
Rate increase for assisted living facility	\$ -	\$ 183,801	\$ 183,801
Improve productivity and increase clinic revenues	-	303,673	303,673
Fixed investment earnings on internally restricted reserve funds	293,337	-	293,337
Reduce % of patients that leave without any treatment (LWAT) to 3%	\$ 308,000	\$ 22,000	330,000
<b>TOTAL REVENUE ENHANCEMENTS IMPACT</b>	<b>601,337</b>	<b>509,474</b>	<b>1,110,811</b>
<b>Expense Reduction:</b>			
Terminate badge tap contract	30,000	-	30,000
Eliminate 1 CRNA position	249,996	-	249,996
Reduce unnecessary overtime costs	193,200	646,800	840,000
Eliminate 40 FTEs	654,951	684,722	1,339,673
Change third-party hospitalist provider	240,000	-	240,000
Consolidate Wellness and Physical Therapy units	-	41,667	41,667
Eliminate travel spend	47,664	12,336	60,000
Terminate surgery locums	424,875	-	424,875
Terminate urology locums	613,767	-	613,767
Increase employee portion of monthly health insurance premium	120,000	-	120,000
Switch ERM provider	238,127	-	238,127
Reduce physician expenses	80,000	-	80,000
<b>TOTAL EXPENSE REDUCTION IMPACT</b>	<b>2,892,580</b>	<b>1,385,524</b>	<b>4,278,104</b>
<b>TOTAL IMPACT</b>	<b>3,493,917</b>	<b>1,894,998</b>	<b>5,388,915</b>

### Revenue Enhancements

- Rate increase for assisted living facility:
  - Arkansas Methodist operates an assisted living facility and is considering increasing rates by 10%. This item is not yet implemented in part because the hospital is uncertain whether a rate increase would cause attrition and drive down net revenues
- Improve productivity and increase clinic revenues:
  - This item is not yet implemented. Arkansas Methodist hopes it can increase clinic productivity and revenues by, among other items, reducing the time physicians spend away from the clinic and ensuring more prompt and accurate chart completions
- Fixed investment earnings on internally restricted reserve funds:
  - Arkansas Methodist has moved some of its liquid assets – those that are not currently being used to fund operations – into conservative bond and equity investments, resulting in an increase in revenues as dividends and bond payments are received

<sup>28</sup> A&M makes no representation or warranty as to the accuracy or reliability of the future financial or operational performance discussed in any of the Hospitals' sustainability plans.

- Reduce the portion of patients who leave without any treatment (LWAT):
  - Patients who go the hospital and leave without receiving any treatment whatsoever represent poor outcomes for those patients who elect to not be treated, as well as unrealized potential revenues. By decreasing the share of such patients the hospital can increase its annual revenue. This item is partially implemented—LWATs have moved from 6% to 3.8%. The figures in the sustainability plan summary table above represent the expected revenue from further decreasing this figure to 3.0%, and hospital leadership believes it may be possible to get it as low as 2.0%

### Expense Reductions

- Terminate badge tap contract:
  - Arkansas Methodist has cancelled its contract with the vendor that was providing badge tap functionality to staff
- Eliminate one certified registered nurse anesthetist (CRNA) position:
  - The hospital has opted to not fill a CRNA position that became vacant in November 2022. Hospital leadership stated that there were sufficient CRNAs remaining to cover the volume of patients the hospital is currently experiencing
- Reduce unnecessary overtime costs:
  - Although it is still less expensive than using travel nurses, overtime costs impact sustainability. Arkansas Methodist has implemented a system that requires written justification of overtime hours and subjects overtime requests to a higher level of scrutiny. To date, the hospital has achieved roughly 30% of its goal in this area
- Eliminate 40 FTEs:
  - Arkansas Methodist plans to reduce costs by eliminating 40 FTEs across both clinical and non-clinical staff. The hospital hopes to achieve this goal through attrition and has eliminated 13 FTEs by that mechanism so far
- Change third-party hospitalist provider:
  - The hospital has begun working with a new hospitalist provider at a lower cost than their current provider. Hospital leadership believes the new hospitalist will also be able to increase admissions volume and revenues
- Consolidate wellness and physical therapy units:
  - Arkansas Methodist’s wellness services have seen reduced volume as other providers have come to the area. Through the early 2000s there were generally 1,500 members in the program—a number that has since dwindled to about 400. The hospital plans to fold wellness into existing physical therapy services
- Eliminate travel spend:
  - The hospital has halted all non-essential travel, such as attending conferences
- Terminate surgery locum tenens:
  - Arkansas Methodist has eliminated the surgery locum tenens position that it was previously maintaining. Hospital leadership anticipates that the two remaining surgeons will be able to absorb the patient volume that was being handled by the locum tenens
- Terminate urology locum tenens:

- Urology has been an area where the revenues received cannot make up for the cost of providing services. As a result, the hospital has let go of the urology locum tenens position
- Increase employee portion of monthly health insurance premium:
  - Arkansas Methodist is shifting a portion of health insurance costs to employees by increasing the monthly employee health insurance premium by \$25
- Switch Electronic Medical Record (EMR) providers:
  - The hospital has decided to change its EMR to a provider with lower costs than the current EMR provider. The contract has been signed but net savings will not begin to be realized until August of 2023 in the best-case scenario (in the worst-case scenario, net savings realization timeline is significantly pushed out by collections delays precipitated by the EMR transition)
- Reduce physician expenses:
  - Arkansas Methodist is working to reduce its spend on physicians through contract changes or terminations

## Arkansas Methodist Medical Center Sustainability Plan Summary

### ***February Baseline Metrics***

- 68.5 Days Cash on Hand and 60 Days in AR, Net
- 58% in Labor/Net Patient Service Revenue (NPSR)
- -8% Operating Margin
- 5.6 for FTEs per Adjusted Occupied Bed (AOB)
- 40.3 in Average Daily Census

### ***Challenges***

Arkansas Methodist Medical Center (AMMC) is a 129 licensed-bed general hospital within Greene County. Arkansas Methodist has been experiencing financial challenges impacted by an overall 6-year downtrend in-patient volume, consistent year over year increase in supply and drug expenses, and surge in salaries post-pandemic due to provider labor shortage. In addition to reduced patient volume and increased expenses, hospital leadership has noted a 15% plan enrollment increase within Medicare Advantage Plans, which per management has increased denials of inpatient admissions. The hospital is also out of compliance with an affirmative debt service coverage ratio on two different notes held with a local bank totaling \$13.8M.

### ***Sustainability Approach - Track 2***

AMMC selected *Track 2: Strategic Hospital Improvement* and chose to focus on improving Days in Accounts Receivable, Net and Operating Margin. To meet these improvement goals, leadership kicked off a two-part performance improvement plan (beginning in January 2023) with a total estimated impact ranging from \$6-7M over a 12-month period.

### ***Initiatives***

*Days in Accounts Receivable, Net* improvements focus on improving revenue cycle processes. AMMC has engaged two companies to assist with clinic billing and working older claims to increase collectible revenue. AMMC is also reviewing its Medicare Advantage contracts to resolve claim denial issues and has already terminated one contract due to high denials and difficult approval process.

*Operating Margin* improvements include cost-cutting measures, such as participation in a more suitable Group Purchasing Organization (GPO), renegotiation of contracts, and reduction of salaries and positions where possible. Additionally, the hospital has identified revenue-generating measures including:

- Recruit a neurologist to increase MRI downstream revenues for a potential revenue impact of \$400k
- Recruit two orthopedic surgeons to acquire new cases for a potential net impact of \$1M
- Add a pain clinic service line to address demonstrated community need for a potential net impact of \$300k
- Add a geriatric service line to address demonstrated community need for a potential net impact of \$500k

### ***Noted Progress/Updates***

Since February, AMMC has successfully targeted operational inefficiencies by eliminating 37 positions, which resulted in savings of \$1.8M annually and negotiated contracts resulting in savings of \$300k. Improvements to the Emergency Department process flow has increased net revenues by \$480k per year. AMMC has also expanded services to include a new infusion center, a pulmonary rehab unit, and an expansion into spinal surgery, but revenue benefits are yet to be realized from these initiatives. Since February 2023, AMMC has improved its registration, billing, coding, and collections functions by outsourcing its clinic billing and hiring a firm to work older hospital claims. AMMC's accounts receivable balance has decreased by 25% to-date.

### ***Cybersecurity Checklist***

AMMC's Director of Information Technology reviewed the six Internet Security Basic Controls and eight Cyber Defense Minimum Standards. AMMC will work with Legislative Audit to complete an on-site cyber review.

## **ARPA Grant Support – Arkansas Methodist Medical Center**

Arkansas Methodist Medical Center (AMMC) has selected Track 2 “Strategic Hospital Reform” as the means to achieve sustainability. AMMC has significant short term financial challenges. Our net loss in FY 2023 was over \$5.5M (unaudited). We have implemented, or are in the process of implementing, numerous new revenue sources and expense reductions, which will bring us back to a profitable status. Many of these revenue enhancements and expense reductions will take several months to take effect. The ARPA funds would be used to bridge the gap until these initiatives are realized.

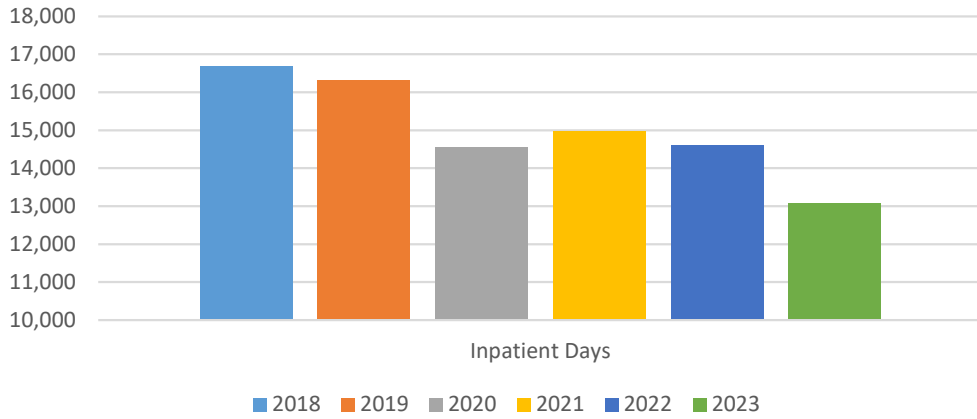
The information provided in this presentation is designed to demonstrate the needs for the funds; actions taken to minimize our losses; and how we intend to use the funds. In addition, this also addresses goals and benchmarks to measure progress in achieving those goals.

### **Background:**

- Paragould is the 15<sup>th</sup> largest city in Arkansas with a population exceeding 30,000 residents. Paragould’s population has increased by 2.1% since 2020.
- Paragould is often referred to as a “bedroom community” to Jonesboro. In reality, Paragould is an independent, growing community in and of itself. Paragould has a very strong industrial base. According to the US Census Bureau, approximately 1,315 Craighead County residents commute to Greene County on a daily basis for employment.
- AMMC is one of the top 5 employers in Greene County.
- AMMC is a major economic driver for Greene County. AMMC provides employment for over 700, with an annual payroll and benefits expense in excess of \$40,000,000. Including suppliers, vendors, and induced jobs, the number of annual jobs created by AMMC is estimated to be 1,655.
- 5,000 Inpatient, Rehabilitation and Observation admissions annually.
- 7,300 Ambulance transports annually
- 14,000 Home Health visits annually
- 21,000 Emergency Room visits annually
- AMMC is requesting funds to be used as a **bridge** to take us from our current financial situation to a situation where we have adequate funds necessary to pursue revenue opportunities

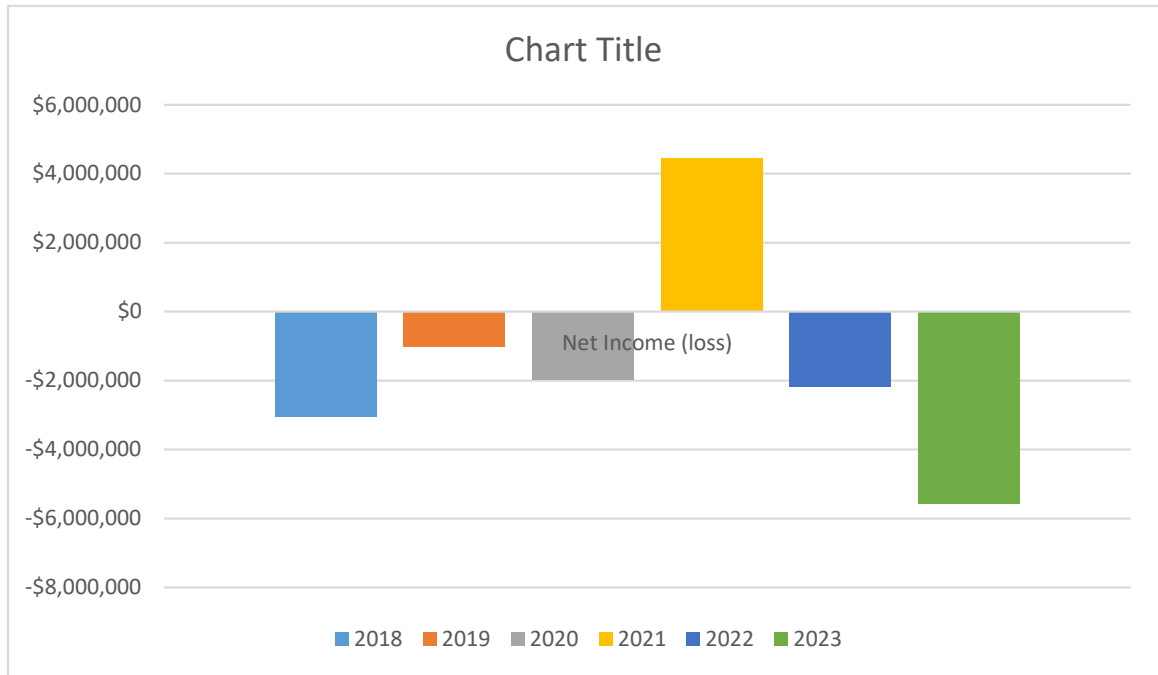
### **Current Situation and Current Challenges:**

- Slowly returning to Post-COVID levels of service. However, volumes are still not quite up to pre-pandemic levels. The following graph illustrates the reduction in patient days that occurred as a result of the pandemic.



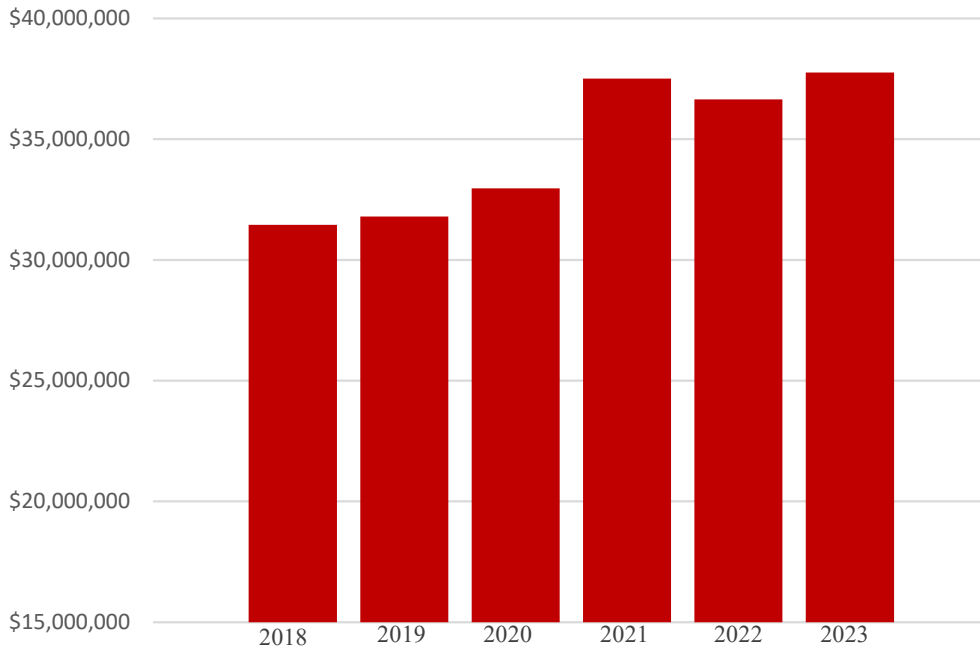
	2018	2019	2020	2021	2022	2023
Inpatient Days	16,689	16,300	14,547	14,987	14,607	13,092

AMMC’s Fiscal Year ended June 30. Actual losses for FY 2023 are approximately \$5.6M. The following graph highlights AMMC’s financial performance before and during the pandemic.



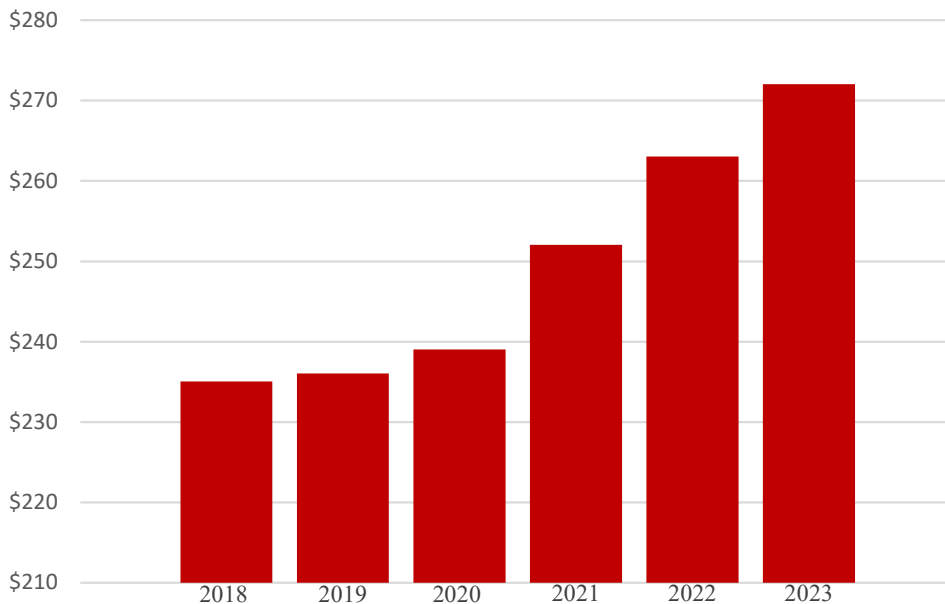
	2018	2019	2020	2021	2022	2023
Net Income (loss)	-\$3,051,870	-\$1,019,113	-\$1,990,897	\$4,452,372	-\$2,188,127	-\$5,570,120

Staff shortages and a very low county unemployment rate of only 3.9% have led to significantly higher salaries. Despite the significant increase in salaries over the past several years, AMMC is still below market in critical areas. The following graph shows the drastic increase in salaries that has occurred over the past few years.



	2018	2019	2020	2021	2022	2023
Salary Expenses	\$31,442,653	\$31,799,488	\$32,963,474	\$37,488,543	\$36,641,402	\$37,745,419

- Supply cost per adjusted patient day have increased significantly. This graph shows total supply and drug expense per adjusted patient day for the past few years.



	2018	2019	2020	2021	2022	2023
Supply and Drug Expenses	\$235	\$236	\$239	\$252	\$263	\$272

- Reimbursement from Medicaid and Blue Cross is very low compared to other states.
- Medicare Advantage Plan Growth. Since 2018 our percentage of patients with Medicare Advantage plans has increased from 10% to 25%. These plans are notorious for denying

claims, delaying authorizations for care, restricting patient care and causing hospitals to hire dozens of employees to fight for payment and to comply with burdensome requirements. Initial denials for inpatient admissions approximate 50%.

- AMMC's recent financial losses have caused us to be out of compliance with bank loan covenants.

### **Performance Improvement & Sustainability Plan:**

Arkansas Methodist has implemented two Performance Improvement and Sustainability Plans; one in January of 2023 and a second in May of 2023. The combined financial impact of these plans is estimated to range between \$6,000,000 and \$7,000,000 over a 12 month period. Due to the lengthy amount of time necessary to establish new revenue sources, a significant portion of the two plans focus on cost reductions and achieving operational efficiencies. The expense reductions are necessary to allow time for new revenue sources to be realized. AMMC has recently worked hard to improve operational and financial performance. The following improvements have been made since February 2023 (the information available to Alvarez and Marsal for their final report). These consist of initiatives from the first phase that had not yet been implemented by February 2023 and all initiatives from the second phase. A summary of these actions taken are identified below:

- We anticipate that revenue growth will occur as a result of the recent recruitment of additional physician specialists. We recently hired a neurologist, who is currently building his practice. We have not offered greatly needed neurology services in over 20 years. In his previous practice he ordered over 1,000 MRIs per year. At an average reimbursement rate of \$300 per scan, this will mean an additional \$300k per year in additional revenues. He will also order labs, x-rays, nerve conduction studies, etc. We are actively recruiting a general surgeon. We are down to one general surgeon. We also recently hired an orthopedic/spine surgeon, and an additional orthopedic surgeon began a practice in July. The downstream net revenues generated by these two orthopedic surgeons will easily exceed \$1M. The space being considered for this service is currently unoccupied.
- We are currently in discussions with an anesthesia group to open a pain clinic. We will be presenting a proposal to our Board at the September meeting. We anticipate this service to have a net income of between \$300k and \$400k per year. This is a badly needed service in our area.
- AMMC is in the process of switching our GPO to one more suitable to a hospital our size. We have provided a notice of termination; however, it will take up to two years to realize the full impact of the savings. The total estimated savings (both internal and external analysis) show an annual savings of \$500k to \$1M.
- We are exploring adding a Geriatric Psych. Unit. This will be a long term project and will take time for renovating the space for the unit. We are in the process of completing a financial projection. These patients are mostly Medicare and Medicare pays very well for this service. Initial projections are that this service could generate a profit exceeding \$500k per year.
- We successfully negotiated numerous contracts resulting in over \$300,000 in savings
- We have made significant improvements in our revenue cycle process. Our accounts receivable balances continue to be reduced.

- We have right sized our workforce in areas we felt were operating inefficiently. We have eliminated 37 positions, resulting in an annual salary/benefits savings of \$1.8M. The salary reduction in July 2023 of 18% (\$540k) was greater than we anticipated.
- We have offered or expanded services such as a new infusion center; a pulmonary rehab unit; and expansion into spinal surgery.
- We have improved the process flow and efficiency in our emergency department. The percentage of patients leaving without being treated has decreased from over 6% to under 2%. The increase in net revenues due to treating and billing these patients is approximately \$480k per year (based upon average reimbursement rates).
- We are reviewing our Medicare Advantage contracts. We issued Humana a 90 day notice of termination. They have asked that we meet with them to resolve issues. We are also working with other MA plans and have asked them to reprocess old claims that had previously been denied.

Each of these initiatives are summarized in the Table following the Cybersecurity section below.

### **Usage of Funds:**

- AMMC plans to use the funds as a bridge to achieve sustainability until planned revenue enhancements are realized.
- Without additional funding we may be forced to cease ambulance operations in Rector and Corning. Both have indicated that they cannot afford to pay a subsidy. The proceeds of the ARPA funding will enable us to operate ambulance services in these two communities. The markets are too small for an independent ambulance service to make a profit in these communities.
- AMMC is currently below market in salaries for numerous positions.
- The funds will allow us to continue recruiting needed physician specialties. It is very costly to start a physician clinic.
- Funds will allow us to improve our infrastructure and replace aging equipment. We have lacked the funds necessary in recent years to invest in capital. Current needs include new roofs, replacement of aging chillers and boiler, and replacement of our MRI unit.
- Funds will allow us to make the investments necessary to add new services and continue to recruit needed physician specialists to serve our community

### **Goals and Benchmarks:**

The goals for AMMC are two-fold: improve operating margins to enable us to increase our cash reserves; invest in infrastructure improvements; and to bring salaries in key positions up to market.

We have selected two specific metrics to measure. The first is improving our operating margin. Our operating margin as of February 28, 2023 was a negative 8%. Our goal is to be at breakeven by January 2024 (6 months). By July 2024 (12 months) our goal is to have a positive operating margin of 2%. A positive 2% operating margin would translate into an annual net income of approximately \$1.6M. This should generate sufficient cash reserves to allow us to continue recruiting physicians, invest in employees through higher salaries; and to replace aging equipment such as chillers, a boiler, and a new MRI unit.

AMMC is committed to meet the following targets:

Operating Margin

- 6-month target – 20-40% improvement from February baseline
- 12-month target – 70-90% improvement from February baseline

The second metric that we have chosen is net days in accounts receivable. A good measure for improving our cash position is to ensure that our revenue cycle processes are operating very efficiently. We continue to look for ways to improve our registration, billing, coding, and collection functions. One way to measure improvement in the revenue cycle is to track net days in A/R. As of February 28, 2023 our net days in A/R was 60. Since February we have made significant progress on this target. We have engaged two companies to assist with clinic billing and working older claims. Our net accounts receivable balance on February 28, 2023 was \$11,380,895. As of July 31, 2023 our accounts receivable balance is down to \$8,576,274. Our goal is to have net days in A/R reduced from 60 to 50 by December 31, 2023. This represents a 25% improvement. Our goal for June 30, 2024 is to be at 40. This represents a 33% improvement.

AMMC is committed to meet the following targets:

Days in Accounts Receivable, Net/Revenue Cycle Improvement

- 6-month target – Days in A/R, net within 20% of the benchmark of 43.7
- 12-month target – Days in A/R, net within 5% of the benchmark of 43.7

AMMC is willing to report on our progress every six months (or sooner if requested). AMMC also will monitor other metrics internally to measure our progress. We are willing to share information regarding our progress with the State at any time prior to the six month reporting requirement.

**Cybersecurity:**

AMMC's Director of Information Technology reviewed the six Internet Security Basic Controls and eight Cyber Defense Minimum Standards. AMMC will work with Legislative Audit to complete an on-site cyber review.

Benchmark	Initiative	Description	Start Date	Time to Implement	Revenue Impact	Expense Impact	Status
Improve operating margin	Recruited neurologist	Increased MRI referrals/downstream revenues	July 2023	Completed	\$400,000	Clinic losses expected to be \$100,000	Completed
Improve operating margin	Recruited 2 orthopedic surgeons	New spine cases; new orthopedic surgery cases	December 2022 July 2023	July 2023	Net impact \$1,000,000	Included in the \$1M	Completed
Improve operating margin	New pain clinic service line	Non-narcotic pain treatments. There is a demonstrated need	August 2023	December 1, 2023	\$540,000	\$240,000	Negotiating contract
Improve operating margin	Switch GPOs	We will move to a new GPO better suited to our size. Improved pricing for supplies	August 2023	August 2023 to August 2025	\$500,000 to \$1,000,000	None	Issued termination notice in August 2023
Improve operating margin	New geriatric service line	Convert an unused patient care floor into a geriatric psych service	January 2024	1 year	Estimated net impact of \$500,000	Included in the \$500k	Beginning discussions
Improve operating margin	Renegotiate contracts	Renegotiated numerous contracts, including reference lab tests	May 2023	Completed	None	Savings of \$300,000	Completed
Reduce net days in A/R	Improve revenue cycle performance	We are outsourcing our clinic billing and hired a firm to work older hospital claims	February 2023	Completed	Improve cash collections. Difficult to quantify	None	Completed
Improve operating margin	Right size our workforce	We eliminated 37 positions	June 2023	Done	None	Salary/benefits savings of \$1,800,000	Completed
Improve net days in A/R	New service lines	Opened a new infusion center and pulmonary rehab service	2022	Done	\$500,000	\$400,000	Completed
Improve operating margin	Reduce left without being treated in ED	We improved processes in the ED. Results were a reduction in LWATs from 6% to 2%	February 2023	Done	\$480,000	None	Completed
Improve operating margin	Terminated our Humana Medicare Advantage contracts	Due to high denials, difficult approval process, and post- acute care denials we are terminating an MA contract.	Notice sent in August 2023	December 1, 2023 is termination date	Cannot quantify	Cannot quantify	In progress

**AMERICAN RESCUE PLAN ACT OF 2021 PROGRAM APPROPRIATION  
AND PERSONNEL AUTHORIZATION REQUEST  
SECTION 36 OF ACT 796 OF 2023**

**C.6**

Agency: Arkansas Department of Human Services Business Area Code: 0710  
 Program Title: Emergency Aid Relief to Hospitals  
 Granting Organization: American Rescue Plan Act of 2021 CFDA #: State Fiscal Recovery Funds (SFRF)  
 Effective Date of Authorization: Beginning: 7/1/2023 Ending: 6/30/2024

Purpose of Grant / Reason for addition or change (include attachments as necessary to provide thorough information):  
 Hospitals continue to experience severe financial strain due to the economic impacts of the ongoing COVID-19 pandemic. Increased costs and labor shortages have resulted in lesser revenues for the hospitals. This means that several hospitals across the state, particularly those that serve rural populations, are at immediate risk of closure.  
 Use of these funds will allow hospitals to maintain operations to ensure patients receive the care they need during and between the pandemic disease "surges". The purpose of these payments is to assist hospitals to offset extraordinary costs related to mitigating and preventing COVID-19 and retaining and acquiring frontline staff that have occurred as a result of the COVID-19 pandemic.  
 This request is for Howard Memorial Hospital in support of their efforts to provide rural healthcare to Arkansans.

Func. Area: HHS Fund Code: FRP7178 Direct Funding: \_\_\_\_\_  
 Funds Center: AZ5 Internal Order/WBS Element: \_\_\_\_\_ State: X  
 Continuation: \_\_\_\_\_

	Program Funding Amount
Regular Salaries	
Extra Help	
Personal Services Matching	
Operating Expenses	
Conference & Travel Expenses	
Professional Fees	
Capital Outlay	
Data Processing	
Grants and Aid (CI: 04)	3,441,839
Other:	
Other:	
Total	\$ 3,441,839

Anticipated Duration of Federal Funds: 9/30/2024

<b>DFA IGS State Technology Planning</b>	<b>Date</b>
Items requested for information technology must be in compliance with Technology Plans as submitted to DFA IGS State Technology Planning.	

**Positions to be established: (list each position separately)**

\* unclassified positions only

Org Unit	Pers Area	Pers SubArea	Cost Center	Position Number	Comnt Item	Position Title	Class Code	Grade	Line Item Maximum *

**State funds will not be used to replace federal funds when such funds expire, unless appropriated by the General Assembly and authorized by the Governor.**

Approved by: Kristi Putnam Digitally signed by Kristi Putnam Date: 2023.08.30 14:28:48 -0500 Robert Brech 10/01/23  
 Cabinet Secretary/Agency Director Date Office of Budget Date Office of Personnel Mgmt Date  
*Joshua Kenyon*  
 8/30/23



ARKANSAS  
DEPARTMENT OF  
**HUMAN  
SERVICES**

DHS Secretary Kristi Putnam  
Office of the Secretary

P.O. Box 1437, Slot S201, Little Rock, AR 72203-1437  
P: 501.682.8650 F: 501.682.6836 TDD: 501.682.8820

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August 30, 2023

Secretary Jim Hudson  
Department of Finance and Administration  
1509 West Seventh Street, Suite 401  
Little Rock, AR 72201

Re: Release of ARPA Funding – Hospital Assistance

Dear Secretary Hudson,

On behalf of the Department of Human Services, I respectfully request release of a portion of the American Rescue Plan Act of 2021 (ARPA) State Fiscal Recovery Funds (SFRF) Arkansas Allotment to address the negative impacts of the public health emergency due to the COVID-19 pandemic (PHE), such as staffing and bed shortages; extraordinary costs of providing COVID-19 mitigation, prevention, and treatment; and disruptions in utilization of health care services across payers.

Participating hospitals have undergone an independent study and are developing and implementing a sustainability plan. The agency is requesting \$3,441,839 in ARPA funding and appropriation which will be disbursed through the Arkansas Medicaid payment system to Howard Memorial Hospital for their efforts to provide rural healthcare to Arkansans.

Thank you for your assistance. If you need additional information, please contact Misty Eubanks, DHS CFO, at 501-320-6327.

Sincerely,

Kristi Putnam, Secretary  
Arkansas Department of Human Services

KP:mbe

cc: Robert Brech, Administrator  
DFA – Office of Budget

Andy Babbitt, Administrator  
DFA- Office of Accounting

# Arkansas Rural Hospital Assessment

*Final Report*

Arkansas Department of Finance & Administration

*Prepared by Alvarez & Marsal Public Sector Services, LLC*

May 2023



Cover image: Mint Images – stock.adobe.com

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## Howard Memorial Hospital

### Background/Overview

- Classification: CAH
- Licensed Beds: 20
- Closest Facility: 24.4 miles
- Average Age of Plant: 10.8 years
- Average Daily Patient Occupancy Rate: 14%
- Average length of stay (ALOS): 1.8
- Total full-time employees (FTEs): 189 FTEs

Location: Nashville, Howard County  
County Population: 12,676 (2021)



Table 77: Howard's Summary Statistics

Operating Statistics	
C&C Equivalents	\$ 9.1 M
Current Assets	\$ 14.6 M
Net A/R	\$ 2.0 M
Total Assets	\$ 32.8 M
Days Cash on Hand	124.56
Quick Ratio	3.99
Current Ratio	4.31
Debt Service Coverage Ratio	-5.34
Days in Net AR	29.88
Average Age of Plant	10.80
Income Statement	
<i>(Trailing 6 Months Annualized)</i>	
Net Patient Service Revenue (NPSR)	\$ 24.7 M
Other Revenue	\$ 1.6 M
Total Revenue	\$ 26.3 M
Salaries, Wages & Benefits	\$ 12.6 M
EBITDA	\$ (0.2 M)
Operating Income	\$ (2.4 M)
Non-Operating Income/(Expense)	\$ 1.1 M
Net Income	\$ (1.3 M)
Operating Margin %	-9%

## Executive Summary

### Key Challenges

- Howard Memorial has felt the impacts of the pandemic on patient volumes and labor costs.

1

#### *Patient Volume Trends*

- The re-opening of the nearby Sevier/De Queen CAH has negatively impacted patient volumes, particularly in the emergency department and radiology unit

2

#### *Financial Status*

- Howard Memorial has strong revenue cycle management (RCM) led by the CFO. Average days in accounts receivable (A/R) is 29.9
- The hospital is not in a dire financial position, with ~124 days cash on hand and a quick ratio of 3.99
- Howard Memorial receives County support via a sales tax that services the bonds used to finance the construction of the facility

3

#### *Labor Challenges*

- The hospital has struggled with retaining staff in its rural area, and they've had to use agency nurses and travel respiratory therapists during the pandemic
- They increased minimum wage to \$15 per hour and adjusted 401k matching to try to improve retention

4

#### *Technology Challenges<sup>100</sup>*

- The facility dealt with a cybersecurity incident in December
- Howard Memorial uses CPSI for its inpatient EMR and E-Clinical Works for clinics

5

#### *Sustainability Plan*

- The hospital aims to improve its services and facilities, including considering the reintroduction of dialysis services, expanding ICU beds, and building new capacity for the physical therapy practice
- The hospital is working on expense reductions and uses a productivity tool to monitor departmental performance against the budget
- The hospital leased a \$2M surgical robot to improve market share, with the expectation of break-even if 100 new cases are performed per year. The robot lease has no payments for the first six months. The hospital expects an increase of \$400k in revenue and \$200k in net operating income in the 2023 budget
- The hospital successfully received all stimulus funds it applied (~\$3M total supplemental support)
- The hospital learned about FEMA funding for costs above the PRF cap and submitted its first FEMA application recently for two projects: contract labor (travel nurses) and supply costs. The hospital received over \$60k for contract labor, and supply costs. Reimbursement is still pending
- The hospital has equipment upgrades planned in radiology, including upgrading the fluoro system, bone density machine, ultrasound, X-ray, and acquiring a new ABI machine

<sup>100</sup> The A&M Team was not engaged in a formal Information Technology (IT) assessment across the hospital's technology stack, platforms, cybersecurity, data infrastructure and reporting. This would be considered separate work and as such, does not reflect consolidative findings captured within this report as it impacts financial budget and operations.

- The hospital opened a new pediatric rehab therapy during the pandemic, which is growing well and exceeding expectations per hospital leadership
- They're considering ways to improve the underperforming cardiac and pulmonary rehab department as well as opening satellite birthing services starting in September, as the nearest places for birth services are Hot Springs or Texarkana.

6

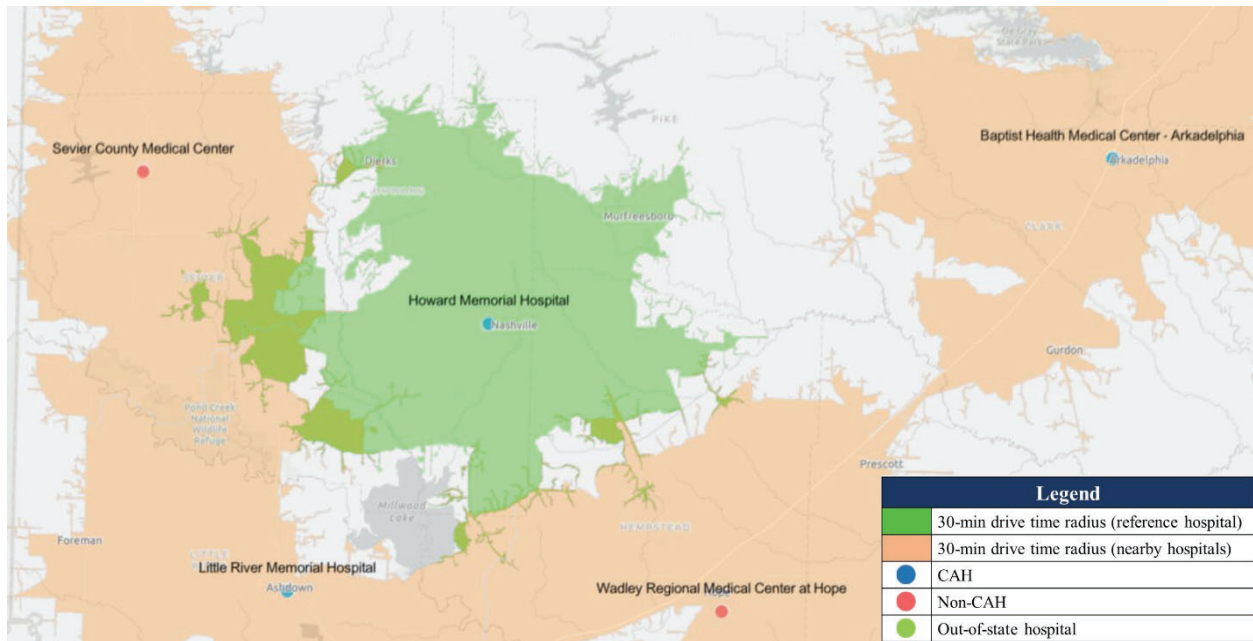
*Physical Plant*

- Much of the hospital’s physical plant maintenance is contracted out.
- Two of Howard’s three boilers are roughly 14-years old, with the third having been recently replaced after it became inoperative.
- The facility roof is also 14-years old and is nearing end-of-life. The hospital has not gotten a quote for the cost of replacement, as it does not have capital at this time to have the work done.
- Radiology equipment is largely on five-year leases with accompanying maintenance contracts.

Drive Time Assessment - Alternatives in the Surrounding Community

A population estimated at 70,139 is located within a 30-mile radius of Howard Memorial.<sup>101</sup> The three closest alternative hospitals are: Little River Memorial Hospital, 24.4 miles to the southwest in Ashdown; Wadley Regional Medical Center at Hope, 26.9 miles southeast in Hempstead County; and Sevier County Medical Center, 27.4 miles to the northwest in De Queen.

Table 78: Howard Memorial Drive-Time Assessment



<sup>101</sup> “Hoosiers by the Numbers.” Large Area Radius Tool: Hoosiers by the Numbers. Accessed April 28, 2023. [https://www.hoosierdata.in.gov/big\\_radius/radius.asp](https://www.hoosierdata.in.gov/big_radius/radius.asp).

## Observations Related to Operational Outlook

For the period between September 2022 and February 2023, the average length of stay (ALOS) at Howard Memorial was 1.8 days and the average daily census (ADC) was 5.7, while the occupancy rate was 14.2%.

For comparison, the national benchmark ALOS for CAH facilities is 4 days and the average occupancy rates range widely from 40 to 60% depending on location (*i.e.*, rural vs urban). For rural hospitals in Arkansas, in 2016, average occupancy rates hovered around 30%.<sup>102</sup> Howard Memorial was significantly under the benchmarks for both ALOS and for occupancy, meaning they had fewer patients and the patients that they did have stayed in inpatient care for less time than is average for CAHs.

Over the six-month period, Howard Memorial reported an annualized 568 inpatient discharges with an adjustment factor<sup>103</sup> of 7.69, indicating a total adjusted discharges of 4,369. Annualized inpatient days were 1,038, giving an adjusted patient days of 7,984.

As of February 2023, Howard Memorial had 189 full-time employees (FTEs). This leads to 4.3 FTEs for each adjusted occupied bed. The state benchmark for FTEs per adjusted occupied bed was 4.6-5.72.<sup>104</sup> Labor cost as a percent of per net patient service revenue (NPSR) was 51.1% for fiscal year 2023 to date, compared to the national benchmark of 50% - 60% for CAHs.<sup>105</sup> That both of these metrics are under or at the low end of the benchmarks indicates that Howard is making efficient use of its staff.

Table 79: Howard's Operational Outlook

Key Indicators - Operational Outlook	
<i>(Sep. 2022 - Feb. 2023 Annualized)</i>	
Total Inpatient Discharges	568
Adjustment Factor	7.69
Total Adjusted Discharges	4,369
Hospital Patient Days	1,038
Adjusted Patient Days	7,984
Average Daily Census	5.7
Average Length of Stay	1.8
Emergency Department Visits	10,688
Occupancy Rate	14.2%
Total FTEs	189
Total CFTEs	Not Provided
Case Mix Index	Not Provided
Labor Cost / Net Patient Revenue	51.1%
FTEs per Adjusted Occupied Bed	4.3

Table 80: Howard's Balance Sheet Metrics

Balance Sheet Metrics	
<i>(as of Feb. 2023)</i>	
C&C Equivalents	\$ 9,060,592
Inventory and Prepaid Expenses	\$ 1,075,696
Current Assets	\$ 14,633,541
Total Assets	\$ 32,759,606
Current Liabilities	\$ 3,394,199
Total Long-Term Debt	\$ 2,679,330
Total Liabilities	\$ 6,073,530
Net Position	\$ 26,686,076
Daily Expenditures	\$ 72,738
Days Cash on Hand	124.6
Quick Ratio	4.0
Current Ratio	4.31
Debt Service Coverage Ratio	(5.34)
Average Age of Plant	10.80
Days in Net Accounts Receivable	29.88
Debt to Operating Revenue	10%

<sup>102</sup> Acute Care and Critical Access Hospital Occupancy Rate Variability by Location (2016, HFMA). <https://www.hfma.org/finance-and-business-strategy/analytics/61098/>

<sup>103</sup> The adjustment factor is a hospital performance measure that compares a hospital's inpatient revenue to its total revenue to account for the effect of outpatient care volume on total hospital discharges. It is calculated by dividing a hospital's Total Gross Revenue by its Total Gross Inpatient Revenue.

<sup>104</sup> See *Figure 4: Comparison of FTE / Adjusted Average Daily Census by Hospitals*.

<sup>105</sup> See *Figure 3: Comparison of Labor Cost to Net Patient Revenue Across Hospitals*.

## Observations Related to Current Fiscal Condition

The below assessment and observations related to the current fiscal condition are based on the latest data received from Howard Memorial leadership, which is as of February 2023.

### Cash Position

As of February 2023, the hospital's cash and cash equivalents were \$9.1M. With an average daily cash expenditure of \$73k over the six months ending February 2023, this is enough liquidity to cover just under 125 days of operations. Over the same time period, the average days in net accounts receivable was a healthy 29.88 days.

### Debt

Howard Memorial had roughly \$2.7M of long-term debt and capital leases as of February 2023, the majority of which is made up of a roughly \$2M capital lease the hospital recently entered for a surgical robot. The remaining balance is largely capital leases for other pieces of equipment—primarily in radiology—and software leases.

### Revenue

Comparing the prior fiscal year results against figures annualizing the six months of financials ending February 2023, the hospital seen a modest 7% decrease in net patient service revenue (NPSR) while other operating revenues have held relatively steady with a growth of 3%. Howard Memorial leadership noted during an onsite review of the hospital that the January 2023 re-opening of Sevier County Medical Center in nearby De Queen had negatively affected patient volumes.

Table 81: Howard's Income Statement Metrics

Income Statement Metrics			
	FY22	Trailing 6 Months Annualized	Difference*
Net Patient Service Revenue (NPSR)	\$ 26,570,853	\$ 24,736,100	-7%
Other Revenue	1,519,665	1,562,432	3%
<b>Total Revenue</b>	<b>28,090,518</b>	<b>26,298,532</b>	<b>-6%</b>
Salaries, Wages & Benefits (SWB) Expense	15,153,876	12,638,238	-17%
Supplies Expense	3,751,214	3,846,610	3%
Other Operating Expense	9,739,603	10,022,441	3%
<b>EBITDA</b>	<b>(554,175)</b>	<b>(208,757)</b>	<b>62%</b>
Depreciation Expense	2,057,421	2,159,975	5%
<b>Operating Income</b>	<b>(2,611,596)</b>	<b>(2,368,732)</b>	<b>9%</b>
Non-Operating Income (Expense)	2,338,927	1,106,393	-53%
<b>Net Income</b>	<b>(272,669)</b>	<b>(1,262,338)</b>	<b>-363%</b>
Operating Margin	-9%	-9%	3%
NPSR / Adj Discharge		\$ 5,662	
Expense / Adj Discharge		\$ 6,562	

\* Difference is calculated as the percent change from the prior to current period relative to the absolute value of the metric in the prior period

### Expenses

Howard Memorial saw a significant 17% drop in costs related to salaries, wages, and benefits (SWB), and held steady with 3% growth in expenses on supplies as well as on other non-SWB, non-supply operating costs. The overall 7% reduction in operating expense from fiscal year 2022 to the current period approximately offset the drop in NPSR, resulting in a modest improvement in earnings before income, taxation, depreciation, and amortization (EBITDA) and operating income and a minor bump in operating margin.

### Supplemental Funding

Over the course of fiscal years 2020 and 2021, Howard Memorial recognized just over \$3M of supplemental funding from state and federal sources. The Supplemental Funding table below provides a breakdown of fund sources and the amounts recognized.

Table 82: Howard's Supplemental Funding

Supplemental Funding	Total Amount Received
<b>AR Community Development Block Grant</b>	\$ 204,000
<b>AEDC - AR Ready for Business</b>	\$ 100,000
<b>Medicaid - ARP Surge Staff Grant</b>	\$ 200,000
<b>HHS - Stimulus (HRSA)</b>	\$ 2,529,326
<b>Total</b>	<b>\$ 3,033,326</b>

### Break-Even Analysis

The below break-even analysis is based on a trailing six-month annualization of Howard Memorial's income statement. As highlighted in the table below, the hospital's annualized net income for that period was (\$1.26M).

Table 83: Howard's Break-even Analysis

Howard Memorial Income Statement	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Breakeven Over the Last 2 Quarters	12-Month Total	18-Month Total
Net patient service revenue	\$ 1,183,610	\$ 2,332,654	\$ 2,159,815	\$ 2,188,791	\$ 2,270,258	\$ 2,232,922	\$ 12,368,050	\$ 24,736,100	\$ 37,104,150
Other Operating Revenues	175,082	144,224	100,251	118,251	125,651	117,757	781,216	1,562,432	2,343,648
Total Operating Revenue	1,358,692	2,476,878	2,260,066	2,307,042	2,395,909	2,350,679	13,149,266	26,298,532	39,447,798
Salaries, Wages, Benefits and Payroll Taxes	1,077,625	1,361,430	1,209,820	227,051	1,310,719	1,132,474	6,319,119	12,638,238	18,957,357
Supplies	371,617	269,408	309,816	278,268	327,780	366,416	1,923,305	3,846,610	5,769,915
Total Operating Expenses Less D&A	1,982,132	2,410,146	2,026,524	2,229,418	2,252,631	2,352,793	13,253,644	26,507,289	39,760,933
<b>EBIDA</b>	<b>\$ (623,440)</b>	<b>\$ 66,732</b>	<b>\$ 233,542</b>	<b>\$ 77,624</b>	<b>\$ 143,278</b>	<b>\$ (2,114)</b>	<b>\$ (104,378)</b>	<b>\$ (208,757)</b>	<b>\$ (313,135)</b>
Depreciation	226,653	167,139	165,858	179,504	171,346	169,488	1,079,988	2,159,975	3,239,963
Total Operating Expenses	2,208,785	2,577,285	2,192,382	2,408,922	2,423,977	2,522,281	14,333,632	28,667,264	43,000,896
<b>Operating Income (Loss)</b>	<b>\$ (850,093)</b>	<b>\$ (100,407)</b>	<b>\$ 67,684</b>	<b>\$ (101,880)</b>	<b>\$ (28,068)</b>	<b>\$ (171,602)</b>	<b>\$ (1,184,366)</b>	<b>\$ (2,088,732)</b>	<b>\$ (3,553,098)</b>
Interest	5,959	2,656	2,647	2,091	3,032	4,664	21,049	42,097	63,146
Non-Operating Revenues (Expenses)	449,593	79,127	(111,275)	55,803	9,091	70,858	553,197	1,106,393	1,659,590
<b>Net Income (Loss)</b>	<b>\$ (400,500)</b>	<b>\$ (21,280)</b>	<b>\$ (43,591)</b>	<b>\$ (46,077)</b>	<b>\$ (18,977)</b>	<b>\$ (100,744)</b>	<b>\$ (631,169)</b>	<b>\$ (1,262,338)</b>	<b>\$ (1,893,507)</b>

### Capital Considerations

Howard Memorial leverages capital leases and service agreements for the provision of many aspects of the hospital's physical plant and major equipment, and the facility is in a good state of repair. The use of capital leases and accompanying service agreements allows the hospital to spread the cost of, e.g., radiology equipment out over several years and to regularly update the equipment as new technology and models are released. The hospital has two boilers that are roughly 14 years old and a third boiler that was recently replaced when the third 14-year-old boiler became inoperative. With the replacement of the third boiler the

hospital updated their service contract for all three boilers to increase the frequency of maintenance. The hospital does not have any chillers or chiller towers and instead relies on condensers for its cooling needs during warm months. The current condensers use increasingly hard to find and the hospital would like to replace them with a new chiller if and when the necessary capital becomes available, but Howard Memorial has not yet included a chiller in its capital expenditures budget.

The facility roof is 14 years into an original life expectancy of 20 years and is beginning to require more frequent patching and upkeep. Howard Memorial has not yet budgeted for a new roof but expects to do so in the medium-term. The total fiscal year 2023 capital budget provided by hospital leadership includes \$3.2M of investments, the largest of which is the roughly \$2M surgical robot discussed in *Debt* above and in the *Sustainability Plan* section below.

### Sustainability Plan

Howard Memorial develops a Strategic Plan and Goals annually to present to the hospital’s board of directors for approval. During the on-site review and in the documentation that Howard Memorial provided, hospital leadership identified several additional revenue-enhancing or cost-reducing initiatives above and beyond those contained in the 2023 Strategic Plan and Goals. These items are not quantified but represent opportunities for Howard Memorial to improve its long-term sustainability and financial condition.<sup>106</sup>

Table 84: Howard’s Sustainability Plan

Howard Memorial Sustainability Plan Summary	Financial Impact		
	Action Complete	Action Pending	Total
<b>Revenue Enhancement/Expense Reductions:</b>			
Develop market assessment to inform strategic plan	<i>Impact Unknown</i>		<i>Impact Unknown</i>
Invest in and begin offering robotics surgery	<i>Impact Unknown</i>		<i>Impact Unknown</i>
Expand denial prevention program to improve reimbursements	<i>Impact Unknown</i>		<i>Impact Unknown</i>
Retain support for reviewing zero balance accounts receivable	<i>Impact Unknown</i>		<i>Impact Unknown</i>
Identify and expand into new outpatient services	<i>Impact Unknown</i>	<i>Impact Unknown</i>	<i>Impact Unknown</i>
Increase swing bed utilization to 30% of patient days		<i>Impact Unknown</i>	<i>Impact Unknown</i>
Increase cardiac/pulmonary rehab patient volume		<i>Impact Unknown</i>	<i>Impact Unknown</i>
Hire full-time marketer to increase awareness of hospital services		<i>Impact Unknown</i>	<i>Impact Unknown</i>
Increase physical therapy unit footprint		<i>Impact Unknown</i>	<i>Impact Unknown</i>
<b>TOTAL IMPACT</b>	<b><i>Impact Unknown</i></b>	<b><i>Impact Unknown</i></b>	<b><i>Impact Unknown</i></b>

### Revenue Enhancements and Expense Reductions

- Develop market assessment to inform strategic plan
  - Howard Memorial developed a market assessment in early 2022 to identify areas of unmet need and opportunities to expand volume or service offerings. A component of that assessment was a surgical-specific market analysis which informed the recent investment in robotics-assisted surgery.
- Invest in and begin offering robotics surgery
  - In early 2023 Howard Memorial began offering robots surgery using the recently leased equipment. The hospital has also contracted with two robotics-trained surgeons to perform these services and is actively considering additional services that could be offered using the new capital investment.
- Expand denial-prevention program to improve reimbursement

<sup>106</sup> A&M makes no representation or warranty as to the accuracy or reliability of the future financial or operational performance discussed in any of the Hospitals’ sustainability plans.

- The hospital has augmented its existing denial-prevention program with a second contract with a third party in order to better prevent denials and improve the hospital's NPSR.
- Retain support for reviewing zero balance accounts receivable
  - Howard Memorial has also contracted with a third-party vendor to perform reviews of zero balance accounts receivable to identify any underpayments from commercial payers. In a twelve-month period so far this initiative has identified almost 70 accounts with underpayments and resulted in an additional \$325k in collections.
- Identify and expand into new outpatient services
  - The hospital opened a pediatric therapy center in early 2021 after identifying a need in the community for physical and occupational therapy as well as speech pathology services for children. Patient volume growth has been robust in the two years since.
  - Howard Memorial is continuing to work to identify additional outpatient services that would benefit the community and the hospital's financial condition.
- Increase swing bed utilization to 30% of patient days
  - Improving the utilization of swing beds would allow the hospital to improve revenues using the resources it currently has available.
- Increase cardiac/pulmonary rehab patient volume
  - Howard Memorial is targeting cardiac/pulmonary rehab as a service line with growth potential.
  - The hospital upgraded their nuclear imaging capabilities to include a dual camera system in 2020 and intends to increase the system's utilization to 15 studies per month in fiscal 2023.
- Hire full-time marketer to increase awareness of hospital services
  - In addition to expanding service offerings to meet community needs and improve revenues, Howard Memorial is retaining a full-time marketing resource to heighten awareness of hospital services.
- Increase physical therapy unit footprint
  - Howard Memorial has a strong physical therapy service offering that has grown to the point where physical space is becoming a primary limiting factor. Increasing the floor space for the unit would allow for its continued growth and enable the hospital to offer additional services such as silver sneakers programs.

## Howard Memorial Sustainability Plan Summary

### **February Baseline Metrics**

---

- 125 Days Cash on Hand and 30 Days in AR, Net
- 51.1% in Labor/Net Patient Service Revenue (NPSR)
- -9% Operating Margin
- 4.3 for FTEs per Adjusted Occupied Bed (AOB)
- 5.7 in Average Daily Census

### **Challenges**

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Howard is a 20 licensed-bed Critical Access Hospital (CAH) within Howard County. Howard has been experiencing a reduction in patient volume and emergency visits. ED visits, specifically, have been below budget for the past two years which may be, in part, due to the January 2023 re-opening of Sevier County Medical center in nearby De Queen. Operating margin and cash position has been further challenged as the hospital has worked to address hidden denials, underpayments from payors and payments not meeting terms of contract.

### **Sustainability Approach - Track 2**

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Howard selected *Track 2: Strategic Hospital Improvement* and chose to focus on improving Days Cash on Hand and Operating Margin. Leadership identified operational changes, as well as quantified initiatives specific to each metric.

### **Initiatives**

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*Days Cash on Hand* improvements focus on business growth and increased volume within the following service lines to generate additional collectible revenues and increase bank balances. Leadership calculated anticipated financial impact by multiplying the gross revenue per visit by a conservative projection of expected volume increase.

- Increase Swing Bed utilization on Patient Care Unit (Medical/Surgical) to over 30% of total patient days
- Increase Surgery Cases over prior year
- Increase Nuclear Medicine studies over prior year
- Increase Wound Care volume over prior year
- Increase Medical Clinic Visits over prior year

*Operating Margin* improvements reference cost-cutting measures, such as reduction in ED staff, decrease in supply cost and other expenses. Total reductions from operating costs equal ~\$670k. Revenue enhancements identified in support of the Days Cash on Hand metric will also support the hospital's operating margin. Howard also recently engaged with Forvis on the launch of a 340B Drug program and identified a local pharmacist for possible outpatient pharmacy coverage. Howard is currently 75% complete with Forvis' request for data gathering and is seeking to evaluate the 340B program as part of its FY 2024 Strategic Plan.

### **Noted Progress/Updates**

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Since February, Howard identified reduction in ED staff and kicked off marketing to raise awareness of robotic surgery offerings. Select services have seen volume increase (such as Swingbed) whereas others have not (i.e. medical clinics). To offset lost revenue due to volume, management has launched a robust denial prevention program consisting of a multi-disciplinary team (including CFO) that diligently reviews claim denials, completes root cause analysis, and identifies payment trends. This has resulted in the completion of requested information for outstanding claims and reduction of underpayments from select payors, which ultimately improves operational practices and increases collectible revenue.

### **Cybersecurity Checklist**

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Howard's Director of Information Technology reviewed the six Internet Security Basic Controls and eight Cyber Defense Minimum Standards. Howard will work with Legislative Audit to complete an on-site cyber review.

**Howard Memorial Hospital**

**Sustainability Plan**

## ***Introduction***

Howard Memorial Hospital is a 20 bed Critical Access Hospital located in Southwest Arkansas. Provider Relief Fund payments provided the funding required for Howard Memorial Hospital to prevent, prepare for, and respond to the pandemic. Howard Memorial was able to care for our patients and keep our hospital's employees both working and safe. Howard Memorial was faced with RN and Respiratory Therapists staffing shortages during the pandemic.

During the pandemic, Howard Memorial was no different than many of the Hospitals in the United States. RNs employed full time were leaving bed-side Nursing positions at the Hospital to work for 3<sup>rd</sup> party staffing agencies for inflated wages. This placed our Hospital with RN staffing shortages during the uptick in COVID cases. PRF payments provided our Hospital with funding resources to maintain required RN staffing standards to care for and treat our patients. Funds from PRF allowed the Hospital to acquire needed supplies, lab reagents and equipment to improve the facility and increase testing capacity. Payments from PRF were critical to our Hospital. PRF payments provided our hospital with the funding resources to maintain required RN staffing standards to care for and treat our patients.

In addition to the Provider Relief Fund, Howard Memorial accessed funds through the Community Development Block Grant, Arkansas Ready for Business Grant, FEMA (Federal Emergency Management Association), and Paycheck Protection Program. All reporting for these funding sources was filed appropriately and timely. Howard Memorial Hospital was not required to repay any of these pandemic-related funding sources.

Howard Memorial Hospital's volume hasn't rebounded post-pandemic. This volume shortfall unfavorably impacts operating margins and Days Cash on Hand.

### ***Purpose and Current State***

Since Health Care Providers are operating in a post pandemic environment, Providers are refocused on market share and operations. Howard Memorial Hospital is no different than other Healthcare Providers in Arkansas. Howard Memorial Hospital is now working to maintain financial and operational sustainability to ensure our hospital will continue its mission and vision and provide care to the communities in Southwest Arkansas.

- **Howard Memorial Hospital's Mission:**

*Improving the health of the communities we serve.*

- **Howard Memorial Hospital's Vision:**

*To be the respected health care leader providing excellence to Southwest Arkansas.*

Howard Memorial Hospital's Sustainability Plan defines the actions Howard Memorial will take to maintain financial sustainability to continue our Hospital's Mission and Vision in Southwest Arkansas. Our plan identifies strengths and challenges and focuses on protecting and improving cash position, increasing market share, and taking costs out of the company.

### ***Strengths***

- **Top 100 and Top 20**

On February 15, 2023, Chartis, a comprehensive healthcare advisory firm, unveiled the 2023 Top 100 Critical Access Hospitals. This annual recognition program, which is based on the results of the Chartis Rural Hospital Performance INDEX recognizes outstanding performance among the nation's rural

hospitals. Howard Memorial Hospital is recognized as one of the Top 100 Critical Access Hospitals and one of four Arkansas' CAHs recognized.

The National Rural Health Association (NRHA) recognized Howard Memorial Hospital as one of the Top 20 CAHs for overall performance in the country. The top 20 CAHs achieved success in overall performance based on a composite rating from eight indices of strength:

- 1) Inpatient market share,
- 2) Outpatient market share,
- 3) Quality,
- 4) Outcomes,
- 5) Patient perspective,
- 6) Cost,
- 7) Charge and
- 8) Finance.

An awards ceremony will be held during NRHA's Critical Access Hospital Conference in September in Kansas City, Missouri.

Chartis' list of Top 100 Critical Access Hospitals for 2023 and press release from Howard Memorial Hospital is provided in the supplemental information to the Sustainability Plan.

Howard Memorial Hospital has a community celebration planned for August 17. Invitations are extended to Arkansas Governor Sarah Huckabee Sanders and State, County and City officials.

- **Robotics Surgery Program**

Howard Memorial Hospital contracted Stroudwater and Associates to complete a market survey for our hospital. All services lines are included in the market survey (calculated on business for FY 09-30-2021), but the emphasis of the market survey is the hospital's Surgical Service program. Results of this market survey indicated that Howard Memorial Hospital captures only 14.9% of the Outpatient Surgery business in our Primary Service Area (PSA).

The opportunity to increase market share coupled with the fact that our hospital is under contract with two Robotically trained surgeons fostered the opportunity for Howard Memorial to initiate a due diligence work effort and explore bringing Robotics Surgery to the communities we serve.

Based on the pro-forma presented to the Hospital's Board of Directors and Executive TEAM, it is calculated that the costs of the technology lease are covered if the Hospital adds 100 Robotics cases per year on top of the "Same Store" surgery business. The technology lease with Intuitive was signed on October 25, 2022, for a 60-month lease. With our Robotics, Howard Memorial can deliver more complicated surgeries to our community. Pro-forma includes reimbursement and incremental costs associated with Ventral Hernia, Inguinal Hernia, Cholecystectomy and Fundoplication.

The first Robotics case was performed on February 9, 2023, with 65 Robotic cases completed through June 30, 2023. We currently offer 42 weeks of Robotics coverage in a 12-month scheduling period.

The more complicated surgical cases scheduled since robotics implementation has a favorable impact financially on billed charges. Revenue per case for Surgery increased from \$2,604 per case to \$3,531 per case after implementation of Robotics. This equates to a 35.6% increase in billed charges. Revenue per case for Anesthesiology increased from \$962 per case to \$1,234 per case. This is a 28.3% increase in billed charges.

The summary page of the market survey plus Pro-Forma for Robotics are included in the supplemental information.

- **Swing Bed Program**

Howard Memorial's Inpatient beds are dual licensed and convert from Acute to Swing Bed without the patient changing beds.

The Strategic Plan for both 2023 and 2024 includes a goal quantifying that 30% of the patient days on Patient Care Unit (Medical/Surgical) are Swing Bed. With the work of our RN Case Manager reaching out and reminding facilities that we offer Swing Bed Program and sharing information on appropriate diagnosis for Swing Bed Patients, Swing Bed utilization increased.

For the 8 months ending May 31, 2023, 28.5% of patient days on Patient Care Unit are Swing Bed. Year to Date through May 31, 2022, only 20.5% of the Patients on Patient Care Unit are Swing Bed. This is an increase of 93 Inpatients and .38 increase in Average Daily Census.

- **Denial Prevention Program**

Howard Memorial Hospital engaged FORVIS on April 8, 2022, to develop a Denial Prevention Program. The goal of the Denial Prevention Program is "To Take the Power Back from the Payors." The Hospital had a monthly Denial Management Committee in place, but this Committee wasn't leading to improvements. Therefore, the Denial Management Committee was dismantled, and Denial Prevention Committee was implemented.

Denial Prevention is driven on seeking the Root Cause for any denial. This process includes pulling a monthly sample of accounts denied, reviewing both patient's financial account and medical record and searching for the Root Cause of the denial. With this approach, Howard Memorial Hospital recovered dollars and generated findings on payor trends.

Findings from Denial Prevention work efforts include, but not limited to:

- Denials from payors included in contractual allowances: "Hidden" Denials
- Underpayments from Empower on 39 billings for Emergency Department services due to missing condition codes.
- Incorrect and invalid CPT codes for Laboratory Services hard coded on the Charge Description Master.
- Payors referencing invalid fee schedules to process claims and underpaying the Hospital.
- Payors not paying per the terms of the contract.

Hospital's Collectible Revenue is favorable Year to Date May 31, 2023 (Actual compared to Budget), with unfavorable volume variance and favorable rate variance per the calculation.

Year to date thru May 31, 2023:

- Calculated Volume Variance \$(1,026,644) Calculated on Adjusted Patient Days
- Calculated Rate Variance \$ 1,084,275
- Favorable Variance \$ 57,631

Although hospital's volumes are running short of budget, rate variance is offsetting the volume shortfall. There are multiple components to favorable rate variance (such as Medicare and Medicaid Cost Report estimates, payor mix), but the impact of the Denial Prevention Program is contributing to the quantified favorable rate variance.

## **Challenges**

### **1. Market Share**

The market survey report that Howard Memorial Hospital contracted Stroudwater and Associates to complete indicates that Hospital's Market Share is low.

- Hospital's market share for Medical and Surgical beds is 28.3% of Primary Service Area, based on FY 2021 volumes.
- Significant opportunity for most diagnostic imaging modalities.
- Substantial opportunity in the Primary Service Area for Outpatient Surgeries.
- Low share of Outpatient Physical Therapy and Outpatient Laboratory Services

### **2. Emergency Department Visits and Volume Guarantee**

Emergency Department Visits for the nine months ending June 30, 2023, are 350 visits below budget (4.6% budget miss) and 254 visits below prior year to date through June 30, 2022.

In addition to the loss of Collectible Revenue from Emergency Department Visits and conversion factor to Inpatient business, hospital is subject to additional cost. The Hospital's contract with NES Health for Emergency Department Provider coverage includes a guaranteed volume component. NES Health requires 915 ED Visits per month. If Emergency Department visits for the month fall short of the guaranteed visits, the Hospital pays an additional subsidy equal to \$115 per visit for each visit below the guarantee. For the current fiscal year, the hospital incurred a calculated liability equal to \$103,730.

Therefore, the shortfall in Emergency Department Visits impacts Collectible Revenue for the Emergency Department, conversion of Emergency Department Visit to an admission or Observation Patient and volume guarantee costs.

### **3. Cash in Bank and Days Cash on Hand**

Due to the impact on Collectible Revenues from shortfalls in volume and challenges with payors (hidden denials, underpayments from payors, and payments not meeting terms of contract), hitting the metrics for Days Cash on Hand is challenging.

The Hospital's Strategic Plan for FY 2023 designates 145 Days Cash on Hand as the Target. For the eight months ending May 31, 2023, Hospital has 115.2 Days Cash on Hand. Through May 31, 2023, Howard Memorial Hospital is 29.8 days short of the internal target for Days Cash on Hand.

The Hospital's Strategic plan for FY 2024 includes 150 Days Cash on Hand as the target.

### ***Improvement Efforts and Funding Opportunities***

#### **1. Improvements in Days Cash on Hand (Benchmark)**

**Business Growth and Development component of the FY 2024 Strategic Plan incorporates goals for increased volume for identified services.** Increasing services in Southwest Arkansas and its impact on Hospital volumes will generate additional Collectible Revenues and increase Cash in Bank balances.

- a) Increase Swing Bed utilization on Patient Care Unit (Medical/Surgical) to over 30% of total patient days.
- b) Increase Surgery Cases over prior year.
- c) Increase Nuclear Medicine studies over prior year.
- d) Increase Wound Care volume over prior year.
- e) Increase Medical Clinic Visits over prior year.

Each of these five components of our Strategic Plan is assigned to a hospital leader. Increase in Swing Bed Utilization focuses efforts of RN Case Manager reaching out to Case Managers at the tertiary facilities and reminding the Case Managers the appropriate diagnosis for Swing Bed patient and Howard Memorial delivers this service in Southwest Arkansas.

Continuing to promote Robotics and the Hospital's two robotically trained surgeons is the cornerstone for increasing Surgery business at the Hospital. The intent of the executed technology lease to bring Robotics Surgery to the communities in Southwest Arkansas is to move the needle and increase the Hospital's market share on Surgical Services.

Each of the services identified above will have marketing efforts implemented to increase the business.

Our days cash on hand as of February baseline, within the A&M report, was 125 days. We selected days cash on hand as our metric. At 6-months, days cash on hand should be within 15% of the benchmark of 132.8, which is between 112.8 and 152 days cash on hand. Our six-month initiatives meet this target at approximately 125.1 days, which include an increase of \$720k in collective revenue. At 12-months, days cash on hand should be within 5% of the benchmark of 132.8, which is a range between 126.1 and 139.4. Our initiatives meet this target at a projected goal of 135.5 days cash on hand, which include an increase of \$1.4 million in increased collective revenue.

Howard is committed to meet the following targets:

#### **Days Cash on Hand**

- 6-month target – DCOH within 15% of the benchmark of 132.8
- 12-month target – DCOH within 5% of the benchmark of 132.8

**The Denial Prevention component of the Revenue Cycle continues at Howard Memorial Hospital.** Per the 2<sup>nd</sup> bullet point under "Strengths" section of the Sustainability Plan, the Hospital has realized success from the Denial Prevention program. For example, the Hospital identified denials coded to Contractual Allowances ("Hidden Denials"), payors failure to reimburse per contract terms, and payors reimbursing using fee schedules no longer in effect.

On June 12, Howard Memorial Hospital filed a complaint with Medicare Part D against a Medicare Advantage Plan for failure to reimburse claims per contract rates. On July 13, Provider Relations and Network Contract Manager committed to claims reprocessing beginning in 65 days. Based on this payor's commitment, claims reprocessing will begin September 18. Reprocessing the claims will add \$250,000 to Collectible Revenues.

The work effort associated with the Denial Prevention component of the Revenue Cycle and pushing back on the challenges from payors will continue to increase Collectible Revenue.

**340B Drug Pricing Program Assistance and Provider Based Billing.** Howard Memorial Hospital signed a contract with FORVIS to research and assist with quantifying the financial impact to participate for 340B Drug Pricing Program and move our Medical Clinic and Surgical Clinic to Provider-Based billing. The Hospital is presently gathering the data per the data request list and will provide the data to the health care consultants to proceed with the engagement.

Researching the feasibility of participating in the 340B Drug Pricing Assistance is included in the Business Growth and Development section of the FY 2024 Strategic Plan.

**TEAMS (HMH Strong).** Given the post-pandemic focus on operations and financial performance, Executive Leadership identified seven teams to take the lead on identifying opportunities for financial and operational improvements. The seven identified teams are:

- 1) Purchasing Cycle
- 2) Dietary Costs of Food and Supplies
- 3) Employee Retention, Recruitment and Development
- 4) Revenue Cycle
- 5) Business Development/Market Share
- 6) Marketing Strategies
- 7) Quality and Patient Satisfaction

The TEAM leaders presented initial recommendations and findings at the Strategic Planning Meeting on June 15. TEAM leaders and members are scheduled to present updates at the weekly Executive TEAM meetings. The recommendations of each TEAM will be discussed and incorporated in the Hospital's Operating Budget for the fiscal year ending September 30, 2024. The Hospital's CFO will present Budget 2024 to the Board of Directors in September 2023 and request a motion to approve.

Implemented recommendations of six out of seven of the TEAMS may lead to improvements in Collectible Revenue or decrease Expenses. Subsequently, the impact will deliver an improvement to Days Cash on Hand.

Initial findings of the Purchasing Cycle TEAM reporting shortcomings regarding the charge capture of Supply Revenue are included in the Sustainability Plan.

## **2. Improvements in Operating Margin (Benchmark)**

The Hospital identified opportunities to increase volume and improve Collectibles Revenues. These opportunities are included in the plan to Improve Days Cash on Hand.

Budget 2024 will include a reduction of 10 FTEs. Process is implemented to discuss each request for FTE replacement and review the Department's productivity prior to approval.

In addition, Emergency Department visits haven't rebounded to pre-pandemic visit counts. As a step to complete Budget 2024, staffing standards, staff scheduling and FTE count for the Emergency Department will be reviewed.

FTE reduction equates to \$558,776 in Salaries and Benefits savings.

The Improvement Plan for Operating Margin includes a decrease in Supply Costs equal to \$84,820 and reduction in Other Expense equal to \$27,948. Elimination of one-time order to build initial inventory for Robotics Supply is included in the plan. Reduction in Other Expense relates to elimination of one-time Cybersecurity Consultant Fees.

Total expense reduction from Operating Costs included in the Sustainability Plan equals \$671,544.

Operating Margin baseline prior to September 30<sup>th</sup>, 2022 Cost Report Journey Entry of \$325,804 was -8.30%. Six-month target is an improvement of 20-40% improvement from -8.30%, which is an improvement of at least 1.66%, for a target range of -6.64% and -4.98%. Our expense-reduction and revenue-generating initiatives exceed this target % of an improved operating margin of -2.78% at 6 months. Twelve-month target is an improvement of 70-90% improvement from -8.30%, which is an improvement of at least 5.81% in operating margin, for a target range of -2.49% and 0.83%. Our initiatives meet this target at a projected goal of 0.19% operating margin at 12 months.

Howard is committed to meet the following targets:

Operating Margin:

- 6-month target – 20-40% improvement from February baseline
- 12-month target – 70-90% improvement from February baseline

#### **Internet Security Basic Controls/Cyber Defense Minimum Standards**

Howard's Director of Information Technology reviewed the six Internet Security Basic Controls and eight Cyber Defense Minimum Standards. Howard will work with Legislative Audit to complete an on-site cyber review.

130 Medical Circle  
Nashville, AR 71852

William J. Craig, CPA FHFMA CHFP  
Chief Financial Officer  
870 845 8003

Howard Memorial – Track 2

Benchmark		Initiative	Description	Start Date	Time to Implement	Revenue Impact	Expense Impact	Status	
Days Cash on Hand and Operating Margin		Increase in Swing Bed Inpatient Days	Increase Swing Bed utilization on Patient Care Unit (Medical/Surgical) to over 30% of total patient days	Oct 1		\$16,683/month		Scheduled	
		Surgery Cases	Increase Surgery Cases over prior year	Oct 1		\$134,351/month		Scheduled	
		Anesthesia		Oct 1		\$42,610/month		Scheduled	
		Nuclear Medicine Studies	Increase Nuclear Medicine studies over prior year.	Oct 1		\$11,785/month		Scheduled	
		Wound Care	Increase Wound Care volume over prior year	Oct 1		\$6,367/month		Scheduled	
		Medical Clinic	Increase Medical Clinic Visits over prior year	Oct 1		\$5,254/month		Scheduled	
		<i>Total Monthly Collectible Revenue Pick-Up including 35% OP reimbursement applied to OP business</i>					\$86,922		
	<b>A</b>	<i>Annualized</i>					<b>\$1,043,074</b>		
		FTE Reduction	Reduction in FTE count for the Emergency Department	Oct 1				(\$558,776)	Scheduled
		Reduction in Supply Costs	Robotics Start-Up	Oct 1				(\$84,820)	Scheduled
		Reduction in Other Expense	CyberSecurity Fees	Oct 1				(\$27,948)	Scheduled
	<b>B</b>	<i>Total Reductions in Costs (Annualized)</i>						<b>(\$671,544)</b>	
<b>C</b>	Improvement in Supply Charge Capture					<b>\$45,509</b>			
<b>D</b>	Denial Prevention Efforts (Success Record)					<b>\$512,294</b>			
<b>A + B + C + D</b>	<b>Net Impact</b>					<b>\$2,272,421</b>			

**AMERICAN RESCUE PLAN ACT OF 2021 PROGRAM APPROPRIATION  
AND PERSONNEL AUTHORIZATION REQUEST  
SECTION 36 OF ACT 796 OF 2023**

**C.7**

Agency: Arkansas Department of Commerce Business Area Code: 9902

Program Title: ARPA, Statewide Initiative for Nurse Staffing

Granting Organization: Office of Skills Development (OSD) CFDA #: \_\_\_\_\_

Effective Date of Authorization: \_\_\_\_\_ Beginning: 11/01/23 Ending: 06/30/24

Purpose of Grant / Reason for addition or change (include attachments as necessary to provide thorough information):

**Arkansas Linking Industry to Grow Nurses (ALIGN) Program, \$20,400,000**

- A 2-to-1 match by the state for every dollar contributed to a college, technical or vocational college, or university by a healthcare partner
- Office of Skills Development (OSD) will manage the grant program
- Grants shall be aimed at upskilling lower-level professionals, expanding nursing apprenticeships, increasing nurse educator recruitment/retention, expanding clinical rotations, increasing nursing program capacity where relevant, tuition reimbursement, equipment purchasing, simulation centers, etc.

**Career Center LPN Pathway Development, \$4,600,000**

- Career Centers provide high school juniors and seniors the opportunity to earn college credit while in school
- Only three of the 31 Career Centers currently participate in the LPN Pathway Pilot Program
- This investment would provide start-up funding to help expand Career Center LPN pathways, including equipment and capital investments
- Reduces time to completion and out-of-pocket expenses, increases earning potential, and expands the nursing pipeline

**American Rescue Plan Act Program Funding**

Func. Area: COMM  
Funds Center: New

Fund Code: New  
Internal Order/WBS Element: New

Direct Funding: \_\_\_\_\_  
State: **X**  
Continuation: \_\_\_\_\_

	Program Funding Amount
Regular Salaries	
Extra Help	
Personal Services Matching	
Operating Expenses	
Conference & Travel Expenses	
Professional Fees	
Capital Outlay	
Data Processing	
Grants and Aid (CI: 04)	
Other (CI: 46):	25,000,000
Other:	
<b>Total</b>	<b>\$ 25,000,000</b>

Anticipated Duration of Federal Funds: 11/01/23 to 06/30/25

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**DFA IGS State Technology Planning** **Date**  
Items requested for information technology must be in compliance with Technology Plans as submitted to DFA IGS State Technology Planning.

**Positions to be established: (list each position separately)**

\* Unclassified positions only

Org Unit	Pers Area	Pers SubArea	Cost Center	Position Number	Cmnt Item	Position Title	Class Code	Grade	Line Item Maximum *

**State funds will not be used to replace federal funds when such funds expire, unless appropriated by the General Assembly and authorized by the Governor.**

Approved by:  10/03/23  
Cabinet Secretary/Agency Director **DTB** Date

Robert Brech 10/04/23  
Office of Budget Date  
*Pete Caubbe* 10/4/23

Office of Personnel Management **93** Date

**Arkansas Linking Industry to Grow Nurses (ALIGN) Program** **\$20.4 million**

- A two-to-one match by the state for every dollar contributed to a college, technical or vocational college, or university by a healthcare partner
- Office of Skills Development (OSD) will manage the grant program
- Grants shall be aimed at upskilling lower-level professionals, expanding nursing apprenticeships, increasing nurse educator recruitment/retention, expanding clinical rotations, increasing nursing program capacity where relevant, tuition reimbursement, equipment purchasing, simulation centers, etc.

**Career Center LPN Pathway Development** **\$4.6 million**

- Career Centers provide high school juniors and seniors the opportunity to earn college credit while in school
- Only three of the 31 Career Centers currently participate in the LPN Pathway Pilot Program
- This investment would provide start-up funding to help expand Career Center LPN pathways, including equipment and capital investments
- Reduces time to completion and out-of-pocket expenses, increases earning potential, and expands the nursing pipeline

**Total Request** **\$25.0 million**

**AMERICAN RESCUE PLAN ACT OF 2021 PROGRAM APPROPRIATION  
AND PERSONNEL AUTHORIZATION REQUEST  
SECTION 36 OF ACT 796 OF 2023**

**C.8**

Agency: Arkansas Department of Commerce Business Area Code: 9902

Program Title: ARPA, City of Paris Community Center, for workforce and skills development

Granting Organization: Office of Skills Development (OSD) CFDA #: State Fiscal Recovery Funds

Effective Date of Authorization: Beginning: 11/01/23 Ending: 06/30/24

Purpose of Grant / Reason for addition or change (include attachments as necessary to provide thorough information):

To provide a grant to the City of Paris for a Community Center that will provide workforce and skills development training.

**American Rescue Plan Act Program Funding**

Func. Area: COMM  
Funds Center: New

Fund Code: New  
Internal Order/WBS Element: New

Direct Funding: \_\_\_\_\_  
State: X  
Continuation: \_\_\_\_\_

	Program Funding Amount	
Regular Salaries		
Extra Help		
Personal Services Matching		
Operating Expenses		
Conference & Travel Expenses		
Professional Fees		
Capital Outlay		
Data Processing		
Grants and Aid (CI: 04)	\$	3,800,000
Other:		
Other:		
Total	\$	3,800,000

Anticipated Duration of Federal Funds: 11/01/23 to 06/30/25

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**DFA IGS State Technology Planning** **Date**  
Items requested for information technology must be in compliance with Technology Plans as submitted to DFA IGS State Technology Planning.

**Positions to be established: (list each position separately)**

\* Unclassified positions only

Org Unit	Pers Area	Pers SubArea	Cost Center	Position Number	Cmnt Item	Position Title	Class Code	Grade	Line Item Maximum *

**State funds will not be used to replace federal funds when such funds expire, unless appropriated by the General Assembly and authorized by the Governor.**

Approved by: [Signature] 10/03/23  
Cabinet Secretary/Agency Director Date

Robert Brech 10/05/23  
Office of Budget Date

Office of Personnel Mgmt. Date

Pete Caubbe 10/4/23

## Smith Community Campus Project, City of Paris

\$3.8 million

### Overview

Smith Community Campus (SCC) Project will provide the following services:

- Improvement and perpetuation of existing community pre-school education programs;
- Enhanced community health care services programs;
- Job services and workforce skills programs; and
- An expansion of existing community library facilities.

### Project Details

*Job Services/Workforce Skills:* The expansion of the Logan County Library through the proposed remodel of the Smith Hospital and addition of space provided by new construction will enable the following:

- 1) the River Valley Adult Learning Alliance (English as Second Language) to provide training for adult learners;
- 2) provide much-needed expansion of computer facilities and technical services, including resume preparation, interview skills, and job leads;
- 3) expand opportunities for more job skills training supported by ATU-Ozark at the Tyson Career Center located in Paris; and
- 4) provide workspace to the Paris Area Chamber of Commerce to help promote continued success of the Logan County Leadership Academy.

### Additional Background

The SCC Project is possible because of a donation of property located in the City of Paris by the Smith family to the non-profit Smith Memorial Association. This donated property consists of 7.5 acres and is five (5) blocks from the town square and is listed on the National Historic Register.

**AMERICAN RESCUE PLAN ACT OF 2021 PROGRAM APPROPRIATION  
AND PERSONNEL AUTHORIZATION REQUEST  
SECTION 36 OF ACT 796 OF 2023**

**C.9**

Agency: Department of Human Services, Division of Aging, Adult, & Behavioral Health Services Business Area Code: 0710  
 Program Title: Expanding the Public Health Workforce within the Aging Network for States

Granting Organization: Department of Health & Human Services Administration for Community Living CFDA #: 93.044

Effective Date of Authorization: Beginning: 7/1/2023 Ending: 6/30/2024

Purpose of Grant / Reason for addition or change (include attachments as necessary to provide thorough information):  
 To recruit, hire, and train public health workers to respond to the COVID-19 pandemic and prepare for future public health challenges.

**American Rescue Plan Act Program Funding**

Func. Area: HHS Fund Code: 999043 Direct Funding: X  
 Funds Center: NEW Internal Order/WBS Element: FRP7113 Steering Comm. Approved: \_\_\_\_\_  
 Continuation: \_\_\_\_\_

	Program Funding Amount
Regular Salaries	
Extra Help	
Personal Services Matching	
Operating Expenses	
Conference & Travel Expenses	
Professional Fees	
Capital Outlay	
Data Processing	
Grants and Aid (CI: 04)	628,878
Other:	
Other:	
<b>Total</b>	<b>\$ 628,878</b>

Anticipated Duration of Federal Funds: 09/30/2024

**FA IGS State Technology Planning** Date \_\_\_\_\_  
 Items requested for Information technology must be in compliance with Technology Plans as submitted to DFA IGS State Technology Planning.

**Positions to be established: (list each position separately)**

Org Unit	Pers Area	Pers SubArea	Cost Center	Position Number	Comit Item	Position Title	Class Code	Grad	Line Item Maximum *

**State funds will not be used to replace federal funds when such funds expire, unless appropriated by the General Assembly and authorized by the Governor.**

Approved by: *Kristi Putnam*  
 Cabinet Secretary/Agency Director Date  
 Kristi Putnam Digitally signed by Kristi Putnam Date: 2023.07.14 12:18:49 -0500  
 Patient Secretary Date

Robert Brech 08/02/23  
 Office of Budget Date  
 jmoore 7/17/2023

Office of Personnel Mgt Date

# American Rescue Plan Act (ARPA)

## Arkansas Plan for Expanding the Public Health Workforce within the Aging Network for States

Arkansas will be using these funds through the Area Agencies on Aging (AAA's) to recruit, hire, and train public health workers to respond to the COVID-19 pandemic and prepare for future public health challenges. These funds will be used to offset costs of hiring a range of public health professionals, including but not limited to social support professionals, community health workers, communication and policy experts and "other positions as may be required to prevent, prepare for, and respond to COVID-19....

Professionals funded through this program will provide a wide range of public health services and supports, including culturally affirmative and linguistically accessible information, assistance with accessing vaccines (including boosters) and connecting to other services, transition and diversion from high-risk congregate settings to community living, health and wellness programs, activities that address social isolation and social determinants of health, and other activities that support the public health and wellbeing of older adults and people with disabilities.

Our plan will be to distribute the funds to the Area Agencies on Aging utilizing the Arkansas Older Americans Act Intrastate funding formula (IFFJ with no administrative cost deducted. Allocated amounts are as follows:

Area Agency on Aging of Northwest Arkansas	1	\$105,630.00
White River Area Agency on Aging	2	\$56,478.00
East Arkansas Area Agency on Aging	3	\$86,911.00
Area Agency on Aging of Southeast Arkansas	4	\$57,763.00
Central Arkansas Area Agency on Aging	5	\$131,421.00
Area Agency of Aging of West Central AR-The Senior Specialist	6	\$71,316.00
Area Agency on Aging of Southwest Arkansas	7	\$63,246.00
Area Agency on Aging of Western Arkansas	8	\$56,113.00
		<b>628,878.00</b>