25-bed Acute Hospital Option
Summary of Findings
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HFS constructed a financial model to evaluate the expected impact of SVHD building a 25 bed hospital.

Key assumptions:

- Demand for services is consistent with that used in the most recent hospital budgeting and forecasting and with the analysis conducted by J. M. Watt.
- There are no Skilled Nursing Facility beds.
- The average length of stay for Medicare patients is increased by 1.25 days due to the lack of the SNF to which discharges would otherwise be directed.
- Two sub-options were analyzed:
    - 25 total beds, with 4 OB beds --- OB demand and utilization remain at current levels
    - With no OB service --- all 25 beds are acute/ICU.
        - All OB/Gyn services, including outpatient procedures, are eliminated.
        - The hospital loses its Medicare "Disproportionate Share" revenue in the amount of $450,000.
- Bed capacity limits cause admissions to be "diverted" --- based upon historic census fluctuations
    - With OB using 4 beds, we estimate that admissions to the acute/ICU service would decrease by 21.9% from current forecasts.
    - Without OB, we estimate that admissions to the acute/ICU service would decrease by 11.4%.
- Outpatient volume and revenues are reduced as follows:
    - In the option with 4 OB beds, a 6% reduction in the base year OP revenues due to reductions in emergency and surgical procedures.
    - In the option with no OB services, a 3% reduction in the base year OP revenues due to reductions in emergency and surgical procedures in addition to the reduction of all OB/Gyn outpatient services are eliminated --- with net revenues estimated at $650,000
- Reimbursement rates are consistent with those used in recent hospital budgeting and forecasting unless calculation corrections were needed. No changes were made to these rates because the current assumptions are considered to be very conservative.
- Cost assumptions are consistent with those used in recent hospital budgeting and forecasting except for certain departments. These departments are those which are clearly impacted by the service change and for which there are comparable industry cost statistics. These include Nutritional Services, Pharmacy, and Environmental Services.

- Depreciation and interest expense remain the same. The capital costs of a new facility will be financed with a GO bond issue and tax revenues. Although depreciation would increase significantly and therefore decrease the operating margin further, this is a non-cash expense.
- No changes were made to non-operating revenues and expenses

Summary of Findings:

Estimated Impact of "Small Hospital Option" in 2006-7		
Measure	**4 OB bed option**	**No OB option**
Operating margin	($5.1) million	($3,8) million
Net Revenues	$30.3 million	$30.3 million
Operating expenses	$35.4 million	$34.2 million
Labor costs per EPD	$1,757	$1,602
Non-labor costs per EPD	$861	$841
ADC	15.9	16.5

The primary reason that eliminating OB services improves the operating margin with the 25 bed model is that eliminating the OB beds would lessen the diversion/reduction in acute admissions and related outpatient revenues. The payer mix for these admissions is over 20% commercial insurance and over 60% Medicare. In addition, eliminating OB services significantly reduces fixed labor costs.

We consider these estimates to be "best case". Several factors could cause additional erosion of financial performance:

- Increased difficulty in recruiting and retaining physicians. At particular risk are the surgical services and OB/Gyn, although all services are likely to be affected.
- Additional decline in OP revenues due to the preceding problem.