AMERICAN BANKRUPTCY INSTITUTE

2019 Disruption, Consolidation and Innovation in the Health Care Industry

Show Me the Money: Navigating the Reimbursement Web

Stephen N. Clapp
Curae Health, Inc.; Clinton, Tenn.

Marshall Glade
GlassRatner Advisory & Capital Group, LLC; Atlanta

Bert Orlov
EisnerAmper LLP; New York

Rhonda Sandel
Texas Emergency Care Centers; Houston

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NAVIGATING THE REIMBURSEMENT WEB

Reimbursement Case Study - Curae Health

- Operates as a not-for-profit organization governed locally in multiple southeastern states
- Utilizes long term experience in managing small community hospitals for efficiency and sustainability
- Provides turn around expertise and management skills not generally available to small rural facilities
- Creates new services and new jobs that have left the area
- Understands and interacts with rural communities
- Engages hospital medical staff to help improve clinical quality, hospital service, financial performance, etc
- Willingness to affiliate/partner with regional tertiary partner

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Formation of Curae Health

- Interest in rural hospitals was drying up
  - Not-for-profits unwilling to support rural hospital unless motivated by competition
  - Large, investor-owned hospital chains were exiting rural markets due to stockholder return requirements
  - Void created as result of NFPs and Investor-owned chains lack of ownership not being back filled
- Not for profit model could provide 1-3% improvement in operating expense line not available to NFPs (high overhead), investor-owned hospitals (paid taxes)

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Curae Health Board of Directors

- Board members include former:
  - Health system executives (CEOs, COOs),
  - Not-For-Profit Hospital Board and Finance Committee Chairman,
  - Physician Board member, and
  - Private industry Board member
- Community Hospital Advisory Boards are seasoned local community leaders and physicians representing each hospital to ensure patient quality, medical staff governance, and community value

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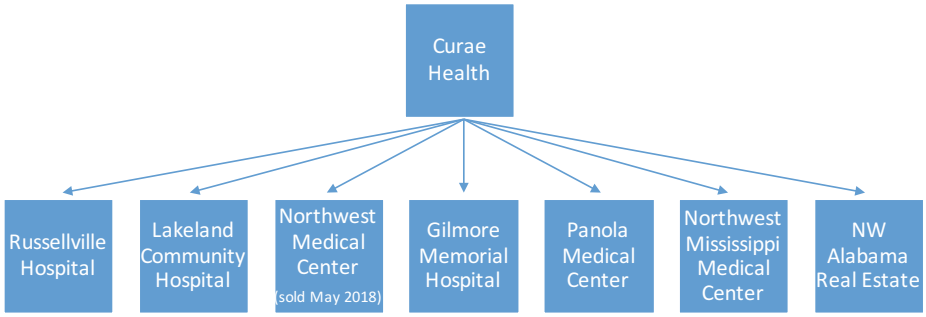
Curae Entity Overview



Notes:

- Curae Health and hospitals are 501(c)(3) corporations with Curae Health as sole voting member of each hospital corporation
- NW Alabama Real Estate is for profit subsidiary with Curae Health as sole voting member

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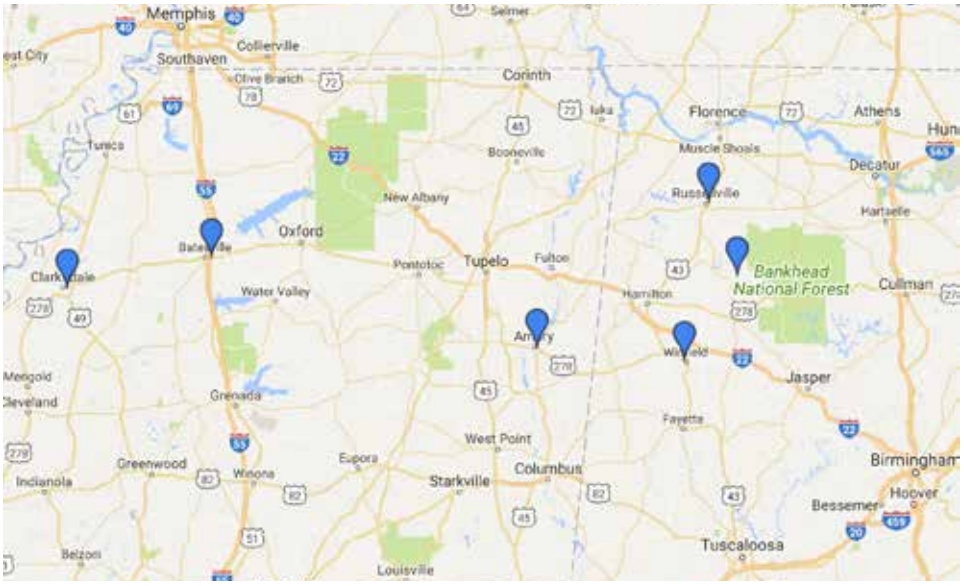
Location of Curae Hospitals



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Mississippi Locations
Gilmore Memorial Hospital
Panola Medical Center
Northwest Mississippi Medical Center

Alabama Hospitals
Russellville Hospital
Lakeland Community Hospital
Northwest Medical Center

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Curae Hospitals - AL

Lakeland Community Hospital:

- 56-bed hospital located in Haleyville, AL
- Services include: acute, intensive care, diagnostics, inpatient gero-psych, medical detox, home health

Russellville Community Hospital:

- 92-bed hospital located in Russellville, AL
- Services include: acute, intensive care, surgery, diagnostics, cardiac cath, home health, etc.

Northwest Medical Center:

- 76-bed hospital located in Winfield, AL
- Services include: acute, intensive care, surgery, diagnostics, inpatient gero-psych, wellness center, wound care center

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Curae Hospitals - MS

Gilmore Memorial Hospital:

- 95-bed hospital located in Amory, MS
- Services include: acute, intensive care, surgery, GI, diagnostics, obstetrics, pediatrics, etc

Panola Medical Center:

- 112 bed hospital located in Batesville, MS
- Services include: acute, intensive care, surgery, diagnostics, obstetrics, behavioral health (including psych, medical detox), etc.

Northwest Mississippi Medical Center:

- 195-bed hospital located in Clarksdale, MS
- Services include: acute, intensive care, surgery, GI, diagnostics, obstetrics, pediatrics, cath lab, neurology, orthopedics, etc.

Consolidated Summary Statistics

Statistic	Curae – AL	Curae – MS	Total
# of Hospitals	3	3	6
Licensed beds	230	402	632
FTEs	493	935	1,374
Net Revenue	$62.9	$144.2	$207.1M
Total Assets	$39.4	$111.6M	$151.0M

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Events Leading Up to Bankruptcy Filing

- Erosion of volumes in rural markets
- Delay in approval of federal reimbursement for rural hospitals
- Lack of Medicaid expansion in states Curae operated hospitals
- Operating model for rural hospitals

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Erosion of volumes in rural markets

- Declining populations in rural markets
- Inability to recruit physicians who desired "traditional practice"
- "Bigger is better" mindset by some patients
- Increase in high deductible health plans

Delay in approval of "Medicare Extenders"

- Medicare extenders are reimbursement adjustments to help certain hospital (e.g., rural) with higher proportional government funded patients
- Examples would include low volume adjustment, disproportionate share, etc
- Medicare extenders for rural hospitals expired in September 2017
- Congress did not approve the retroactive reinstatement of Low Volume Adjustment, DSH payments, etc., until April 2018
- Created a significant cash flow issues at our hospitals

Lack of Medicaid expansion in states Curae operated hospitals

- Several states expanded Medicaid to help offset the reduction in disproportionate share (DSH)payments
- Alabama, Mississippi did not expand Medicaid
- Result is lower bad debt reimbursement, risk of lower DSH reimbursement, and limited governmental resources going disproportionately to states that expanded Medicaid

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New operating model for rural markets

- Rural hospitals have 3 options – acute care PPS hospital, critical access hospital, or close
- Other rural provider options include: FQHC, RHCs, urgent care centers
- Most rural hospitals struggle to maintain sufficient revenue to cover the fixed operating expenses of a 24/7 hospital
- Most FQHCs and RHCs are not prepared to deal with nor desire to treat emergency situations
- Hospitals need the ability to convert into a new outpatient model reimbursed by Medicare at hospital levels for emergency room care, diagnostics and lab services

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Summary

- Insanity – doing the same over and over again and expecting a different result
- 800 of the 2600 (31%) rural hospitals have closed over the last 25 years
- Continuing to provide reimbursement stop gap measures (low volume adjustments, DSH payments, critical access status, etc) are not solving the problems
- Have to rethink how we provide care in rural markets or hospital failures will continue to increase