



SHARON HOSPITAL: INVESTMENT STRATEGY

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Executive Summary (highlights) - June 2021



STROUDWATER

EXECUTIVE SUMMARY

Executive Summary

- Sharon Hospital (“SH”), a member hospital of Nuvance Health (“Nuvance”) since 2019, has experienced a rapid decline in financial performance, with cumulative losses of **(\$41.16M)** from the period reviewed, FY17-FY21 (annualized)
- Recognizing that losses cannot be sustained, SH engaged Stroudwater Associates to examine the organization’s financial and operational performance relative to rural/community hospital peers and best practices
- Stroudwater assessed qualitative and quantitative data
- **In summary, Stroudwater believes SH can break even (0.0%) from a total system value perspective within 18-24 months. SH’s strategy must focus targeted interventions on investment, growth and financially viable services that meet community need**
 - Recommended interventions include:
 - Enhance system effectiveness
 - Maintain inpatient (“IP”) program and utilize Acuity Adaptable Beds
 - Grow IP psychiatric unit to capacity (average daily census of 16)
 - Invest in two primary care providers
 - Grow outpatient (“OP”) services by 5%
 - Recover 25% of system conversion revenue
 - Maintain and grow community support
 - Suspend labor & delivery services and 24/7 surgery
- Based on FY19 as a baseline loss of **(\$13.88M)**, the recommended interventions result in a total system gain of \$4.43M

Background

- Vassar Health Connecticut, Inc. d.b.a. Sharon Hospital (“SH”) is a 78-bed, acute-care hospital located in rural northwest Connecticut¹
- In 2019, SH merged with Western Connecticut Health Network, Inc. and formed a new, not-for-profit health system, Nuvance Health (“Nuvance”), located in New York State's Mid-Hudson Valley region and western Connecticut
 - Nuvance was created by the 2019 merger of Health Quest, a four-hospital system (including SH) in New York and northwest Connecticut, and Western Connecticut Health Network, a three-hospital system in western Connecticut
- SH has incurred significant ongoing operating losses over the past several years while providing comprehensive healthcare services to the community
 - Ongoing operating expenses that exceed revenue (operating losses) are unsustainable
 - Even not-for-profit hospitals must achieve operating gains (profits) to reinvest in the hospital and community
- Despite SH’s rural locale, SH has not historically qualified for critical access hospital (“CAH”) status, which would provide more generous reimbursement under Medicare and, in some states, Medicaid
 - CT is one of the few states in the country that does not have any CAHs
 - However, SH qualifies and benefits from the Sole Community Hospital (“SCH”) status
- The Sharon region, Nuvance, and SH management engaged Stroudwater Associates (“Stroudwater”), expert advisors of rural and community hospitals, to complete a limited financial and operational assessment for the purpose of developing a responsible plan that:²
 - Reduces operating losses in a sustainable manner;
 - Leverages rural hospital best practices and designations;
 - Considers various stakeholder needs and preferences; and
 - Addresses community need for healthcare services

1. Includes 16 inpatient psychiatric beds

2. *Funding for this project was provided (“in whole” or “in part”) by the Foundation for Community Health, Inc. The Foundation for Community Health invests in people, programs and strategies that work to improve the health of the residents of the northern Litchfield Hills and the greater Harlem Valley.*

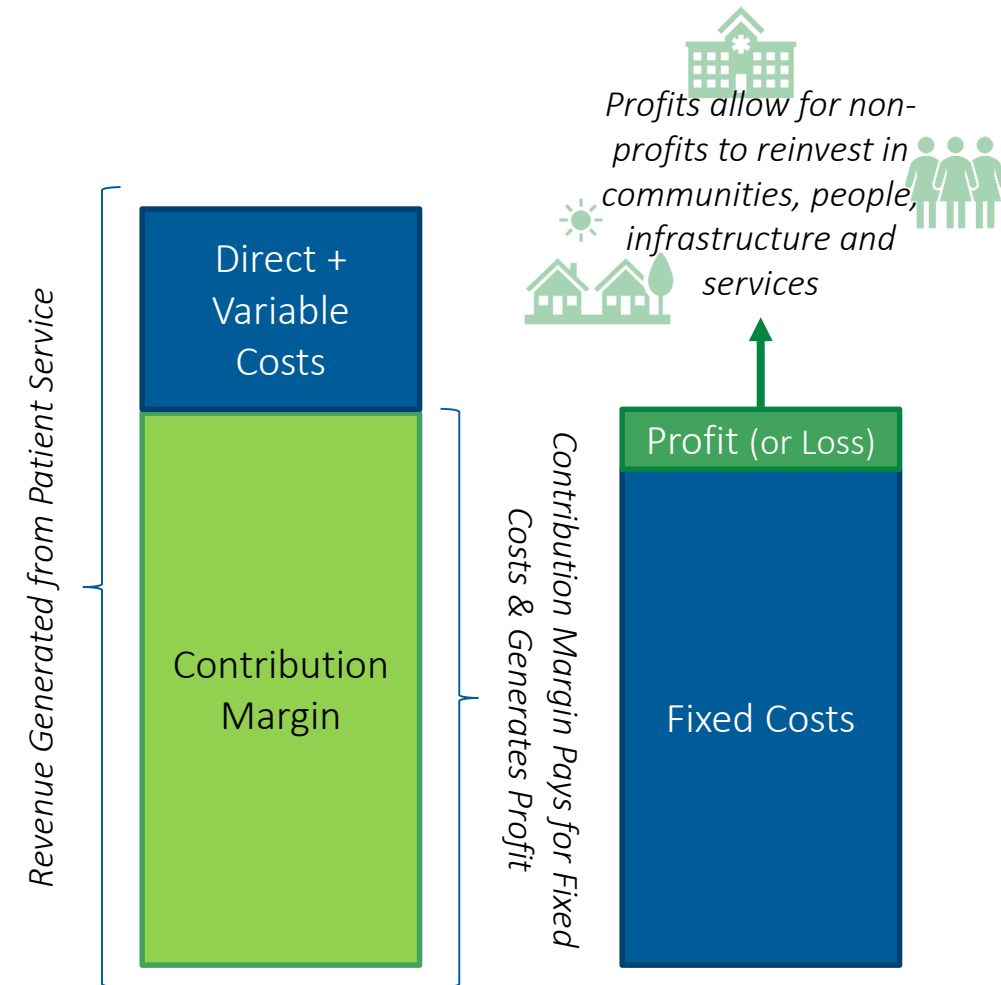
Engagement Objectives & Methodology

- The objectives of SH’s engagement with Stroudwater included:
 - Evaluating service area demand for healthcare services
 - Working with SH’s board, leadership and community representatives to better understand organizational priorities
 - Identifying all appropriate rural options and designations that would improve financial performance
 - Performing high-level service line financial assessment
 - Evaluating financial and operational performance relative to rural hospital best practices
 - Providing actionable recommendations/options to leadership team that, when implemented, improve financial performance for SH
- Stroudwater gathered and reviewed pertinent market, clinical service line and financial data*, including:
 - Detailed inpatient utilization data
 - Detailed outpatient utilization data for all outpatient revenue centers (e.g., rehab, lab, radiology, etc.)
 - Recently-filed cost reports
 - Latest provider statistical and reimbursement reports
 - Historical and most recent audited financial statements
 - Financial and utilization (inpatient and outpatient) projections
 - Supplemental data as requested by Stroudwater
- In addition, Stroudwater conducted several Zoom interviews with key leadership, board members and representatives from Nuvance, SH, and the community
- The results of Stroudwater’s assessment are summarized within this report and are a result of our analysis of finance and operations relative to rural and community hospital best practices

* Note: Detailed proprietary business financials are excluded from this summary

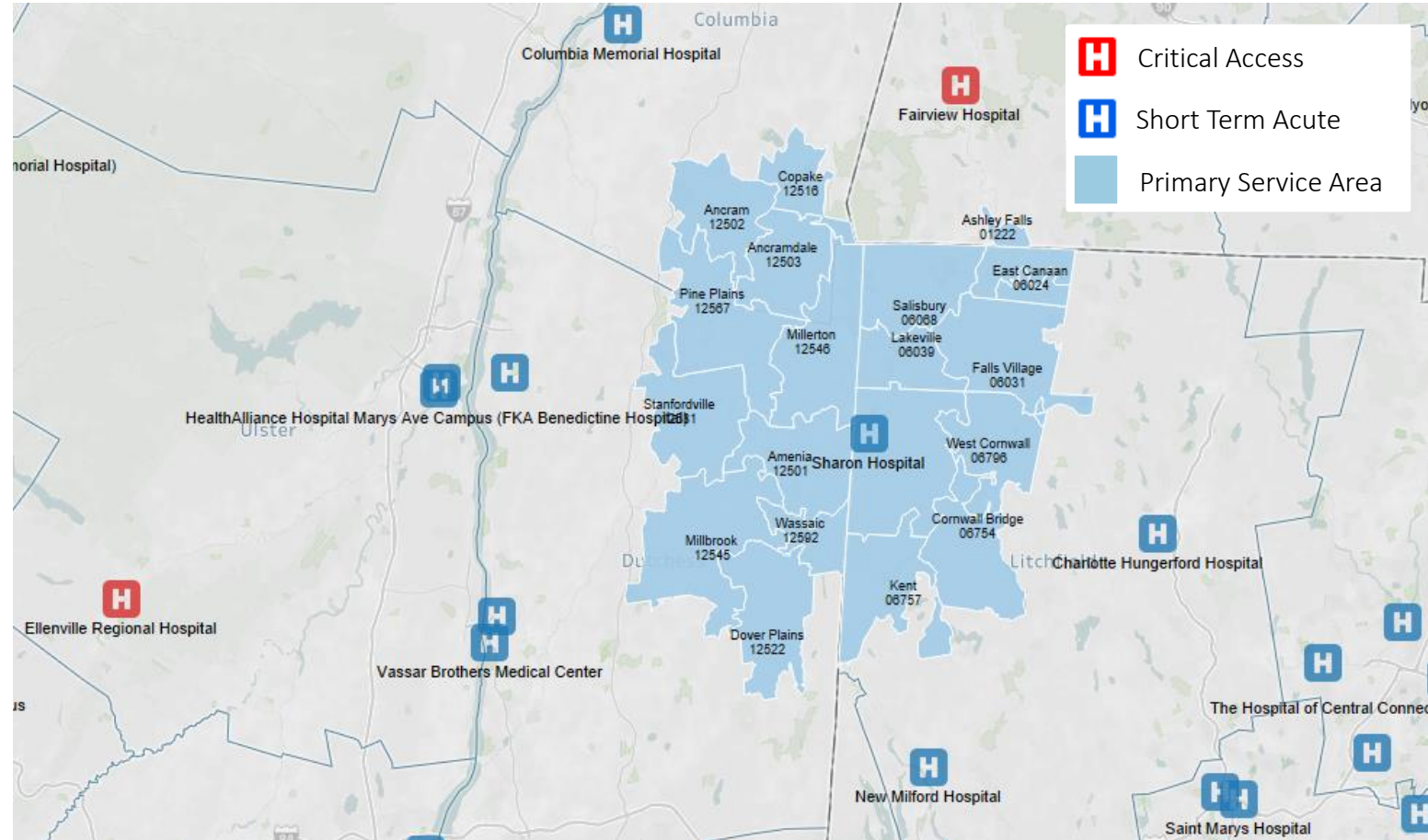
Stroudwater's Frame of Reference

- Stroudwater Associates is a leading national healthcare consulting firm serving healthcare clients exclusively. Stroudwater focuses on strategic, operational, and financial areas where our perspective offers the highest value
- Stroudwater has a 34-year track record with rural hospitals, community hospitals, healthcare systems, and large physician groups
 - Examples of our clients like SH include Carthage Area Hospital (NY) and Lewis County General Hospital (NY), where Stroudwater proposed a growth strategy to successfully turn around the hospitals
- Stroudwater serves the communities that rural and community hospitals serve
- In our experience, rural and community hospitals succeed when their commitment centers on abundance, growth and incremental contribution margin gains as opposed to a focus on expense management and cost reductions to the existing care model
 - Value is unlocked by the marginal revenue gain in a high-fixed-cost environment
 - Nearly all paying services create a positive contribution that is used to pay for fixed costs and create a profit (if applicable)
 - Those that do not should be examined closely and may be deemed unviable
 - Economic imperative to develop thousands of “mini contribution margins” to cover all the fixed costs of the hospital



Primary Service Area

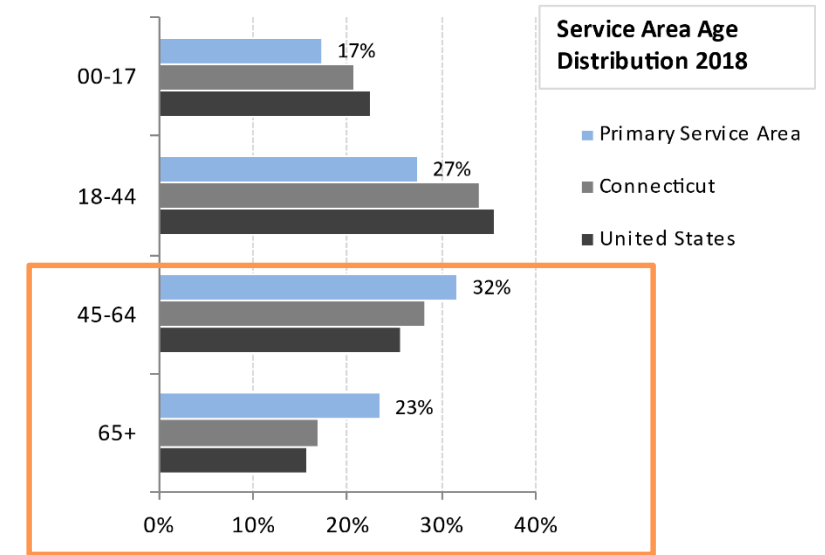
- SH's Primary Service Area ("PSA") is comprised of 20 ZIP codes
 - The service area was determined by ZIP codes where SH had more than 10% Medicare market share in 2019
 - Stroudwater's service area definition aligns closely with Nuvance's definition
- SH is in Litchfield County, CT, which is considered "rural"¹
 - Stroudwater compares SH to rural hospitals throughout the remainder of the report
 - A "rural hospital" is located in a rural (non-urban) area, and often qualifies for certain rural designations
 - As previously mentioned, SH is designated as a Sole Community Hospital ("SCH")
- SH's service area straddles the CT/NY state border
- Total Service Area population was approximately 41,573 in 2018



1. Am I Rural? May 14, 2021. <https://www.ruralhealthinfo.org/am-i-rural/report?lat=41.88053&lng=-73.48171&addr=50%20Hospital%20Hill%20Rd%2C%20Sharon%2C%20CT%2006069&exact=1>

Service Area Population

- Thirty-five percent (35%) of the total service area population is from CT ZIP codes while sixty-five percent (65%) is from NY ZIP codes
- SH's service area population is older, on average, than CT and US averages
- The Total Service Area population is projected to decrease by 1% (397 people) over the next five years (by 2023)
 - The 65+ cohort is projected to grow 10% (950 individuals)
 - In total, the age cohorts less than 65 is expected to decrease 4% (1,347 individuals)
 - Only the towns of Falls Village (06031), Millerton (12546) and Millbrook (12545) will experience total population growth of 2%, 2% and 3%, respectively



Total Service Area	2018-2023 Change				
	2018 Estimate	2023 Projection	Absolute Change	Percent Change	Share of Growth
00-17	7,207	6,682	-525	-7%	0%
18-44	11,425	11,650	225	2%	19%
45-64	13,180	12,133	-1,047	-8%	0%
65+	9,761	10,711	950	10%	81%
Total	41,573	41,176	-397	-1%	100%

Source: IBM Watson Health

Service Area Conclusions

- SH's service area is considered "rural"
- The 2018 adjusted service area population of 31,370 is a large enough population base to support a rural hospital
 - Typical rural-adjusted service area population for Stroudwater clients is 14,000-18,000 individuals
 - SH's total service area population is expected to remain relatively stable (-1% decline) over 2018-2023 (note that estimates did not factor in impact from the COVID-19 pandemic)
 - The 65+ age cohort (primary users of rural hospitals) is expected to see a 10% growth, gaining 950 people
- SH had a 31% Medicare market share for the PSA in 2019, which has declined from a high of 36% in 2015
 - Correspondingly, Nuvance member hospital Vassar Brothers Medical Center has increased 4 percentage points from 14% to 18%
 - In SH's top 3 ZIP codes (Sharon, Salisbury, Amenia), market share is 58%, 52% and 51%, respectively, which represents a market share in excess of a typical rural hospital (~40%)

Service area size, rural designation, demographics and changes must inform SH's service offerings going forward

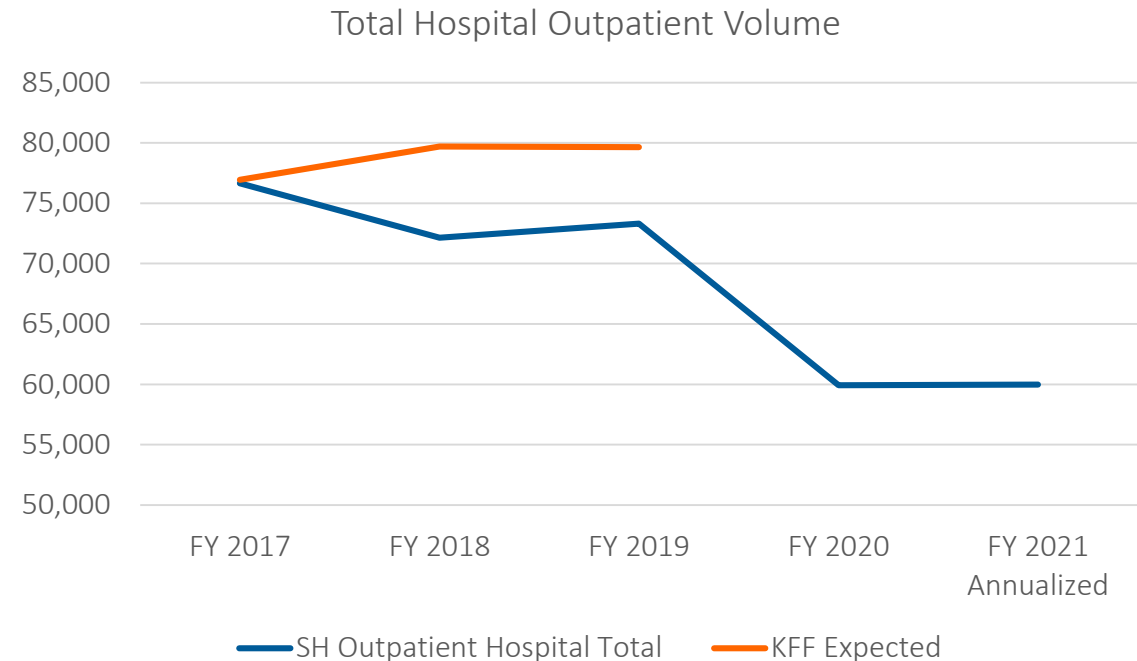
Financial Conclusions

- FY19 performance serves as the best indication for financial performance during “normal” conditions (pre-COVID-19) and, as a result, Stroudwater will use FY19 as the baseline for financial modeling of recommended interventions
 - FY19 represented a loss of **(\$11.69M)**
 - Financial performance is driven by several factors; however, the most critical included:
 - Decline in volumes across most services
 - Low OP utilization
 - Increase in expense at a rate higher than revenue growth
- While FY19 serves as the best indication of operating performance under normal conditions (pre-COVID-19), current financial performance is significantly worse at **(\$18.22M)** in FY21 (annualized)
 - Intervention must take place immediately to sustain SH

- Financial losses of this magnitude cannot be sustained by any organization
- Rural hospitals must target break even (or a small positive operating margin) from a total system value perspective

Volume Conclusions

- IP Med/Surg and ICU volumes declined since FY11; however, Vassar Brothers Medical Center’s market share increased, indicating SH’s IP volume was retained within the system
- Nursery and OB volumes continue to decline, which further exacerbates the program’s financial losses
- Total OP services declined and are below expectations for rural and community hospitals
 - SH’s total hospital OP services (excludes laboratory) have declined 22% since FY17, and 4% from FY17 to FY19¹
 - Community hospitals experienced a 4% growth in hospital OP services between 2017 and 2019²
 - SH’s hospital OP services (pre-COVID-19) are 9% below the Kaiser Family Foundation (“KFF”) expectation for the blended CT and NY service area²



- Overall, volumes have declined, which has contributed to negative financial performance
- Successful rural hospitals focus on service line growth, especially in areas with positive contribution margin

1. Stroudwater’s analysis of Sharon Hospital reported volumes. Total OP includes OP surgeries, IV infusions, radiology, ancillaries, rehabilitation, ED and observation.
 2. <https://www.kff.org/state-category/providers-service-use/hospital-utilization/>. Non-profit CT and NY rates per 1000 blended at 35% CT and 65% NY based on SH population distribution. Blended rate per 1000 applied to SH’s adjusted service area population.

Interviewees

Strengths, concerns and opportunities outlined next summarize Stroudwater's findings from interview discussions with the following participants:

Members of the Community

SH Board of Directors – Non-Clinical

SH Board of Directors – Clinical

SH Operations

SH & Nuvance Finance

Nuvance Health

SH Clinicians

SH Clinicians & Community Physicians

Nuvance Medical Group

Opportunities

Summary

Develop a new vision and clear strategy for SH, which emphasizes SH's core competencies and areas for growth

Improve stakeholder engagement, buy-in and alignment, especially across medical staff

Reinvigorate SH's local Physician Leadership Council and involve physicians in recruitment efforts

Improve communication and marketing of SH's services to the community

Better foster patient relationships and expand reach/services into New York, especially for primary care

Partner with local businesses to better fulfill community need, generate growth opportunities and develop employment opportunities for provider spouses

Expand access to primary care and complementary services through recruitment and retention, technology and the expansion of services commensurate with community need and population demographics (e.g., geriatric services to support an aging population)

Continue focus on physician practice improvement, physician-hospital alignment and physician quality of life initiatives

Evaluate primary care practice locations (stakeholders have different opinions regarding the best strategy for SH)

Consider expanded services which meet community need, such as Geriatrics, Cardiopulmonary, Oncology and Autism

Grow IP psychiatric facility program

Where discussed, community members and physicians felt that philanthropy was an untapped opportunity

Consolidation of ICU services into Med/Surg was viewed as appropriate by some interviewees (Note: Many interviewees misunderstood consolidation of ICU services as eliminating ICU services entirely. Concern was also expressed regarding transfers of high acuity patients)

Recognition from some interviewees that the OB program cannot be maintained in the current structure and that community demographics are changing

Continue to improve relationships and collaboration with Nuvance member hospitals, other healthcare facilities (e.g., local Federally Qualified Health Centers ("FQHC") including new FQHC in Canaan and local referring physicians)

Interview Conclusions

- Strong commitment from community and SH/Nuvance stakeholders to create a sustainable Hospital
- Stakeholders recognize financial losses are unsustainable
- Misalignment and misunderstanding pervasive among interviewees, including internal personnel and medical staff
- Primary care shortage evident by both population demand studies conducted by Nuvance and validated by Stroudwater (presented later), progressive loss in primary care physicians without replacement, and anecdotal comments regarding lack of access to current primary care providers
- IP psychiatric services represent a growth opportunity
- OP services that meet community need and demographics of service area population represent a growth opportunity
- Untapped philanthropy considered an opportunity
- Many interviewees considered maintaining ICU services in a combined Med/Surg unit viable and appropriate given current ICU level of service provided; however, misconceptions are prevalent
- While OB program's value in the community was recognized, under current structure and provider staffing, program cannot be sustained
- While 24/7 surgery is considered an asset amongst community members, after-hours surgery is only maintained for OB program as a necessity of operating a safe program; however, volumes are low
- Physician morale is a significant threat to the organization

Interview findings complement quantitative analysis and help support Stroudwater's recommendations

Vision for Sharon Hospital

- SH's mission is to improve the health of every person served through efficient delivery of excellent, innovative and compassionate care
 - SH also provides important economic and community benefit to the region
- Stroudwater envisions a future where SH can achieve its mission and sustain its commitment to the community in a financially sustainable manner
- Stroudwater believes SH can break even (0.0%) from a total system value perspective within 18-24 months
 - SH's strategy must focus on targeted interventions that emphasize investment, growth and financially viable services that meet community need
- Recommended interventions include:
 - Enhance system effectiveness
 - Maintain inpatient ("IP") program and utilize Acuity Adaptable Beds
 - Grow IP psychiatric unit to capacity (average daily census of 16)
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Enhance System Effectiveness: Recommendations

- Enhance system effectiveness and network optimization by:
 - Continuing to transfer patients, as appropriate based on medical need, patient preference, and facility capabilities, to Nuvance member hospitals
 - Leverage Physician Leadership Council to oversee the development of the Nuvance system care spectrum and referral policies
 - Take advantage of opportunities created through recent completed work with Nuvance centralized scheduling to continually improve patient experience and capture demand within system hospitals
 - Work with Patient and Family Advisory Committees to continually receive feedback on opportunities for improvement
- Target significant growth in network referrals relative to 2019, focusing on CT SH service area, to optimize system effectiveness with Vassar Brothers Medical Center, Danbury Hospital, New Milford Hospital and Northern Dutchess Hospital
 - Recent data suggests Nuvance is realizing the benefits of network optimization based on current in-system transfer rates
- Enhance Nuvance partnership with the community

Maintain IP Services & Utilize Acuity Adaptable Beds: Recommendations

- SH should maintain IP services, if not grow volumes to the extent appropriate
- As previously recommended, leverage care spectrum planning to guide patient care delivery and transfers
 - Carefully monitor transfers to ensure high patient quality and experience
- Recognizing favorable Sole Community Hospital designation results in significant opportunity to SH, ensure IP unit can operate at capacity via more efficient staffing under the Acuity Adaptable beds approach
- Flex telemetry and existing Med/Surg unit according to patient acuity needs under the Acuity Adaptable beds approach
 - Relocate ICU
 - Leverage Physician Leadership Council to support reconfiguration of patient care delivery in Acuity Adaptable Bed unit
- Engage local ambulance personnel in development of care spectrum planning to create alignment
 - Frequently communicate with ambulance personnel

Grow IP Psychiatric Unit: Recommendations

- Consider continued expansion of bed capacity to enable an ADC of 16 or greater and the addition of new service lines based on community need
 - Consider small 5-7 bed Adult Autism unit
- Continue to leverage excellent reputation of IP psychiatric unit to contribute to growth
- Continue to foster current relationships and grow new relationships to increase referrals from other facilities

Invest in Primary Care: Recommendations

- Continue to invest in primary care strategies Nuvance is already implementing
 - Develop a medical staff communication and engagement plan to improve awareness and provider morale
- Invest in recruiting two Nuvance Medical Group employed primary care physicians as soon as feasible
 - Develop an SH-specific recruitment and retention strategy that is based on rural hospital best practices
 - Re-examine physician compensation based upon a broad context including community need/benefit and challenges with recruitment/retention
 - Leverage Physician Leadership Council to provide input into strategy formulation and execution
- Work with NY and CT State Offices of Rural Health to re-evaluate Health Professional Shortage Area Designation
- Invest in complementary services that meet changing community need, including geriatric services
- Create strong physician-hospital alignment and serve as a referral center for appropriate and high-quality primary care referrals to SH's specialists and ancillary services
 - A study published by Merritt Hawkins in 2019 demonstrated that the net IP and OP hospital revenue generated per primary care physician was \$2.13M
- Provide a directory to physicians that includes Nuvance providers, their specialty and interests
- Explore relationships with local FQHC's to enhance access to care

Grow Non-Surgical Outpatient Services: Recommendations

- Develop a strategy that specifically focuses on OP service line growth
 - Include wrap-around services for geriatrics, such as:
 - Pulmonary
 - Endocrine (diabetes management)
 - Cardiovascular (cardiac, vascular, hypertension, stroke)
 - Oncology
 - Pain management
 - Rheumatology
 - Palliative Care
 - Rehabilitation (physical therapy, occupational therapy, speech therapy and cardiac rehabilitation)
 - Other
 - Consider Geriatrics “Fast Track” Unit
- Conduct a deeper market needs assessment that reviews service area and develops service line growth priorities
 - Compare internal demand alongside competencies of providers (at SH and Nuvance) with market demand
 - When market demand does not support employment of needed specialty care, seek arrangements with partner and/or other entities to supply specialty providers
- Expand laboratory services with local substance abuse intervention centers
- Maintain and grow a marketing strategy to communicate services to the community and local, referring providers
 - Quarterly mailer to include updates
 - Weekly to biweekly media coverage

Recovery of System Conversion Revenue: Recommendations

- Ensure full system conversion revenue is recovered
 - Conservatively, Stroudwater assumed 25%, or \$0.80M, of system conversion revenue has been recovered

Maintain and Grow Community Support: Recommendations

- Involve community in Stroudwater's engagement
- Nuvance to develop communication for the community
 - Gain community support for recommendations
- Invest in improving the relationship with the community and earn trust
- Work collaboratively with the community and conduct an SH investment campaign with both short- and long-term targets to invest in the growth and stabilization of SH as a critical community asset
 - Stroudwater realizes SH has raised \$2M in philanthropy as part of its first year in the Nuvance Health system
 - Stroudwater believes SH/Nuvance can achieve an incremental gain of \$1.5M, for a total of \$3.5M, with targeted investment program
 - Stroudwater assumed an expense of \$0.74M, consistent with Nuvance's current cost per dollar raised, for a total net impact of \$2.77M
- Seek out peer best practices (e.g., Newport Hospital, Martha's Vineyard Hospital, etc.)
 - Stroudwater to connect Nuvance management with peer hospitals

Suspend OB & 24/7 Surgery: Recommendations

- Present results to state and receive approval to suspend OB program due to financial unsustainability
- Develop a comprehensive Women's Health program across Nuvance to ensure no services are lost in the SH community
- Ensure full prenatal and postnatal care are offered in Sharon
- Strengthen partnership with Vassar Brothers Medical Center and other Nuvance member hospitals for deliveries from SH service area
- Convert to a Monday through Friday (7am-5pm) surgery schedule

Conclusions & Next Steps

- SH can break even from a total system perspective within 18-24 months through the strategies recommended within this report
- The success of SH's recovery is highly dependent upon execution and embracement of a growth mindset that leverages an expanding primary care base of providers
- Critical steps will be preparing the organization for change and developing a well-orchestrated change management and implementation plan that includes:
 - Ongoing leadership oversight and involvement
 - Development of an implementation plan, including key timelines, owners, milestones and key performance indicators ("KPIs")
 - Incorporation of critical stakeholders in the process
 - Development of "overlapping" committees and teams to ensure cross-pollination of information
 - Ongoing, targeted and bi-directional communication with all stakeholders