



# The GemStatement



## President's



### Step Up...Give Back

In my last President's Message I mentioned that the National HFMA theme for 2010-2011 is "Step Up!" I would like to take this theme one step further and encourage our members not only to Step Up but also to Give Back; don't worry, it's not as difficult as it sounds!

There are so many opportunities to get involved as an HFMA member and make the most of your membership. At our Fall and Winter meetings, we will be distributing surveys to the attendees to determine their interest in Chapter involvement. From serving on a committee, mentoring new members, helping with program or facility plan-

ning, writing an article for our newsletter or serving on the Board or as an Officer, there are so many ways to be involved and you'll find that the time and talent you offer are rewarded many times through your personal and professional growth.

Believe in yourself; know that you have the capabilities to make Idaho HFMA a better chapter and strengthen yourself in the process! If you are interested in becoming more involved, please email me at [linstrd@lhd3.org](mailto:linstrd@lhd3.org) so we can discuss your options!

Our Board is stepping up to bring you great educational opportunities for the remainder of the 2010-2011 HFMA year. In October we'll partner with IHA at their annual conference in Sun Valley.

We'll offer dual-track education for PFS and Accounting/Finance at our Winter meeting in Boise at the Grove Hotel and also this winter we will continue with the Leadership-Competency Assessment Program series with webinars in January and February. Finally, the Annual Meeting will be held in April at the Hilton Garden Inn in Eagle.

Finally, I would like to recognize Rosa Bowling, our Newsletter and Webinar Chair as this will be Rosa's final newsletter. Rosa is now working at Kadlec Regional Medical Center in Richland, Washington and her new responsibilities won't allow her the time to devote to these responsibilities. Rosa has been a tremendous asset to our Chapter and the Board and we will miss her many talents. Thank you Rosa for Stepping Up and Giving Back to all of us at Idaho HFMA!

Wishing you all the best for a wonderful fall.

Darci Linstrum  
President



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#### Special points of interest:

- Hospital Acquisition or Affiliation
- Community Buy-In
- HFMA Certification Changes
- New Members/Chapter Events Calendar
- HFMA Virtual Conference

# Considerations for Acquiring or Affiliating with Another Hospital

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*By Mike Johns, Vice President, Finance Practice, QHR  
and Tanya K. Hahn, Senior Vice President, Lancaster Pollard  
Reprinted with permission from Lancaster Pollard*

The economic downturn and resulting restricted access to capital have caused many hospitals to consider a partner or other affiliation strategy. Declining volumes and the deteriorating payer mix, a result of high unemployment rates, are further forcing these discussions – as are the seemingly countless opportunities for capital rich hospitals to acquire struggling, undervalued hospitals.

Recent healthcare reforms signed into law may have a further impact on hospital affiliation. In fact, a recent Moody's report predicts that "as governmental auditing and oversight of revenue are tightened, hospitals will be pressured to operate more efficiently, forcing spending cuts and mergers among smaller hospitals after 2014." In layman's terms: as reform legislation reduces Medicare reimbursement and disproportionate share funding, and with higher costs, less efficient hospitals could see further Medicare reductions under the law's efficiency provisions.

Affiliating or acquiring may be the right thing to do, but before taking such a step, there are some considerations for both parties. From the perspective of the facility that needs a partner to survive in the long term, the executive team and board of directors need to carefully consider the type of affiliation needed (i.e. what objectives need to be achieved through the affiliation) and the type of partner needed.

From the perspective of the hospital needing a partner, there is a continuum of control that the board wants to consider (i.e. How much control and independence do they want or have the ability to retain?). At one end of the spectrum is an affiliation arrangement that simply calls for cooperation between the hospitals for some mutual benefit and virtually all control is maintained. At the other end of the spectrum is an acquisition of one facility by the other and all control is surrendered to the acquiring facility. In between are management agreements, clinical affiliations, lease transactions, and more formal partnerships with legal and financial commitments by each party.

Consideration should also be given to the benefits provided by the other party. For example:

- If capital needs are driving the decision, then the strength of the balance sheet of the acquiring facility should be evaluated. Will they be able to provide the capital needed for the coming years?
- If expanding the hospital's market is the objective, will the partner provide the complementary service lines, the brand name and reputation that will enhance the ability to increase market share?

Another consideration is whether the acquiring hospital or system has had experience with successfully acquiring other facilities. The merging of two cultures and achieving the synergies planned are not always easy or successful. Those facilities with a successful track record of achieving these objectives are more likely to be successful again. Does the acquiring facility have the management staff depth to assume the assimilation of another hospital into the organization's structure?

Does the acquiring facility have the ability to recruit physicians in a different way? If so, they may be able to bring physicians who can facilitate strategic growth initiatives.

Achieving synergies through elimination of duplicate services and departments seems rather simple on paper, but are often met with failure due to poor execution or cultural conflicts. Do not underestimate the cultural differences between two organizations that come together.

And what are the capital needs of the acquiring facility? Are they capital starved? If so, they won't have the capital to fund your capital needs either.

## **Debt Factors**

Most debt structures have broad provisions for mergers and acquisitions, and they often require bondholder or lender approval prior to such a transaction. Reviewing the debt documentation is a key first step in proceeding with any affiliation/merger discussion.

Hospitals must understand what corporate entity is obligated in the outstanding debt of the hospital being brought in, usually known as the Obligated Group. For

## Considerations for Acquiring or Affiliating with Another Hospital (Continued)

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example, a debt obligation may be supported by both a hospital and its physician practice group – two separate entities. The merger/affiliation, however, may be desired with the hospital only. Understanding the assets or collateral the hospital owns and the debt it can support without the physician practice group is important to knowing how it might be able to refinance or restructure existing debt. In addition, the acquiring hospital/system may have limitations on its ability to restructure its Obligated Group and must understand current refinancing limitations on its own debt before proceeding with the merger/affiliation.

### My Debt is Your Debt

A hospital with outstanding letter-of-credit-enhanced debt may see its debt structure improved by affiliating with a partner that brings a stronger financial position or banking relationship to the table. The LOC may be able to remain in place, saving both hospitals the time and cost of refinancing. Further benefits can be realized if the acquirer has a significant banking relationship with the letter of credit provider, which may prove cost beneficial.

HUD/FHA Section 242 mortgage-insured loans are assumable by acquiring hospitals, with approval from FHA, and they remain non-recourse to the affiliation/acquiring hospital. It is important to understand the limitations of transfers among affiliated entities when assuming such a financing structure, but the current limitations on transfers are not overly burdensome and should not be viewed as a deterrent to the affiliation/merger. FHA-insured loans can be assumed by either nonprofit or for-profit hospitals.

USDA direct loans may be assumable depending on the acquirer or affiliation partner. USDA financing is limited to nonprofit hospitals that are rural and that cannot access other means of capital. If an affiliation changes any of these features, then the USDA financing would most likely have to be refinanced. If the partner is a similar-sized rural nonprofit, then assuming the debt may be negotiable.

If a hospital is considering a new debt instrument and is also considering a future affiliation/merger, it should proactively consider future flexibility in creating its financing documents. Potential negative implications of a merger/affiliation can be minimized or eliminated through active management of debt covenants and

prepayment requirements within the financing documentation.

Lastly, as organizations consider a merger/affiliation, they need to evaluate the impacts of such a transaction on the investment portfolios of each as well as any interest rate mitigation contracts such as swaps, caps or collars on the new combined entities. Often these contracts will also include provisions related to mergers/affiliations, which may impact the ultimate decision and/or timing of the transaction. A comprehensive balance sheet analysis needs to occur along with the evaluation of the debt instruments of both parties.

Mike Johns is vice president, Finance Practice, at Quorum Health Resources. For additional information on QHR's consulting solutions, contact vice president Susan Hassell at 866-371-4669

Tanya K. Hahn is senior vice president at Lancaster Pollard. She can be reached



# The Bottom Line of Community Buy-In

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By Quintin Harris

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Several years of physician and community outreach have improved the transparency of Beatrice Community Hospital's care delivery and finances, inviting more people to look in and directly contributing to an improved reputation and measureable savings.

The Nebraska critical access hospital's recent outreach efforts have been part of a methodical, conscious effort to better prepare it for the future of health care delivery. These efforts culminated most recently in a replacement facility that was built with physician input, responds to community demands, and has so much buy-in that residents and staff have actually invested in the bonds issued to fund it.

Building the reputation has been about a six-year process that started with listening, grew into talking, and became a two-way conversation that has so far resulted in a lower interest rate on the hospital's debt, an easier time recruiting, more satisfied patients, and a long-term strategy for strength.

## **Getting Doctors and the Board On Board**

Beatrice used to suffer from a lack of mutual understanding between its board and its physicians. It took Chief Executive Officer Thomas W. Sommers two years to recruit, at the community's request, the hospital's first female obstetrician.

So with a new facility in the long-term plan, Sommers started surveying doctors and the community to determine and integrate their needs and demands, and he relied on physician input in the new hospital's design.

Sommers also started bringing both physicians and board members to hospital governance institutes. He tasked the board members with listening to physicians' insights on how they function within Beatrice, and the physicians with attending education sessions to better understand the implications and intricacies of operating as a nonprofit.

"This hospital is the most complex organization in the community, and revenues are really large," Sommers said. "If you're going to ask local people to manage it, they need to understand how. And the physicians need to be the ones who set the direction of where we go, but once they do that, they can't micromanage."

Five physicians attend board meetings; four have a vote. The feeling of empowerment and Beatrice's reputation for physician inclusion has spread. Beatrice recently hired its second female pediatrician, fulfilling the community's request for more female obstetricians and pediatricians. It took 60 days.

## **Listening, Talking, Conversing**

Coinciding with in-depth community surveys and identification of service priorities, Sommers lifted the curtain on Beatrice's plans, its finances, and its pricing. An eight-page annual report details Beatrice's income statement, and the report is explained in-depth on the hospital's bimonthly radio show, "To Your Health," prior to its distribution.

"If we are ashamed of the bottom line, then we are making too much money," Sommers said. "We are a nonprofit organization. We're really owned by the community, and we have to provide our dividends in service to the community."

So Sommers explains his recruitment efforts and how they respond to community demands for female OBs and pediatricians and hospitalists. He explains on the radio, in person and in the local media why a hospital needs liquidity to issue debt, how that relates to pricing, and how Beatrice's pricing compares to national averages.

He shared pictures at community meetings, rotary clubs, the Chamber of Commerce and other public events, explaining the new facility's design in terms of more modern hospitals familiar to the community – for example, a women's hospital outside Omaha known for its all-private rooms and comfortable atmosphere – thereby putting forth a vision stakeholders could relate to. He detailed the thinking behind building the new hospital on the north side of town, on the way to Lincoln, Neb., where it could absorb projected growth from the capital city.

And when the time came for the hospital to issue \$45 million to build the replacement facility, it was the community that literally bought in: Nebraska banks and residents literally invested in the hospital by purchasing 38% of the bonds.

## **Community Buy-In Buys In**

Beatrice went into its financing with the intention of involving the community in the process. The hospital requested that local banks and individuals have the opportunity to purchase the bonds.

"We've constantly hit this theme that the community are the shareholders of the organization," Sommers said. "That's as close as we could get to having common stock or preferred stock."

Lancaster Pollard was able to provide local bank and community access to the investment opportunity by offering a portion of the issuance as retail bond distribution rather than selling it all to institutional investors; 38% of the \$45 million was sold via retail distribution. The entire amount was issued as bank-qualified bonds, which, along with the community's support as a key element of the hospital's credit profile, helped reduce the interest rate.

The community outreach continued with the help of the Beatrice Area Chamber of Commerce, which helped connect local contractors with the hospital. One local counter and cabinet company will be hiring new employees partly because of the hospital project. Electrical work went to another local business within the community of 13,000 people.

When I came here six years ago, I didn't hear a lot about the hospital," Chamber President Lori Warner said. "Now, we have more people locally that are willing to come to our hospital. Residents say the quality is better."

"Tom and his staff have really been proactive. They're listening to the community."

## Changes to the HFMA Certification Process

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*By Joseph G. Abel, PhD, Director, Professional Resources and Eileen Crow, CAE, Director, Chapter Relations, HFMA National*

You may have heard that HFMA is in the process of restructuring the certification program. The intent of this effort is to provide increased access to the program materials and ease of use by streamlining candidate processing. Additionally, the certification content is being revised to reflect the reality that today's healthcare finance managers need broad, cross-functional knowledge of business operations.

A key component of the restructuring was the establishment of the Chapter Certification Advisory Committee (CCAC) to provide feedback on the program changes as they are implemented. The CCAC is composed of a representative from each region who was invited to serve on the committee by the Regional Executive. We encourage you to contact your regional representative on the CCAC to provide input or feedback. Their contact information is attached.

Although we are still putting the finishing touches on some aspects of the rollout, HFMA has two activities underway at the moment that we would like to share with you. The first is that the certification area of the website has been updated with information on the certification changes. This information is available at <http://www.hfma.org/Education-and-Events/Certification/CHFP/Earning-the-Certified-Healthcare-Financial-Professional-Designation/>. Please note that there is an FAQ document that you can download that provides detail regarding the certification program restructuring.

The second initiative is that HFMA has reached out to current certification candidates to explain the changes and offer guidance during the transition period. HFMA sent a direct mail letter regarding the

transition in early August and we will follow up with e-mail and phone communications. Please know that HFMA is assisting candidates with planning for successful completion of the certification process. We will send a communication to the entire membership regarding the program changes as the current two-year certification cycle winds down. All program changes will be launched in January 2011.

These changes affect only the CHFP designation; the current FHFMA requirements will stay the same.

HFMA's Certification team is available to assist you with questions. Please contact us at 1-800-252-4362 ext. 311 or at [certification@hfma.org](mailto:certification@hfma.org)

The redesigned certification product will call for one comprehensive test, which consolidates the previous specialty tests. Chapter leaders have questioned whether this will affect the CBSC goal for certification. Staff will monitor the metrics as we move to the new testing process and will keep the Regional Executive Council apprised. The Council will review and determine whether they need to make changes to the CBSC. If you have any questions, please contact the Chapter Relations team at [chapter@hfma.org](mailto:chapter@hfma.org) or call 1-800-252-4362 and ask to speak to a member of the Chapter Relations team.

Eileen M. Crow, CAE  
Hfma, Director, Chapter Relations

Joseph G. Abel, PhD  
Hfma, Director, Professional Resources

## HFMA Virtual Conference

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HFMA Members: Free

Non-Members: \$148 including special membership offer

"This is such a great idea! Programs on-demand, world-class speakers and free!"

Dina E. O'Leary, FACHE

Manager, Health Plan Services

Northwest Hospital & Medical Center

Don't miss the virtual event of the year! From the convenience of your office, access your choice of 8 CPE-eligible live education programs and 10 on-demand sessions from industry leaders, including:

- HFMA President and CEO Dick Clarke
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- Catherine Jacobson, Executive Vice President, Finance & Strategy, and CFO, Froedtert Health
- 2010 MAP Award Winner Jane A. Berkebile, Vice President, Revenue Cycle, Ohio-Health

- Lee B. Sacks, MD, Executive Vice President, Chief Medical Officer, Advocate Health Care/President, Advocate Physician Partners
- Rick Gundling, Vice President of Healthcare Finance Practices; Suzanne Lestina, Director, Revenue Cycle MAP; Chad Mulvany and Todd Nelson, Technical Directors, HFMA
- Joseph Fifer, FHFMA, CPA, Vice President, Hospital Finance, Spectrum

Find hundreds of products and services in the virtual Exhibit Hall! While you're there, win prizes that will be raffled off daily!

This live virtual event has the look and feel of a traditional conference. Attendees will also have on-demand access until February 28, 2011. View on-demand education sessions.



## Chapter News and Events

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### New Member Spotlight

Please join us in welcoming our newest Chapter Members!

***Welcome! We look forward to seeing you at our next meeting!***

**Virgil Boss, Teton Valley Healthcare, Driggs, ID**

**Patsy Fowler, Madison Memorial Hospital, Rexburg, ID**

**Jason Haugen, Medical Management, Boise, ID**



CFO, Management Team, Boise, Idaho

Specialties: Certified Public Accountant (CPA), Certified Valuation Analyst (CVA), QuickBooks Pro Certified

Former Founder and President of a CPA Firm

Former Vice President of Finance for a Development Company

Former Business Development Manager for a Fortune 50 Company

Former Financial Analyst Supervisor for a Fortune 50 Company

Former Audit Supervisor for International Public Accounting Firm

BA Accounting, MBA in Finance

AICPA member

MGMA member

NACVA member

Enjoys whitewater kayaking, downhill skiing, hockey, travel, walleye fishing, elk hunting, pre-marriage discipleship



# HFMA Idaho Chapter—Educational Events Calendar



## ***December 1-3, Winter Meeting***

- *Boise, ID at the Grove Hotel*
- *Board Meeting—December 1st, time and location TBD*

## ***TENTATIVE DATE & LOCATION—Spring Meeting, April 13-15, 2011***

- *Boise, ID*

*Please visit our website for additional information*



## HFMA Membership

### HFMA National's On-line Membership Directory

Have you visited HFMA National's On-line Membership Directory lately? Here's the link: <http://www.hfma.org/login/index.cfm>. When you select "HFMA Directory", not only can you search for members of our chapter, you can also search for all of your HFMA colleagues by name, company, and location - regardless of chapter! Using an on-line directory instead of a printed directory ensures that you always have the most up-to-date contact information.

While accessing HFMA National's On-line Membership Directory, you may view your current contact information and make edits to your profile. You can also view any products you have ordered, events you have registered for, your CPE credits, your Founders points, and more!

It is vital that HFMA has your correct information, so please take a moment to review your record now. By doing so, you will ensure that HFMA continues to provide you with valuable information and insights that further your success.



Please check our website  
for any updates.

# Chapter and Vendor Information

## HFMA Idaho Chapter

2010 – 2011

### President

**Darci Linstrum**, Lincoln Hospital  
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### President-Elect

**Jennie Pipoly**, Kootenai Medical Center  
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### Secretary

**Tom Murphy**, Weiser Memorial Hospital  
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### Treasurer

**Norilina Harvel**, Bonner General Hospital  
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### Board Members

#### Past President's Council

Chris Brazil, Outreach Services  
Susan Colburn, St. Joseph Regional Medical Ctr.  
Luke Zarecor, Dingus, Zarecor & Assoc.

#### Membership Committee

Kate Homan, St. Alphonsus Regional Medical Center

#### Newsletter Committee

Rosa Bowling, Kadlec Regional Medical Center

#### Sponsorship Committee

Carla Terry

#### Certification Committee

Paul Smart, FCMC, Chair

#### Region 10 Conference Committee

Kevin Smith, Eide Bailly LLP

#### Founders Award Committee

Lenne Bonner, St. Mary's & Clearwater Valley Hospitals & Clinics

#### Ex-Officio Board Member

Carla Terry, Idaho Hospital Association

#### Website Editor

Rosa Bowling, Kadlec Regional Medical Center

#### Directory Committee

Michele Marcum, St. Alphonsus Medical Center

#### Joint WA/ID Meeting Committee

Darci Linstrum, Lincoln Hospital

Paul Smart, Franklin County Med. Ctr.

#### Yeager Award Chair

Tom Safley, St. Joseph Regional Medical Ctr.

### NOMINATING COMMITTEE

Susan Colburn, SJRMC, Chair  
Luke Zarecor  
Calvin Carey

Editorial Policy : Opinions expressed in signed articles or features are those of the author and do not necessarily reflect the view of the Chapter, HFMA, or the newsletter committee. The committee reserves the right to edit material and accept or reject contributions whether solicited or not. All correspondence is assumed to be a release of information for publication unless otherwise indicated. Send correspondence to:

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