Rural Hospital Mergers and Acquisitions: 2005-2016

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Agenda

- The current wave of mergers and acquisitions in healthcare
- Why hospitals are merging: an example
- Rural hospitals as targets
- The volume of rural hospital mergers
- What types of rural hospitals have merged?
- Mergers have the attention of law makers
- Conclusion
The number of rural hospital mergers increased steadily from 2009 through 2014, and then dropped in 2015 and 2016.

Over half of all rural hospitals that merged (n=173) were in 11 states, most frequently in Oklahoma (n=22), Texas (n=22), and Wisconsin (n=19).

Compared to rural hospitals that did not merge during the sample period, rural hospitals that merged are more likely to:

- Report lower total margins and capital financing constraints
- Be closer to the nearest large hospital, bigger, and serve larger markets

Mergers may provide an opportunity for rural hospitals to access much-needed capital and continue providing some level of care in the community. However, changes in services provided at those hospitals could hinder access to care and further widen the gap between rural and urban health disparities.
Defining a Hospital Merger

Acquirer

Target

Health Care Services Mergers are Increasing

Source: Irving Levin Associates
“Healthcare companies have announced transactions totaling about $156 billion in the first three months of 2018, making this the biggest first quarter for healthcare mergers and acquisitions in more than 10 years, according to data compiled by Bloomberg.”

Why Hospitals are Merging

- Risk-bearing capabilities
- Care continuum
- Network infrastructure
- Brand and presence
- Capital resources
- Diversified operations
- Clinical and business intelligence

What Happens Afterwards at Merged Hospitals?

- Prices increase
  - In a report to the Committee on Ways and Means Health Subcommittee (2013), Martin Gaynor summarized eight merger studies and found prices increase 10-44% at merged hospitals.
- Capital expenditures increase
- Costs decrease
- Services provided decrease
- Staff levels decrease

Why hospitals are merging: An example
• The Acquirer: Hospital Corporation of America
  - Based in Nashville TN
  - 177 hospitals
  - Largest hospital operator in the U.S.
  - For-profit

• The Target: Mission Health
  - Based in Asheville NC
  - 6-hospital system
  - Serves western North Carolina
  - Not-for-profit

The board of Mission Health has signed a definitive agreement to be acquired by HCA Healthcare. HCA currently does not operate any hospitals in North Carolina. Under the proposed transaction, HCA would use Mission Health as its platform for growth and expansion across the state.

"HCA brings a unique scale relative to back office efficiencies that have been a challenge for us," Mission Health President and CEO Ronald A. Paulus, MD, told Becker's Hospital Review. "While other potential not-for-profit partners would also have added to Mission Health's capabilities, no one can really compete on the scale platform for back office, administrative overhead and supply chain efficiencies."
HCA acquisition of Mission Health

- Dr. Paulus also emphasized the unique clinical capabilities HCA has to offer and HCA's experience in negotiating with managed care organizations across the country. "They have the balance sheet and staying power to really make sure the contracts they achieve are fair and appropriate," he says.

- Mission and HCA intend to create a healthcare innovation fund that will be based in Asheville and dedicated to fostering innovations and companies dedicated to improving health. Mission and HCA will each contribute $25 million to the fund. Mission Health, which is currently a tax-exempt organization, is also expected to generate millions of dollars in tax revenues as part of HCA.

HCA acquisition of Mission Health

- The innovation fund is in addition to the establishment of a large new foundation that would provide tens of millions of dollars in annual investments dedicated to improving the health and wellbeing of western North Carolina's 18-county region. Because of the growth potential HCA sees looking across the Carolinas, the company intends to set up Mission as an independent division within HCA.

- Mission Health Board Member Tom Oreck told Becker's there couldn't be a better time for Mission to pursue this type of partnership.
"Ron and his team have done an amazing job of building this system up from a quality perspective that is recognized nationally ... as well as creating efficiencies within the operation that make it competitive in a very, very tough environment. It is actually the perfect time for this type of a partnership to be created because it's when we're at our strongest," he says. "The environment is going to get tougher and tougher, and it's going to require the kind of resources HCA has to maintain and improve quality while being able to manage costs."

The deal is currently on the desk of NC Attorney General Josh Stein who is expected to approve or amend the deal near the end of November.

Rural Hospitals are a Common Acquisition Target

1. To meet value-based-purchasing requirements, hospitals must make capital investments that many rural hospitals cannot afford independent of a merger
2. Financially distressed rural hospitals merge to improve finances and survive
3. Acquirers target rural hospitals in a merger to increase market share and control costs

Why Mergers May be Good for Rural Hospitals

- Access to capital
- ACO and value-based payment participation
- Provider recruitment and access to specialists
- Negotiating power
- Joint purchasing and shared services
- Split-billing
- Clinical integration and standardization
- Survival!
Why Mergers May be Bad for Rural Hospitals

- Loss of local control
- Centralized administration
- Outsourcing of support services
- Greater use of agency versus full-time local nurses
- Relocation of specialist or clinical services to mother ship
- Loss of local employment
- Increased travel time to access specific services

Key Takeaways

1. Mergers may provide an opportunity for rural hospitals to access much-needed capital and continue providing some level of care in the community.

2. However, changes in services provided at those hospitals could hinder access to care and further widen the gap between rural and urban health disparities.
The volume of rural hospital mergers

Rural Hospital Mergers from 2005 through 2016
Dunc Williams Jr., MHA, MTS; Sharita R. Thomas, MPP;
Hilda A. Howard, BS; George H. Pink, PhD

Number of Rural Hospital Mergers by Year
Multiple Mergers

Number of rural hospitals that merged from 2005 through 2016

Number of Unique Rural Hospitals that Merged by State

Frequency of Mergers
Rural Hospital Mergers by State, 2005-2016*

<table>
<thead>
<tr>
<th>State</th>
<th>Mergers</th>
<th>State</th>
<th>Mergers</th>
<th>State</th>
<th>Mergers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oklahoma</td>
<td>36</td>
<td>Missouri</td>
<td>11</td>
<td>Connecticut</td>
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<tr>
<td>Texas</td>
<td>24</td>
<td>New York</td>
<td>11</td>
<td>Maryland</td>
<td>3</td>
</tr>
<tr>
<td>Tennessee</td>
<td>20</td>
<td>Mississippi</td>
<td>11</td>
<td>Nebraska</td>
<td>3</td>
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<tr>
<td>Wisconsin</td>
<td>19</td>
<td>Kentucky</td>
<td>10</td>
<td>South Dakota</td>
<td>3</td>
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<tr>
<td>North Carolina</td>
<td>18</td>
<td>Minnesota</td>
<td>10</td>
<td>North Dakota</td>
<td>3</td>
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<tr>
<td>Pennsylvania</td>
<td>17</td>
<td>Indiana</td>
<td>9</td>
<td>Arizona</td>
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<tr>
<td>Virginia</td>
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<td>Florida</td>
<td>9</td>
<td>Montana</td>
<td>2</td>
</tr>
<tr>
<td>Georgia</td>
<td>16</td>
<td>Louisiana</td>
<td>7</td>
<td>New Mexico</td>
<td>2</td>
</tr>
<tr>
<td>South Carolina</td>
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<td>Oregon</td>
<td>7</td>
<td>Washington</td>
<td>2</td>
</tr>
<tr>
<td>Alabama</td>
<td>14</td>
<td>Maine</td>
<td>6</td>
<td>New Hampshire</td>
<td>1</td>
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<td>Illinois</td>
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<td>Iowa</td>
<td>5</td>
<td>Hawaii</td>
<td>1</td>
</tr>
<tr>
<td>Michigan</td>
<td>13</td>
<td>West Virginia</td>
<td>5</td>
<td>Nevada</td>
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</tr>
<tr>
<td>Ohio</td>
<td>12</td>
<td>Kansas</td>
<td>4</td>
<td>Idaho</td>
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<tr>
<td>Arkansas</td>
<td>11</td>
<td>California</td>
<td>3</td>
<td>Massachusetts</td>
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</tr>
</tbody>
</table>

*Table includes the number of 2005-2016 rural hospital mergers (380) in which 326 unique rural hospitals were involved.

Key Takeaways

1. The number of rural hospital mergers increased steadily from 2009 through 2014, and then dropped in 2015 and 2016.
2. Over half of all rural hospitals that merged (n=173) were in 11 states, most frequently in Oklahoma (n=22), Texas (n=22), and Wisconsin (n=19).
What types of rural hospitals have merged?

### Hospital Characteristics, 2002-2016

<table>
<thead>
<tr>
<th></th>
<th>Non-Merged Rural Hospitals</th>
<th>Merged Rural Hospitals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Hospitals</td>
<td>2,646</td>
<td>326</td>
</tr>
<tr>
<td>Rural PPS, Non-CAH (%)</td>
<td>53.32%</td>
<td>69.73%</td>
</tr>
<tr>
<td>For Profit (%)</td>
<td>6.64%</td>
<td>20.14%</td>
</tr>
<tr>
<td>Size (Revenue, %)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Smallest Quartile</td>
<td>27.19%</td>
<td>10.69%</td>
</tr>
<tr>
<td>Largest Quartile</td>
<td>23.25%</td>
<td>36.47%</td>
</tr>
<tr>
<td>Driving Distance from Hospital to Nearest Large Hospital (&gt;100 beds, miles) (median)</td>
<td>33.30</td>
<td>25.41</td>
</tr>
<tr>
<td>Medicare Outpatient Payer Mix (%, median)</td>
<td>30.27%</td>
<td>26.37%</td>
</tr>
<tr>
<td>Provide Obstetrics (%)</td>
<td>56.67%</td>
<td>59.48%</td>
</tr>
</tbody>
</table>

All reported differences are statistically significant at p<.001.
### Market Characteristics, 2002-2016

<table>
<thead>
<tr>
<th></th>
<th>Non-Merged Rural Hospitals</th>
<th>Merged Rural Hospitals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (median)</td>
<td>305,000</td>
<td>604,000</td>
</tr>
<tr>
<td>Unemployment Rate (% median)</td>
<td>6.34%</td>
<td>6.96%</td>
</tr>
<tr>
<td>Region (%) mean</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Northeast</td>
<td>7.02%</td>
<td>10.72%</td>
</tr>
<tr>
<td>Midwest</td>
<td>38.76%</td>
<td>30.07%</td>
</tr>
<tr>
<td>South</td>
<td>35.70%</td>
<td>54.77%</td>
</tr>
<tr>
<td>West</td>
<td>18.52%</td>
<td>4.43%</td>
</tr>
</tbody>
</table>

All reported differences are statistically significant at p<.001.

### Revenue and Efficiency Characteristics, 2002-2016

<table>
<thead>
<tr>
<th></th>
<th>Non-Merged Rural Hospitals</th>
<th>Merged Rural Hospitals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Margin (% median)</td>
<td>2.68%</td>
<td>1.67%</td>
</tr>
<tr>
<td>Medicare Outpatient Cost to Charge (% median)</td>
<td>40.85%</td>
<td>30.08%</td>
</tr>
<tr>
<td>FTEs per Bed (median)</td>
<td>5.50</td>
<td>4.59</td>
</tr>
</tbody>
</table>

All reported differences are statistically significant at p<.001.
### Capital Characteristics, 2002-2016

<table>
<thead>
<tr>
<th></th>
<th>Non-Merged Rural Hospitals</th>
<th>Merged Rural Hospitals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to Cover Debt Payments</td>
<td>61.69%</td>
<td>51.09%</td>
</tr>
<tr>
<td>Plant Age (%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Newest Quartile</td>
<td>23.21%</td>
<td>36.26%</td>
</tr>
<tr>
<td>Oldest Quartile</td>
<td>25.63%</td>
<td>20.78%</td>
</tr>
<tr>
<td>Total Capital Expenditures (mean)</td>
<td>$10.5m</td>
<td>$12.2m</td>
</tr>
</tbody>
</table>

All reported differences are statistically significant at p<.001.

### Key Takeaways

Compared to rural hospitals that did not merge during the sample period, rural hospitals that merged are more likely to:

- Be PPS hospitals
- Be for-profit
- Have greater net patient revenue
- Be closer to the nearest large hospital
- Serve larger markets
- Be located in the South
- Report lower total margin
- Have newer plant age
Mergers have the attention of lawmakers

Rural hospital mergers and lab revenue

- Merging with a rural target hospital to increase laboratory revenue for services rendered elsewhere.
- The acquirer is often a private entity.
- Increases can be substantial: Stamford Memorial Hospital in Stamford Texas increased hospital outpatient lab charges 10,926% in one year – from $632,000 in 2015 to nearly $70 million in 2016.
- This issue is now the subject of multiple lawsuits and a congressional inquiry.

Rural hospital mergers and Medicare

- “Bipartisan concern over the degree to which Medicare payment policy may be accelerating hospital consolidation and negatively impacting the Medicare program has been present in Congress for some time,” wrote Reps. Greg Walden, R-Ore., Michael C. Burgess, M.D., R-Texas, and Gregg Harper, R-Miss., in the letter to MedPAC.
- “Through its public hearings, the Committee has heard differing views from experts on the extent to which consolidation is a cost driver in the Medicare program and the degree to which payment policies of the Medicare program encourage such consolidation.”

Conclusion

- Fundamental changes to the health care system have spurred growth in the M&A market
- Hospitals and other providers are exploring partnership options to strategically position themselves as best as possible for the future
- M&As are financial and legal events that have many non-financial consequences
- These findings support the need for further research investigating why so many rural hospitals are merging, the financial impact of merging, and the impact on access to care within rural communities.
North Carolina Rural Health Research Program

Location:
Cecil G. Sheps Center for Health Services Research
University of North Carolina at Chapel Hill
Website: http://www.shepscenter.unc.edu/programs-projects/rural-health/
Email: ncrural@unc.edu

Colleagues:
Mark Holmes, PhD
George Pink, PhD
Kristin Reiter, PhD
Denise Kirk, MS
Julie Perry
Randy Randolph, MRP
Sharita Thomas, MPP
Kristie Thompson, MA

Resources

North Carolina Rural Health Research Program
http://www.shepscenter.unc.edu/programs-projects/rural-health/

Rural Health Research Gateway
www.ruralhealthresearch.org

Rural Health Information Hub
www.ruralhealthinfo.org/

National Rural Health Association
www.ruralhealthweb.org

National Organization of State Offices of Rural Health
www.nosorh.org
The Rural Health Research Gateway provides access to all publications and projects from seven different research centers. Visit our website for more information. 
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