

# Tennessee Rural Hospital Transformation Program Generates ~\$12M in Annual Improvements

*Transformation plans developed by Guidehouse helped facilities secure an estimated \$8M revenue and \$4M in cost reduction annually from 2019 to 2022. Program participants also fared better during the early stages of COVID-19 compared to rural peers in Tennessee.*

“We are no longer on the endangered species list and in good position to pay off debts in full in 2022.”

—Tennessee Hospital CEO

## Challenge

Sixteen Tennessee hospitals have closed since 2012, including four in 2020 alone. While rural hospitals across the country are at risk of closing due to lower patient service margins and reimbursement, lack of financial reserves, and more, Tennessee has recorded more rural hospital closures per capita than any other state.

In 2018, Tennessee enacted the Rural Hospital Transformation Act to help rural hospitals identify new delivery models, strategic partnerships, and changes in operations that could help protect their ability to provide services. The Tennessee Department of Economic and Community Development contracted with Guidehouse to help administer the Rural Hospital Transformation Program from 2019–2022.

## Solution

Guidehouse assessed strategic and operational opportunities for 14 hospitals that generated \$212 million in total annual revenue in 2019. Following a thorough and methodical application and transformation plan development process, Guidehouse zeroed in on revenue

generating, cost reducing, and operations improving initiatives individualized for each participating hospital. Following transformation plan delivery, a robust reporting process was established to monitor progress, trends, and garner a deep understanding of rural health in Tennessee.

## Guidehouse's Rural Hospital Transformation Program Process

**Program development.** The foundation for the Rural Hospital Transformation Program was developed, including guidelines for the program to determine hospital eligibility; application, and scoring development; participation requirements; stakeholder engagement requirements; timeline development; and post participation reporting requirements. The state of Tennessee also convened a committee of state and non-state stakeholders representing multiple state departments, the hospital associations, and educational entities. The committee worked with Guidehouse to establish the Rural Hospital Transformation Program.

**Application development.** State stakeholders worked with Guidehouse to create a comprehensive data-driven



application process to quantitatively and qualitatively assess the population served, need for transformation, and willingness to transform.

**Application review.** Program applicants were selected based on composite scores driven by information collected during the application development process. They were then approved by the Rural Hospital Transformation Program Committee.

#### **Transformation plan development.**

Guidehouse assessed strategic, operational, community, state, and national factors impacting the rural hospital and its surrounding community. Individualized initiatives were then developed and delivered in a comprehensive transformation plan, providing the framework to lead each hospital back towards financial sustainability.

Although transformation plans vary based on strategic and operational specifications between each facility, each addressed the following components:

1. Focused strategies for transitioning the hospital into a sustainable business model to avoid or prevent closure
2. Recommendations for utilizing transformation funding to offset transition costs
3. Recommendations for funding remaining transition costs with hospital or community resources
4. Recommendations for ensuring that appropriate and viable services are provided in the target hospital community, serving the best interests of the patients and caregivers
5. Recommendations for strategic partnerships and alliances where practical
6. Where partnerships are not practical, recommendations for coordination with the surrounding healthcare community including safety net providers and tertiary hospitals

**Reporting.** An engaging monitor process was developed to assess hospital progress in implementation of transformation plan initiatives. Guidehouse used the information collected through reporting to regularly report back to the state and Rural Hospital Transformation Committee on individual facility progress and collective trends, as well as to provide policy and program opportunities for consideration.

By July 2021, participating facilities reported positive progress toward nearly 60% of all facility reporting metrics.

“Having a nationally recognized healthcare consulting firm work with us sent the message to the community that we are serious about staying here and providing care,” **said one rural hospital CEO.** A hospital board member shared, “This is the best financial position our hospital has been in for 12 years.”

While participating hospitals were primarily responsible for transformation plan implementation, Guidehouse and the state offered collective and targeted supportive services in 2021 and 2022.

#### **Collective Services**

**Service line playbook.** A service line playbook, was developed to provide participating facilities with a tool to assess the viability of a new or investment in an existing service line.

#### **“Operations Bootcamp” sessions.**

Based on participating hospital feedback and common challenges identified through the program’s reporting process, Guidehouse developed and led a series of “Operations Bootcamps”.

#### **Community Outreach, Reputation Repair, and Education (CORE) toolkit.**

Guidehouse developed a CORE toolkit, including strategies, recommendations, examples, and impact trackers to enhance the facilities relationships, education, and reputation in its community.



**Targeted Services**

**Revenue cycle and clinical documentation improvement (CDI) support.**

Guidehouse—a Best in KLAS revenue cycle optimization firm—conducted a revenue cycle performance analysis that showed that improving documentation and back-end revenue cycle processes at several facilities could boost revenue collection and financial sustainability. Guidehouse then worked with three of the hospital’s revenue cycle teams to deliver training and documentation support around reducing denials, improving collections, and maintaining a healthy chargemaster. Operational templates that could standardize specific processes according to best practices were provided to facilities upon request.

**Benchmarking analysis.** Deep dive analyses into benchmarking metrics were conducted for three participating facilities to help them better understand revenue growth and cost reduction opportunities.

Guidehouse highlighted areas where each facility can better align with its peers on each metric, such as reducing non-labor expenses or optimizing net operating revenue through revenue cycle improvements.

**Impact**



Participants in the Tennessee Rural Hospital Program fared better than their rural peers on operating income and operating margin throughout the early phases of the COVID-19 pandemic, and most participants showed a positive directional financial outlook compared to its pre-program status quo.

In an analysis of 10 Rural Hospital Transformation Program participants during the 2018–2021 performance period, the participating hospitals’ net patient revenue on average grew year-over-year, while six non-participating, in-state peers’ net patient revenue on average declined over the same period.

**How Guidehouse Helped 14 Rural Tennessee Hospitals Improve Performance**

<p><b>\$8M</b> in estimated annual revenue generation, including:</p>	<p><b>\$4M</b> in estimated annual cost savings, including:</p>	<p><b>Improved</b> facility operations and community engagement activities, including:</p>
<ul style="list-style-type: none"> <li>• <b>\$1.5M</b> in net income improvement through revenue cycle initiatives from 2020 to 2021</li> <li>• <b>\$900K</b> in revenue by adding telehealth service on weekends</li> <li>• <b>\$500K</b> in increased service line revenue by adding or enhancing swing bed services</li> </ul>	<ul style="list-style-type: none"> <li>• <b>\$2.3M</b> in bad debt reduction</li> <li>• <b>\$300K</b> in reduced staffing expenses through a flexible staffing model</li> </ul>	<ul style="list-style-type: none"> <li>• <b>A rural health liaison</b> provided boots-on-the-ground engagement with key partners (i.e., EMS services) and community organizations (e.g., schools and employers)</li> <li>• <b>An integrated care model</b> and floorplan adjustments at one hospital resulted in more efficient communication and coordination across departments and provided resource flexibility as needed</li> </ul>



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**About Guidehouse**

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