



The Iowa Hospital Gold Standard

Performance Summary

*A LarsonAllen Gold Standard Institute series of articles and research
2009 report based on 2008 data*

Produced in cooperation with the Iowa Hospital Association



ACKNOWLEDGEMENTS

We would like to express our appreciation to the CEOs, CNOs, CFOs and other key executives of the Iowa Hospital Gold Standard Performers for sharing their insights and information with us throughout the course of this project.

We would also like to thank the Steering Committee who provided invaluable leadership and guidance throughout this project. Without your input, guidance, and insights into the industry, this report would not have been possible.

Lastly we would like to extend a sincere thank you to the Iowa Healthcare Collaborative for their assistance in gathering and analyzing critical pieces of information that went into the development of this report.



IOWA HOSPITAL GOLD STANDARD PERFORMANCE STEERING COMMITTEE

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INTRODUCTION

Methodology *(cont'd)*

In addition to financial indicators, this report contains analysis of key quality indicators. For purposes of this report, quality indicators have been defined as clinical quality, patient safety and patient satisfaction. Quality outcomes were obtained from publicly available data published by the Centers for Medicare and Medicaid Services (the CMS) Hospital Compare Measures and Agency for Healthcare Research and Quality (AHRQ). The CMS Hospital Compare Measures were from the time period of 2008 and the AHRQ measures were from the time period of 2007. These periods were selected because they represented the most recently available data at the time of this report for the respective measures.

In order to achieve the designation of “Top Quality Performance”, a hospital must have had, in relation to its respective peer group, the majority of its quality indicators in the top 1/3rd in the nation, plus have the lowest percentage of quality indicators in the lowest 1/3rd on a national basis. For more detailed information about the specific quality measures used, please see the “Additional Information” section of this report.

To gain added insights into information beyond the indicators, we also interviewed a selected number of leaders from the Iowa Gold Standard Performers. Our interviews touched on not only the structure of the organization, but also focused in on key elements such as medical staff collaboration, attributes that contribute to quality, and preparedness for future changes.

Implications

Health care leaders, health policy makers and others can learn a significant amount from analyzing Gold Standard Performers. This report may help shed additional insights into:

- How do top performers continue to drive success during periods of shrinking reimbursement, without sacrificing quality?
- What is the secret to gaining collaboration across all health care organizations in a community, even when they are not inter-related to one another?
- Does true collaboration and cooperation actually produce higher quality at lower overall costs?
- How do Gold Standard Performers engage personnel and keep them engaged over several years to be able to generate sustained levels of superior performance?
- What role can/does technology play in both financial and quality success of hospitals?
- How can community collaboration and support have an impact on overall performance?
- What key changes are necessary in order to position hospitals for success in an environment that contains a great deal of uncertainty?



EXECUTIVE SUMMARY

As the debate over health care reform continues, the cloud of uncertainty on what the details of reform will bring continues to hang over the heads of all providers of health care. Even though much uncertainty remains, there are emerging themes that all providers should take note of and begin to chart a course of action around. These themes are:

- Further investment in technology will be critical.
- Collaboration at higher levels among all providers will be paramount to future success.
- Quality, patient satisfaction, and patient safety will remain at the forefront of all that is health care.
- Changes in reimbursement will drive the need for improved operational efficiencies.
- Regulatory mandates, monitoring and reporting expectations will continue to escalate to unprecedented levels.

Based on their historical performance, Iowa, as a state and collective group of providers, is well positioned to address these challenges head on.



“Leadership is based on attitude, desire, and aptitude and not on a title.”

CEO, Iowa Gold Standard Performer



EXECUTIVE SUMMARY (continued)

Iowa hospitals provide some of the highest quality health care at one of the lowest overall costs and yet they generate some of the highest operating margins in the country.

This report is a benchmark analysis of some of the key indicators of Iowa hospitals for financial, operations and quality.

Throughout our research of Iowa hospitals, the elements of “*The Gold Standard Road Map*” were clearly evident. Iowa hospitals, on average, achieve “*Gold Standard Performance*,” while providing care at some of the highest levels of quality in the nation.



** Spread Management is the ability of Gold Standard Performers to manage expenses in relation to revenues received at a level that results in superior operational performance.*



INSIGHTS INTO STATE PERFORMANCE

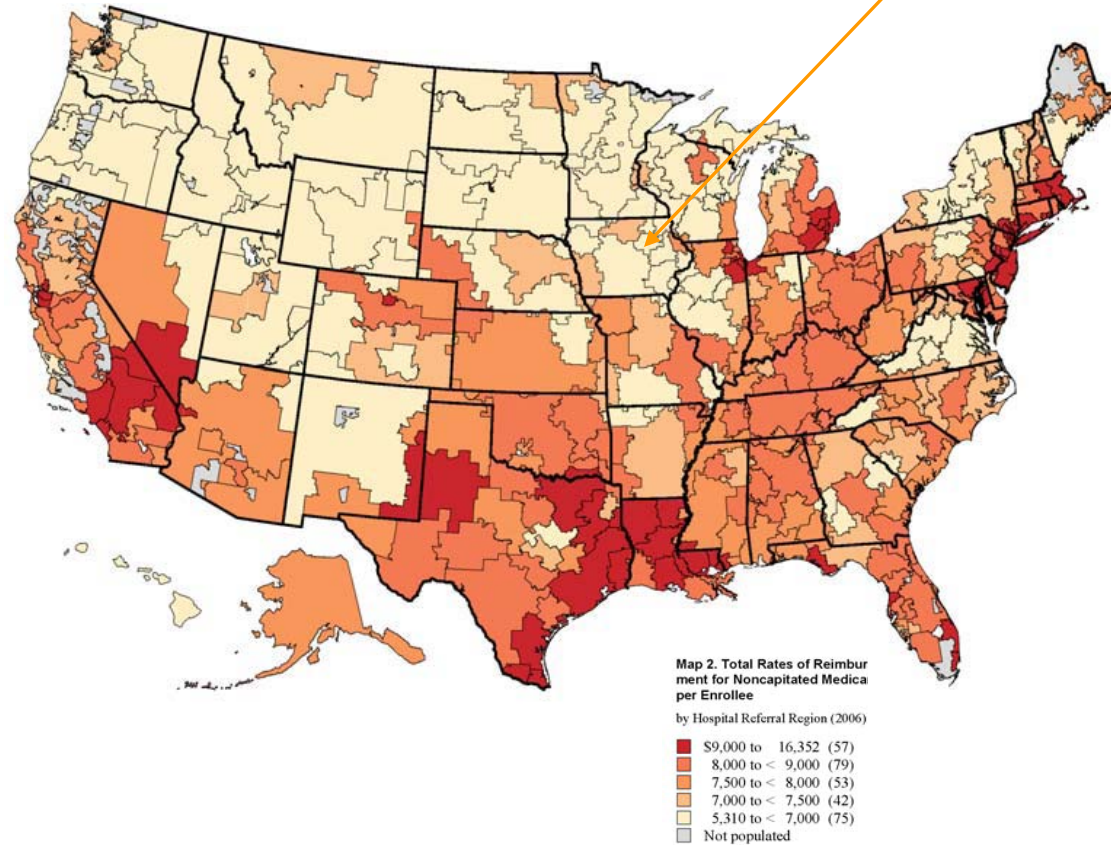
Statewide Health Care Spending Rates

The graphic to the right depicts a distribution of per Medicare beneficiary spending by dollar range for the United States. The study was completed by the Dartmouth Atlas of Health Care.

Health Care Spending Rates Insights

- Based on the study completed by the Dartmouth Atlas of Health Care, Iowa is ranked as one of the lowest per Medicare beneficiary spending states in the nation.
- According to the study, Iowa statewide spending per Medicare beneficiary falls into the lowest range in the nation of \$5,310 to \$7,500.

Iowa has one of the lowest per Medicare beneficiary spending rates in the nation. *



* Source: Dartmouth Atlas Project Brief Report “The Policy Implications of Variations in Medicare Spending Growth” February 27, 2009.

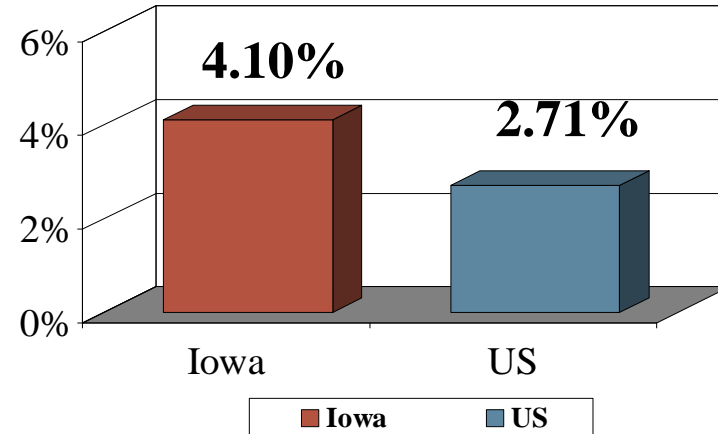


INSIGHTS INTO STATE PERFORMANCE

Statewide Operating Performance

The graph to the right depicts a comparison of the state of Iowa's operating margin median for all hospitals compared to that of the United States overall median. The table breaks down this comparison further, to compare Iowa's operating performance and Medicare spending per beneficiary with various other states and United States medians.

Operating Margin Percentage **



Statewide Operating Insights

- As reflected in the graph, Iowa hospitals reflect operating margins that are 150% greater than the U.S. median
- As reflected in the table, Iowa's statewide operating margin median places it with the 10th highest operating margin nationally.
- When it comes to Medicare spending, the state of Iowa has the 7th lowest per Medicare enrollee spending rate in the nation at \$6,572.
- According to the study, Iowa's per Medicare enrollee spending ranged from \$6,045 to \$7,858 across the state.

State	Inflation-Adjusted Total Medicare Spending Per Enrollee 2006 *	Range of Medicare Spending Per Hospital Referral Region 2006 *	State Medicare Spending National Rank *	Operating Margin **	Operating Margin National Rank
Iowa	\$6,572	\$6,045 - \$7,858	7	4.10%	10
Minnesota	6,600	\$6,375 - \$7,244	9	2.83%	25
Wisconsin	6,978	\$5,812 - \$8,127	15	5.25%	3
Nebraska	6,922	\$6,933 - \$7,149	13	4.89%	6
Missouri	7,709	\$6,695 - \$8,306	28	3.31%	17
South Dakota	6,253	\$6,135 - \$6,193	4	3.49%	15
Illinois	8,457	\$6,750 - \$9,846	38	4.41%	8
Kansas	7,421	\$6,292 - \$7,655	18	0.96%	44
United States	\$8,304	\$5,311 - \$16,351	N/A	2.71%	N/A

* Source: Dartmouth Atlas Project Brief Report "The Policy Implications of Variations in Medicare Spending Growth" February 27, 2009. ** Source: Ingenix 2009 Almanac of Hospital Financial and Operating Indicators



INSIGHTS INTO STATE PERFORMANCE

Statewide Overall Performance

The table below depicts a comparison of the four states that are ranked in the top 10 of lowest spending per Medicare enrollee, and also are ranked in the top 10 in highest operating margins. Also included is the quartile they were ranked in from the Commonwealth Fund State Scorecard for 2009.

Statewide Overall Insights

- As reflected in the table below, of all 50 states there were only 4 that ranked in the top 10 in both lowest spending rate per Medicare enrollee and top 10 in operating margin.
- However, of these 4 states, Iowa was the only state to also be ranked in the top quartile in the five dimensions of quality from the Commonwealth Fund State Scorecard, 2009.
- The ability of Iowa hospital’s to keep Medicare spending per enrollee at one of the lowest levels in the nation, demonstrate strong financial performance, as well maintaining quality at one of the highest levels nationally is an achievement worth noting and studying.

State	State Medicare Spending National Rank *	Operating Margin National Rank **	Commonwealth Fund State Scorecard Quartile ***
Iowa	7	10	Top
Idaho	6	7	Third
Wyoming	8	2	Second
New Mexico	10	5	Bottom

* Source: Dartmouth Atlas Project Brief Report “The Policy Implications of Variations in Medicare Spending Growth” February 27, 2009.

** Source: Ingenix 2009 Almanac of Hospital Financial and Operating Indicators

*** Source: Commonwealth Fund State Scorecard, 2009



INSIGHTS INTO GOLD STANDARD PERFORMANCE

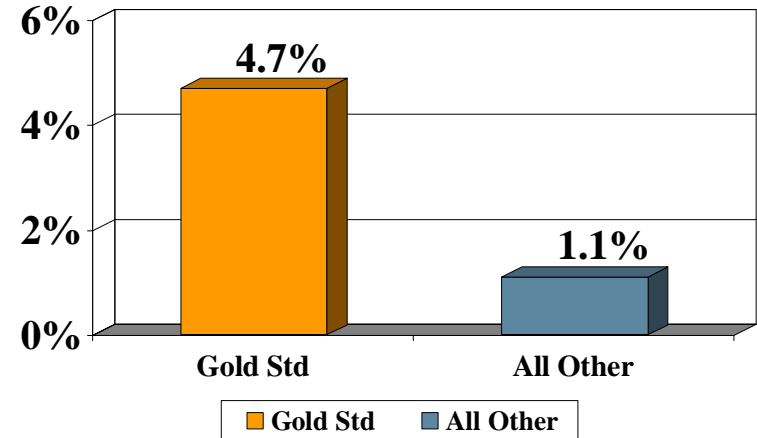
Financial and Operating Performance

The graph and table at right depicts the operating performance of the Iowa Gold Standard Performers compared to All Other Hospital median performance for the state of Iowa.

Financial Insights:

- Iowa Gold Standard Performers tended to have stronger operating performance than other hospitals in the state. On average Iowa Gold Standard Performers:
 - Generated over 1.5X cash flows versus All Other hospitals
 - Had 3X stronger operating margins
 - Reflected net margins of 2X stronger than All Other hospitals
- In addition to having overall stronger operating performance, the Iowa Gold Standard Hospitals reflected superior growth compared to All Other hospital median.

**Operating Margin
“Gold Std.” vs. All Other**



	Gold Standard		All Other
Profitability Indicators			
Operating EBIDA %	13.5%	2x Profitability	8.2%
Operating Margin %	4.7%		1.1%
Net Margin %	7.6%		3.6%
Growth			
Total Inpatient Cases	1.4%	Superior Growth	-1.0%
Overall Outpatient Volumes	3.5%		3.2%
Adjusted Admissions	2.8%		1.8%



INSIGHTS INTO GOLD STANDARD PERFORMANCE

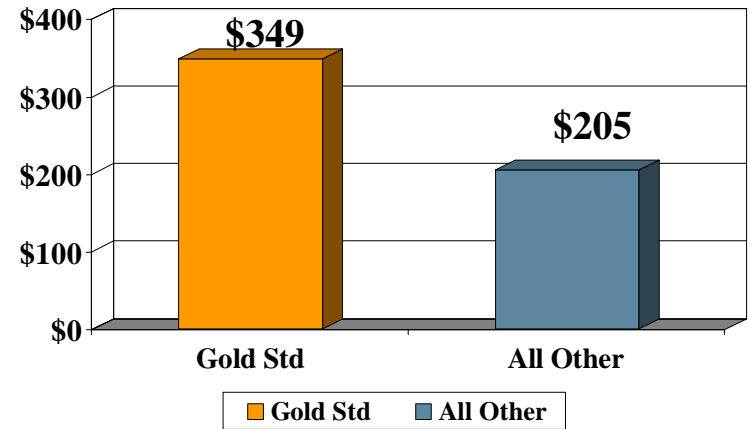
Capital Performance

The graph to the right depicts Debt Capacity Per Bed for the Iowa Gold Standard Performers versus that of All Other Hospital Median. The table to the right depicts other capital spending comparisons.

Capital Insights:

- Iowa Gold Standard Performers reflect a superior position to the other hospitals in their ability to generate capacity to re-invest in their buildings, equipment, and new technologies.
 - On average 150%+ greater debt capacity than the median hospital.
- In addition to having greater capital spending capabilities, Iowa Gold Standard Performers reflected a historical trend of greater investment in plant and equipment.
 - 1 year newer plant on average
 - 25% greater capital spending.
 - Larger portion of capital spending dedicated to information technology.

**Debt Capacity Per Bed *
(\$000)**



	Gold Standard	All Other
Debt Capacity		
Debt Capacity per Bed (\$000)	\$ 349	\$ 205
Debt Capacity % of Op Rev.	61.6%	40.9%
		> Leverage Capabilities
Capital Spending *		
Average Age of Plant	9.5	10.5
Capital Expense % of Op Rev.	9.1%	6.6%
Capital Spending as % of Op. Rev.	8.3%	6.7%
IT Cap. Spending as % of Op. Rev.	1.1%	0.8%
		> Capital investment

* Based on 2.50x Debt Service Coverage with 20 year 7% debt.



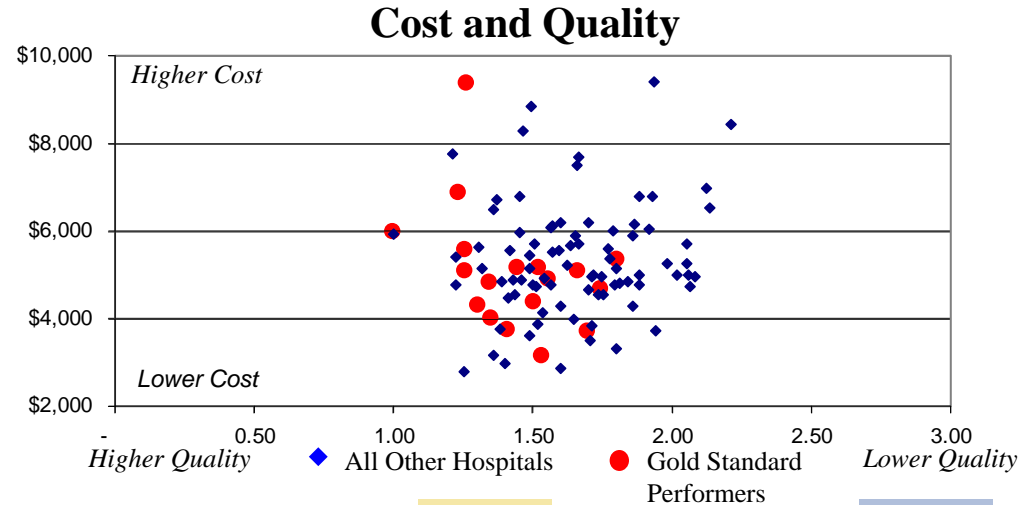
INSIGHTS INTO GOLD STANDARD PERFORMANCE

Cost and Quality Performance

The graph to the right depicts a scatter graph of Iowa Hospitals cost and quality. The table at right depicts comparisons of overall cost and quality indicators.

Cost and Quality Insights:

- In addition to superior growth, Iowa Gold Standard Performers also reflected superior expense management than the All Other Median.
 - On average, Expense per Adjusted Admission (CMI adjusted) was 3% lower for Iowa Gold Standard Performers.
- Iowa Gold Standard Performers achieve cost reductions without sacrificing quality.
- Iowa Gold Standard Performers had superior quality indicators when compared to their peers.
 - 68% of Gold Standard Performers have quality indicators ranked in the Top 3rd Nationally vs. 55% of other hospitals in Iowa.
 - 17% of Gold Standard Performers had quality indicators ranked in the Lower 3rd Nationally vs. 28% of hospitals in Iowa.



	Gold Standard	All Other
Spread Management		
Overall Spread (Avg Net Price/Unit Inflation less Avg Cost/Unit Inflation)	0.5%	0.2%
Avg Net Price/Unit Inflation	5.3%	5.2%
Avg Op Exp/Unit Inflation	4.8%	4.9%
Expense/Adj Adm (CMI Adj)	\$ 4,979	5,146
Quality Indicators		
Clinical Average Rank **	1.64	1.89
Patient Satisfaction Rank **	1.35	1.68
Patient Safety Rank **	1.33	1.37
% of Indicators in Top 3rd	68.0%	55.0%
% of Indicators in Bottom 3rd	17.0%	28.0%

Superior Expense Management

Stronger Quality Rankings

** 1= Top 3rd Nationally; 2= 33rd – 66th Nationally; 3= Bottom 3rd Nationally



INSIGHTS INTO GOLD STANDARD PERFORMANCE

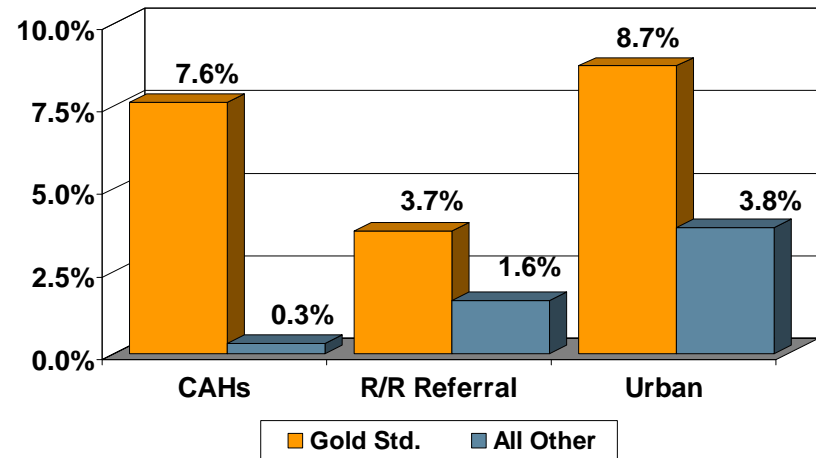
Financial and Operating Performance

The graph and table to the right depict a breakdown of operating performance based on size of hospital. The information compares performance of the Iowa Gold Standard performers in each size classification to the Median performance of the same peer group.

Financial Insights:

- When compared to their peer groups, Iowa Gold Standard Performers reflected superior operating performance in all categories measured.
- Iowa Gold Standard Performers reflected 150% to 200% greater operating cash flows than their peer medians.
- In addition to superior operating performance, Iowa Gold Standard Performers, on average, reflected stronger growth in overall patient volumes than the peers in the same classification.

**Operating Margin
“Gold Std.” vs. All Other**



	CAHs		R/R Referral		Urban	
	Gold Standard	All Other	Gold Standard	All Other	Gold Standard	All Other
Profitability Indicators						
Operating EBIDA %	14.3%	7.6%	13.4%	6.8%	16.2%	10.0%
Operating Margin %	7.6%	0.3%	3.7%	1.6%	8.7%	3.8%
Net Margin %	8.9%	4.7%	1.5%	1.7%	11.1%	9.0%
Growth						
Total Inpatient Cases	1.6%	-1.1%	2.5%	-2.0%	-0.1%	0.1%
Overall Outpatient Volumes	4.1%	3.3%	0.3%	2.6%	5.4%	4.1%
Adjusted Admissions	3.2%	2.1%	1.1%	-1.4%	3.3%	1.6%



INSIGHTS INTO GOLD STANDARD PERFORMANCE

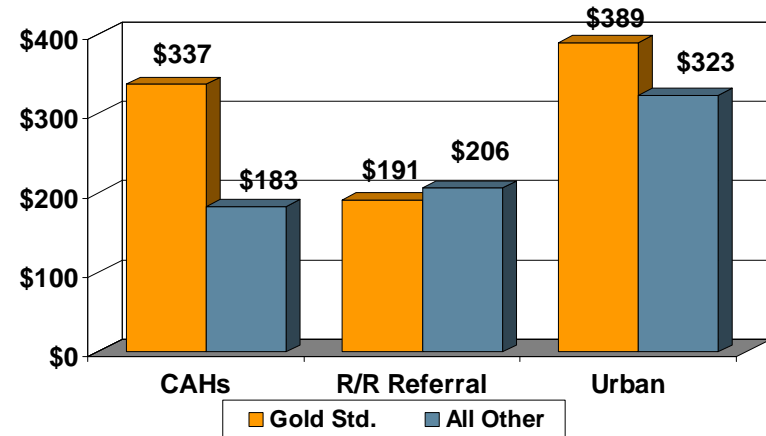
Capital Performance

The graph and table to the right depicts a comparison of various capital indicators between the Iowa Gold Standard Performers and All Other Medians of the same classification.

Capital Insights:

- When measured as a percent of Operating Revenue, Iowa Gold Standard Performers reflected, on average about 150% to 200% greater debt capacity than the peer hospitals.
- Historically, Iowa Gold Standard Performers reflect more significant levels of capital investment in facilities, equipment and technology.
- The disparity of capital spending is especially evident in the CAHs and Rural PPS facilities.

Debt Capacity Per Bed*
(\$000)



	CAHs		R/R Referral		Urban	
	Gold Standard	All Other	Gold Standard	All Other	Gold Standard	All Other
Debt Capacity						
Debt Capacity per Bed (\$000)	\$ 337	\$ 183	\$ 191	\$ 206	\$ 389	\$ 323
Debt Capacity % of Op Rev.	65.9%	41.1%	56.7%	29.0%	68.7%	44.0%
Capital Spending *						
Average Age of Plant	9.2	10.4	10.2	9.4	8.9	12.5
Capital Expense % of Op Rev.	8.9%	6.7%	9.6%	7.8%	7.2%	6.0%
Capital Spending as % of Op. Rev.	10.4%	6.5%	17.2%	7.6%	5.7%	6.6%
IT Cap. Spending as % of Op. Rev.	0.6%	0.7%	1.7%	1.1%	1.6%	1.4%

* Based on 2.50x Debt Service Coverage with 20 year 7% debt.



INSIGHTS INTO GOLD STANDARD PERFORMANCE

Cost and Quality Performance

The table below depicts a comparison of Revenue vs. Expense (Spread) Management, Payor Mix and Quality Indicators among the differing hospital peer groups.

Cost and Quality Insights:

- Spread Management: In all cases, the Iowa Gold Standard Performers reflected stronger expense management indicators than the other hospitals in their peer group.
- On average, Expense/Adjusted Admission ranged from 1% to 12% less for Iowa Gold Standard Performers vs. the peer medians.
- The difference in Expense/Adjusted Admit increases in proportion to size of the hospital.
- Iowa Gold Standard Performers tended to have a larger percentage of Managed Care/Commercial Revenues as a percent of Medicare when compared to their peers.
- Iowa Gold Standard Performers are able to accomplish superior financial performance, while also maintaining superior quality performance.

	CAHs		R/R Referral		Urban	
	Gold Standard	All Other	Gold Standard	All Other	Gold Standard	All Other
Spread Management						
Overall Spread <small>(Avg Net Price/Unit Inflation less Avg Cost/Unit Inflation)</small>	0.2%	-0.1%	-1.6%	-3.9%	0.6%	0.6%
Avg Net Price/Unit Inflation	5.9%	5.8%	7.4%	3.6%	2.8%	4.0%
Avg Op Exp/Unit Inflation	5.7%	5.9%	9.0%	7.5%	2.2%	3.4%
Expense/Adj Adm (CMI Adj)	\$ 4,834	\$ 4,981	\$ 5,354	\$ 5,698	\$ 4,778	\$ 5,411
Payor Mix						
Medicare	47%	48%	51%	47%	45%	46%
Medicaid	6%	8%	8%	9%	5%	10%
Self-Pay	4%	5%	3%	4%	4%	4%
Mgd Care/Comm./All Other	43%	39%	38%	40%	46%	40%
Managed Care/Commercial % of Medicare	131%	120%	182%	176%	193%	165%
Quality Indicators						
Clinical Average Rank **	1.69	2.00	1.66	1.74	1.50	1.61
Patient Satisfaction Rank **	1.34	1.46	1.37	1.65	1.35	2.04
Patient Safety Rank **	1.09	1.16	1.29	1.71	2.00	2.07
% of Indicators in Top 3rd	73%	60%	61%	49%	58%	43%
% of Indicators in Bottom 3rd	19%	30%	11%	19%	14%	25%

** 1= Top 3rd Nationally; 2= 33rd – 66th Nationally; 3= Bottom 3rd Nationally



INSIGHTS INTO GOLD STANDARD PERFORMANCE

What the Gold Standard Performers Told Us

In addition to analyzing the numbers, we conducted interviews with CEO's, CNO's, CFO's and other key leaders from selected IA Gold Standard Performers. Our goal was to gain insights into the characteristics they felt attributed to their historical success.

Given the unstable economic and regulatory environment, we also wanted to gain insights into what their viewpoint was for the future, and what they believed to be necessary to position their organizations for continued success.

Several themes emerged, many of which we have come to expect from top performers, such as:

- *Strong relationships with the medical staff*
- *Engaged and committed employees*
- *Focus on quality*
- *Strong support to and from the community*
- *The need to innovate and stay focused on operations*

However, related to key factors for future success, we heard the following:

- *Continued innovation in service offerings*
- *Greater need than ever to stay focused on cost control*
- *Quality of care will remain as critical as ever*
- *Further evolution of medical staff relationships*
- *Strengthen local community to make it an attractive place to live*



“Physician engagement and culture is an essential part of the Organization’s culture.”

CEO Iowa Gold Standard Performer



INSIGHTS INTO GOLD STANDARD PERFORMANCE

What the Gold Standard Performers Told Us

Historical Success Factors:

- 1) ***Relationship with medical staff:*** Establishing relationships, sharing of information, input into quality initiatives, leadership positions were consistently mentioned as being keys to successful relationships with physicians.
- 2) ***Engaged and committed employees:*** Enhanced education of middle managers, establishing expectations up front and creating accountability guidelines, sharing information, rewarding success, and communication were viewed as key elements to engaging employees and keeping them committed.
- 3) ***Focus on quality:*** Nearly every Gold Standard Performer mentioned quality as a key to their success, both historically and into the future. Many felt the keys to quality resided in establishing key metrics, sharing results, implementing change and monitoring outcomes. It was often cited that this process builds engagement and commitment among employees and medical staff.
- 4) ***Strong support to and from the community:*** Understanding and meeting the needs of the community was viewed as a key to success. Many expressed the idea that the relationship was intertwined, in that if the hospital was able to meet the community's health care needs, the community would continue to support the hospital. In many cases a thriving community was viewed as critical to ongoing recruiting success.
- 5) ***Innovation and focus on operations:*** Every Gold Standard Performer emphasized the need to continue to change, with a continued focus on efficiency and cost control as critical elements in their historical success.

“Our success in quality is due to the relationship between our nursing staff and physicians. They are all members of the community and want to see the community benefit. They have a great deal of respect for one another.”

CEO Iowa Gold Standard Performer





INSIGHTS INTO GOLD STANDARD PERFORMANCE

What the Gold Standard Performers Told Us

Critical Factors For Future Success:

- 1) ***Continued innovation in service offerings:*** Several things were cited in regards to innovation. Continued investment in technology; understanding core services and continuing to find ways to provide them more efficiently; avoiding duplication of services within the marketplace; and collaboration with other hospitals for provision of services.
- 2) ***Remain focused on cost control:*** There was a general consensus that, in the future reimbursement will continue to decline, especially from Medicare, and in order to continue to be successful continued focus on cost controls would be necessary.
- 3) ***Quality of care remains critical:*** Continued evolution of electronic health record will be critical to providing additional information and provide greater capabilities to share and analyze data resulting in improved coordination and quality of care.
- 4) ***Evolution of medical staff relationships:*** For a variety of reasons from recruitment challenges to changes in reimbursement it was felt working relationships and arrangements with physicians will continue to evolve to different structures in order to ensure the community needs are met. Examples given were greater role of physicians in governance; increased physician employment by hospitals, especially those in more rural areas; joint employment of specialty physicians among several hospitals.
- 5) ***Strengthen community and relationship with community:*** In order to continue to recruit physicians, it was felt the local community must be strengthened in order to make it a desirable place for physicians to relocate to. Continued community input into new service offerings as well as providing feedback on current performance were viewed as critical factors in future success.



“Looking at the overall relationship with our physicians and how it impacts us both, and what can be done to minimize negative financial impacts will be critical to our future success.”

CEO Iowa Gold Standard Performer



INSIGHTS INTO CORRELATION OF QUALITY TO FINANCE

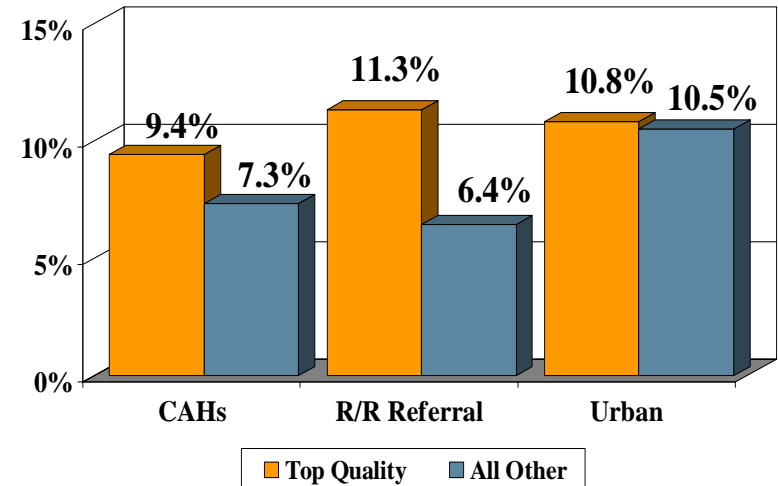
Top Quality Operating Performance

The graph and table to the right depicts a comparison of operating performance for Iowa Hospitals that exhibited the highest quality performance compared to all other hospitals.

Top Quality Financial Insights:

- As reflected in the graph, Iowa Hospital with the highest quality scores, also had the strongest operating performance.
 - CAHs reflected about 30% stronger Operating EBIDA
 - Rural PPS reflect about 75% stronger Operating EBIDA
 - Although close, Urban Top Quality reflected about .3% stronger Operating EBIDA.
- In addition to stronger operating performance, the hospitals falling into the Top Quality category, also reflected superior growth in overall patient volumes.

**Operating EBIDA
“Top Quality” vs. All Other**



	CAHs		R/R Referral		Urban	
	Top Quality	All Other	Top Quality	All Other	Top Quality	All Other
Profitability Indicators						
Operating EBIDA %	9.4%	7.3%	11.3%	6.4%	10.8%	10.5%
Operating Margin %	1.6%	-0.7%	2.7%	1.4%	3.7%	4.2%
Net Margin %	4.8%	4.7%	1.6%	0.2%	2.5%	1.1%
Growth						
Total Inpatient Cases	-0.6%	-1.5%	0.5%	-2.7%	-1.2%	0.8%
Overall Outpatient Volumes	6.3%	1.8%	0.7%	1.2%	5.8%	4.0%
Adjusted Admissions	4.2%	1.1%	0.4%	-1.4%	3.5%	1.4%



INSIGHTS INTO CORRELATION OF QUALITY TO FINANCE

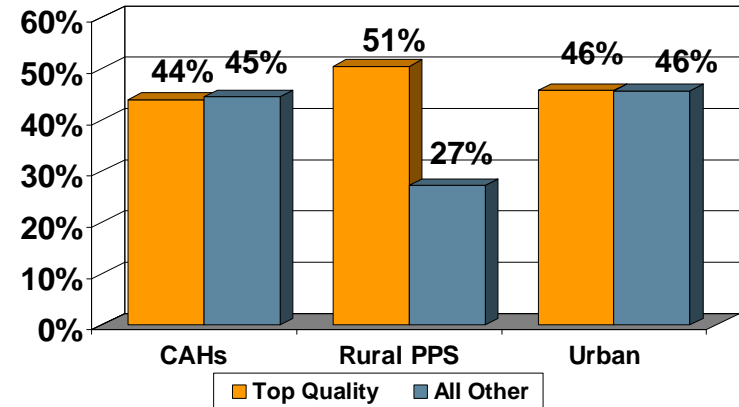
Top Quality Capital Performance

The graph and table to the right depicts a comparison of various capital indicators for the Top Quality Hospitals versus that of their peer group.

Top Quality Capital Insights

- With the exception of the Rural PPS Hospital peer group, there was no significant difference between debt and capital capacity among the various peer groups.
- In the Rural PPS peer group, the Top Quality hospitals reflected a significant advantage in overall debt capacity as well as in historical capital spending.

**Debt Capacity %
Of Operating Revenue
“Top Quality” vs. All Other***



	CAHs		R/R Referral		Urban	
	Top Quality	All Other	Top Quality	All Other	Top Quality	All Other
Debt Capacity						
Debt Capacity per Bed (\$000)	\$ 221	\$ 194	\$ 205	\$ 162	\$ 285	\$ 379
Debt Capacity % of Op Rev.	44.0%	44.5%	50.5%	27.2%	45.8%	45.7%
Capital Spending *						
Average Age of Plant	10.4	9.8	10.0	11.2	12.3	10.7
Capital Expense % of Op Rev.	6.1%	7.1%	8.3%	7.1%	6.3%	5.4%
Capital Spending as % of Op. Rev.	6.8%	6.5%	8.7%	6.7%	6.4%	6.7%
IT Cap. Spending as % of Op. Rev.	0.6%	0.7%	1.1%	1.8%	1.4%	1.7%

* Based on 2.50x Debt Service Coverage with 20 year 7% debt.



INSIGHTS INTO CORRELATION OF QUALITY TO FINANCE

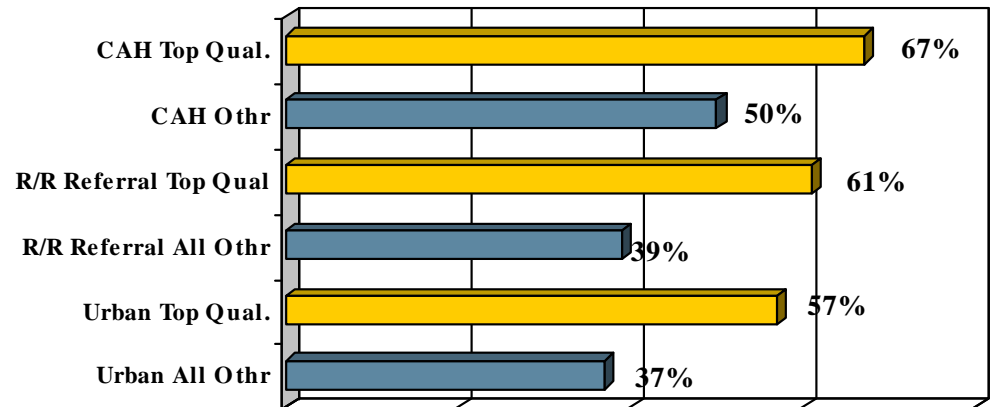
“Top Quality” Quality Performance

The graph and table to the right reflect a comparison of Quality Indicators for those identified as Top Quality versus that of their respective peer groups.

“Top Quality” Quality Insights:

- Those Iowa Hospitals identified as having Top Quality reflected, on average, about 2/3rds of their quality indicators being ranked in the Top 3rd of all hospitals on a national basis.
 - Compared to one-third to one-half for the respective peer group benchmarks.
- In addition to having a greater proportion of Top 3rd Indicators, the Top Quality Performers also had significantly fewer indicators falling into the Bottom 3rd on a national basis.

Percent of Quality Indicators in Top 3rd Nationally



Quality Indicators	CAHs		R/R Referral		Urban	
	Top Quality	All Other	Top Quality	All Other	Top Quality	All Other
Clinical Average Rank **	1.79	2.23	1.57	1.93	1.51	1.65
Patient Satisfaction Rank **	1.40	1.49	1.41	1.83	1.52	2.22
Patient Safety Rank **	1.16	1.14	1.56	1.70	1.93	2.16
% of Indicators in Top 3rd	67%	50%	61%	39%	57%	37%
% of Indicators in Bottom 3rd	23%	40%	13%	24%	17%	27%
Expense/Adj Adm (CMI Adj)	\$ 4,922	\$ 4,981	\$ 5,465	\$ 5,951	\$ 4,982	\$ 5,576

** 1= Top 3rd Nationally; 2= 33rd – 66th Nationally; 3= Bottom 3rd Nationally



INSIGHTS INTO CORRELATION OF QUALITY TO FINANCE

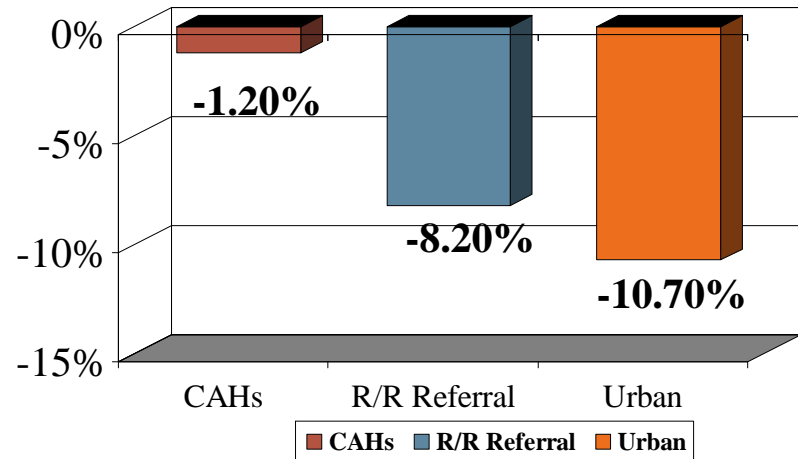
Top Quality Cost Management

The graph and table to the right depict a comparison of expense management between the Top Quality Hospitals and their respective peer group hospital medians.

Financial Insights:

- As reflected to the right, the Top Quality Hospitals, on average, had lower overall costs when compared to the median hospitals in their respective peer groups.
- In almost every indicator, the Top Quality Hospital exceeded performance of those in their respective peer group.

Percent Difference in Expense Per Adjusted Admit (CMI Adj.)



CAHs		R/R Referral		Urban	
Top Quality	All Other	Top Quality	All Other	Top Quality	All Other

Spread Management

Overall Spread (Avg Net Price/Unit Inflation less Avg Cost/Unit Inflation)	0.8%	-0.1%	-0.6%	-3.5%	-0.9%	0.6%
Avg Net Price/Unit Inflation	5.5%	6.2%	6.4%	4.4%	2.3%	4.3%
Avg Op Exp/Unit Inflation	4.8%	6.3%	7.0%	8.0%	3.2%	3.7%
Expense/Adj Adm (CMI Adj)	\$ 4,922	\$ 4,981	\$ 5,465	\$ 5,951	\$ 4,982	\$ 5,576



ABOUT THE CO-AUTHORS

LarsonAllen LLP

LarsonAllen is a nationally recognized professional service firm with expertise in a variety of industries. We provide accounting, tax, consulting, and advisory services to companies and individuals managing business ventures and finance.

LarsonAllen's 1,400 people are based in regional offices in nine states throughout the nation and are aligned across industry specialization, of which health care is the largest single industry. We have developed one of the nation's largest health care practices with approximately 225 people devoted exclusively to health care. In total we serve over 4,500 health care clients consisting of over 500 hospital and health system clients, more than 1,200 senior services providers, over 1,800 physician, dentist and medical groups, 200 home health and hospice and over 1,000 over health care related organizations.

LarsonAllen's "Gold Standard" series of articles are published through the *LarsonAllen Gold Standard Institute*. The LarsonAllen Gold Standard Institute is committed to providing our clients and the industry with relevant independent research, statistics and techniques developed specifically for the health care field. For more information about LarsonAllen visit www.larsonallen.com

Iowa Hospital Association

The Iowa Hospital Association (IHA) continually works to meet its mission to represent and support the individual missions of 118 Iowa hospitals by focusing on four strategic pillars: advocacy, service, collaboration, and public trust. To help address the myriad of issues that impact hospitals and health care, IHA continually strengthens its grassroots **advocacy** base and strives to engage all hospital advocates and the general public in active support of IHA legislative priorities.

The Association looks to provide **service** beyond traditional definitions and strives to create "communities of practice" where members can come together to share experiences that develop personal relationships. Additionally, in the modern health care environment where quality data and information are critical, IHA remains the premier source of reliable hospital information, educational programming, communication and shared services.

Because hospitals deal with patients and families at extremely sensitive times in their lives, it is essential that the public believes in the value of care provided by Iowa hospitals. With national attention highlighting the isolated negative aspects of healthcare quality, costs, billing practices and other related concerns, IHA leads efforts to "tell the community hospital story" and renew **public trust** in Iowa hospitals.

Associations by definition exist to cultivate **collaboration** by bringing similar interest groups together to achieve common goals. Throughout its 80-year history, IHA has been an active leader in building committed and effective relationships within the Iowa health care community, government interest and other organizations concerned with health care cost and quality issues.



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ADDITIONAL INFORMATION – RATIO DEFINITIONS

Ratio	Ratio Definition
Operating EBIDA	$\frac{\text{Operating Income (Loss) + Depreciation + Amortization + Interest}}{\text{Operating Revenue}}$
Operating Margin %	$\frac{\text{Operating Income (Loss)}}{\text{Operating Revenue}}$
Net Margin %	$\frac{\text{Operating Income (Loss) + Net Non Operating Gains (Losses)}}{\text{Operating Revenue + Net Non Operating Gains (Losses)}}$
Adjusted Admissions	$\frac{\text{Inpatient Admissions (Inpatient Medical+Surgical+OB Admissions)}}{\text{Inpatient Revenue \% (Inpatient Gross Charges / Total Gross Charges)}}$
Overall Outpatient Volumes (Equivalent)	Adjusted Admissions - Inpatient Admissions
Debt Capacity per Bed	$\frac{\text{Debt Capacity}}{\text{Hospital Beds Set Up}}$
Debt Capacity % of Revenues	$\frac{\text{Debt Capacity}}{\text{Operating Revenues}}$
Affordable Operating Debt Service	$\frac{\text{Operating EBIDA}}{2.50x \text{ Debt Service Target}}$
Operating Debt Capacity	Affordable Operating Debt Service Present Valued based on 20 Year Term and 7% Annual Rate
Non Operating Debt Capacity	$\frac{\text{Tax Levy Available for Debt Service (Tax Revenues in Excess of [Total Revenues x 2\%])}}{\text{Present Valued based on 20 Year Term and 6\% Annual Rate}}$
Debt Capacity	Operating Debt Capacity + Non Operating Debt Capacity



ADDITIONAL INFORMATION – RATIO DEFINITIONS

Ratio	Ratio Definition
Average Age of Plant	$\frac{\text{Accumulated Depreciation}}{\text{Depreciation Expense}}$
Capital Expense % of Op Rev	$\frac{\text{Depreciation} + \text{Amortization} + \text{Interest}}{\text{Operating Revenues}}$
Capital Spending % of Op Rev	$\frac{\text{Total Cost of Facility and Equipment Acquired (2005-2008 Total)}}{\text{Operating Revenues (2005 - 2008 Total)}}$
IT Capital Spending % of Op Rev	$\frac{\text{Total Cost of IT Capital Acquired (2005 - 2008 Total)}}{\text{Operating Revenues (2005 - 2008 Total)}}$
Overall Spread	$\frac{\text{Average Annual Inflation on Average Net Price / Unit (2006 - 2008)} - \text{Average Annual Inflation on Average Op Exp / Unit (2006 - 2008)}}{\text{Minus}}$
Average Net Price / Unit	$\frac{\text{Net Patient Revenues}}{\text{Adjusted Admissions}}$
Average Op Exp / Unit	$\frac{\text{Operating Expenses}}{\text{Adjusted Admissions}}$
Expense / Adj Adm (CMI Adjusted)	$\frac{\text{Average Op Exp / Unit}}{\text{Average Case Mix Index (Medicare or Equivalent*)}}$ <p>*-Equivalent = 1.0 CMI Medical Admissions / 1.75 CMI Surgical Admissions</p>
Payor Mix %	$\frac{\text{Payor Gross Inpatient and Outpatient Charges}}{\text{Total Gross Charges}}$
Managed Care/Commercial % of Medicare	$\frac{\text{Managed Care Commercial Net Revenues / Managed Care Commercial Gross Revenues}}{\text{Medicare Net Revenues / Medicare Gross Revenues}}$



ADDITIONAL INFORMATION

Quality Indicators

Clinical quality, patient safety, and patient satisfaction data was obtained from the following data sources:

The Centers for Medicaid and Medicare Services (CMS) Hospital Compare Measures (Source: CMS Hospital Compare Microsoft Access databases downloaded directly from CMS Hospital Compare website):

- AMI – Acute Myocardial Infarction (Heart Attack) process measures
- HF – Heart Failure process measures
- PN – Pneumonia process measures
- SCIP – Surgical Care Improvement Project infection prevention process measures
- VTE – Venous Thromboembolism process measures
- HCAHPS – Hospital-Consumer Assessment of Healthcare Providers and Systems patient experience measures

Data for the above indicators reflected throughout this report was gathered from the 2008, the most recently available at the time of publication.

Agency for Healthcare Research and Quality (AHRQ) measures (Source: Iowa Hospitals' inpatient data collected by IHA and packaged as the Iowa State Inpatient Database (SID); comparison data is the Nationwide Inpatient Sample (NIS) a collection of US States inpatient data and packaged/disseminated by the Healthcare Cost and Utilization Project (HCUP); statistical analysis produced by the Iowa Healthcare Collaborative using Iowa SID and NIS datasets and AHRQ's Version 3.2 Quality Indicator software tools; measures included in analysis are those measures that were considered to be suitable for public reporting in Iowa at the hospital level and subsequently included in the 2008 IHC Iowa Report as identified by the Iowa Healthcare Collaborative Data Committee in 2008 – the IHC Data Committee is composed of a cross-section of Iowa healthcare stakeholders).

- PSIs – Patient Safety Indicators
- IQIs – Inpatient Quality Indicators
- PDIs – Pediatric Quality Indicators

The AHRQ measures identified above and used throughout this report was gathered from 2007, the most recently available at the time of publication.

**For further information about methodology please visit LarsonAllen's Web site at:
www.larsonallen.com/healthcare**