

Hospital's emergence from bankruptcy headlines Charlestown chamber meeting

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One of Charlestown's marquee employers was the keynote speaker at the city's final Chamber of Commerce meeting for 2013. While that is not so uncommon, what is worth noting is that the major employer is just more than a year removed from its Chapter 11 bankruptcy filing. St. Catherine Hospital president and CEO Merlyn Knapp gave a presentation to Charlestown business leaders at the chamber of commerce's last quarterly meeting of the year.

Since filing for bankruptcy protection the hospital has been put up for sale, cut its staff and management, dumped some former contracts and sued the state of Indiana to dig itself out of an \$8.3 million hole.

WHAT LED TO THE BANKRUPTCY

When St. Catherine filed for bankruptcy a number of factors were cited as contributing to the hospital's debt.

Among the issues cited were the national economic hardships in the few years leading into 2012, the increased competition from area hospitals and as Knapp noted, unstable leadership in the form of multiple owners of the hospital.

"Sometimes having too many owners has an effect on the efficiency and effectiveness of running a hospital," he said. "Continuity of leadership and continuity of ownership is very important to running a community hospital."

St. Catherine's Hospital has yet to find a new owner since the bankruptcy filing, but Knapp said the community hospital's leadership is helping to stabilize the business.

To help restructure the hospital's debt, Knapp said the hospital has cut its management force, ended a contract with its emergency room contractor and re-negotiated leases with its technology equipment providers to save money.

The hospital still carries an annual payroll of about \$6.5 million, that totals about 150 employees. But that's down by about 30 fewer staff members and management was cut from about 15 or 16 managers to between eight and 10.

Knapp added that when the hospital cut its ties with the emergency room contractor, it hired emergency room physicians — a move he said has saved the hospital more than \$200,000 annually.

RECOVERING REVENUES

Another of the hospital's major issues concerning revenues was a hospital assessment fee that was created by the state of Indiana in Dec. 2011. In that assessment fee, the state, to balance its Medicaid costs divided up what was owed by hospitals across the state and sent an invoice to each entity to pay. St. Catherine Hospital was assessed \$1.1 million per year, for two years. Knapp said the hospital's assessment was about \$300,000 or \$400,000 more than it usually gets paid for Medicaid for patient services.

"We only get paid roughly \$800,000 to \$900,000 a year in Medicaid services from the state of Indiana, so there's no question that there is a shortfall at the hospital in terms of cash flow that related to the Medicaid program," Knapp said.

The hospital's response was to sue the state. St. Catherine Hospital, via the lawsuit, was awarded \$1.76 million

"That money is not punitive or damages," Knapp said. "That was the cash that was held back from us over a year-and-a-half. Our business suffered because of it."

Knapp said the court has awarded St. Catherine Hospital the \$1.7 million; however, \$600,000 of which is still in dispute via an appeal from the state.

Changes made to the hospital since the bankruptcy filing have already begun to turn around its finances. Since January Knapp said the hospital has remained in the black in all but one month.

FUTURE FINANCES

To help continue the trend of St. Catherine Hospital maintaining a profit, future plans include placing an emphasis on cardiology and pulmonary services. The hospital is also adding sleep studies, geropsychiatry services — which deals with mental illness in the elderly— and is placing an emphasis on wound service to its care options.

Expectations are also that the Affordable Care Act will help at least one segment of the hospital's revenue stream.

Medicare and Medicaid programs make up about 60 percent of the hospital's revenue, Knapp said. Other payments come from insurance companies and about 5 percent of its revenues are made up from individual payers without insurance coverages.

Because there will be a requirement for individuals to carry insurance, Knapp said he expects those payments to increase.

"That business generates more than \$1 million in bad debts a year," he said of individual out-of-pocket expenses. "By saving even 10 percent of that money the hospital would save \$100,000."

But the biggest windfall for the hospital is that it is tied to Charlestown.

“We are the first source available for care in the region,” Knapp said. “I think Charlestown needs this hospital. I think the hospital needs the community.”