

Dark Choices Ahead for Some Rural Ohio Hospitals

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Many Ohio rural hospitals will face a dark choice of merging or closing unless the government swoops in with some type of help, predicts a specialist in turning around financially struggling institutions.

Healthy systems within an hour's drive of metropolitan regions – like those in Central Ohio– stand in stark contrast to rural markets between the major metros. About one-fifth of the U.S. population is rural – but half the hospitals in those regions aren't financially sustainable, said Matt Caine, managing director at SOLIC Capital Advisors LLC, a healthcare investment banking and financial advisory firm.

“Some of these hospitals could face closure or repositioning as ... outpatient only,” Caine told me. “Those are challenging discussions we have sometimes with boards.

“Some of these management teams have waited too long hoping the market would turn around,” said Caine, who's in the Atlanta office of the Evanston, Illinois, firm.

SOLIC has been especially active in the Midwest helping middle-market hospitals turn around, or seek acquisition or bankruptcy protection if they can't. Consolidation has been much more prevalent in Ohio than in southeastern states like Georgia, he said.

Ohio's largest non-profit systems have made several acquisitions – such as the three hospitals acquired in 2014 by Columbus-based OhioHealth Corp. Caine predicted the pace of consolidation will continue at the same pace or even faster for the next year or so.

“Thereafter, most of the opportunities are going to fall by the wayside,” Caine said. “It becomes more challenging to find the opportunities.”

Caine's assessment echoes a recent review by the Ohio Hospital Association that found 22 small, rural hospitals with operating margins of 1 percent or less. The trade group has about 70 rural hospitals among its 220 members.

Scott Borgemenke, the trade group's senior vice president for advocacy, also predicted mergers and acquisitions will die down: “You're getting to the point where there's nothing else to buy worth buying,” he told me last month.

Eastern and southeast Ohio have some of the biggest challenges with rising unemployment leading to loss of insurance, Caine said. The boost from expanding Medicaid eligibility is “short-lived,” he and others have said, because it's followed by cuts in other federal reimbursement.

Meanwhile rural hospitals have trouble recruiting specialists other than those who rotate through one to three days a week.

"These hospitals are still having troubles with keeping their cost structures in line with a declining revenue," he said. "Their access to capital is declining. ... The need to reinvest doesn't go away."

As large systems extend their boundaries, service areas are starting to bump into each other, such as Cleveland's University Hospitals in Ashland coming within 15 miles of OhioHealth in Mansfield. Caine said he expects mergers to be busiest along the Toledo-to-Cleveland corridor, while OhioHealth also could extend farther northwest.

"The consolidators are recognizing a trend. They're going to pursue (market) share," Caine said. "There's no option but to face one another in certain markets."

For some hospitals, however, not even a larger system could make the numbers work. Market forces – declining reimbursements, aging facilities, shrinking services – will force closures. But health care is not like other markets: Adding 20 or so miles to drive to the nearest emergency room through winding Appalachian roads could endanger lives.

"Who's the 'they' that can solve that issue?" Caine said. "One can reasonably conclude it's a policy issue: The government needs to step in with a certain level of access."

"The number of hospitals in rural markets certainly needs to be rationalized," he said. "(But) I don't see that number going to zero."



Matt Caine, Managing Director

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