

Lincoln Medical Center: The Role of an Inner-City Hospital

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LINCOLN MEDICAL CENTER—BACKGROUND

Lincoln Medical Center is a 350-bed, not-for-profit hospital affiliated with the multi-hospital health care organization Universal Health Association (UHA). As one of 10 hospitals operated by UHA, LMC is located in downtown Lakeville and is experiencing many of the problems associated with inner-city hospitals. Although LMC is ultimately responsible to the corporate office of the parent organization, it does have its own board of directors, fund-raising foundation, and administrative staff. Assisted by the parent corporation, the LMC administration sets forth its own goals and strategies, consistent with the mission and vision of the parent.

LMC provides a full range of services, including primary and secondary acute care, perinatal care (including a neonatal intensive care unit), emergency services, and specialized cancer treatment services. As a result, LMC sees itself as the linchpin of its community. Specifically, many consider LMC's emergency, obstetric, and neonatal services to be crucial to the area.

However, LMC has experienced considerable financial difficulty in the past few years. In 1990, LMC recorded a loss of over \$17 million, and losses are expected to be \$14 million in 1991. Thus, LMC must make some critical strategic choices in the coming year if it wishes to continue providing the aforementioned crucial services to this community. As part of this strategy, LMC envisions a "public-private partnership,"

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wherein public funds will be paid to LMC to provide the above services to the large population of indigent patients in the surrounding area.

UNIVERSAL HEALTH ASSOCIATION—THE PARENT CORPORATION

“A unified mission and vision. This will allow UHA to bring innovation to the health care industry and will ultimately mean success for Universal Health.” This is how the chairman of the board of UHA began his opening letter in the 1989 UHA Annual Report. He is referring to the incorporation of two not-for-profit organizations that came together in 1986 to form UHA, a not-for-profit health care corporation. During this reorganization, LMC became part of the hospital system that is now owned and operated by UHA.

UHA considers itself to be a vertically integrated health care organization. In addition to the 10 medical centers it operates, UHA also governs a system of mental health facilities, an HMO/PPO health insurance plan, a hospital-related senior citizen network, a home health care organization, a managed care risk contracting component, and a medical group management branch. On the corporate level, UHA also encompasses a services management division, an in-house advertising department, and an information systems development and implementation unit. As an integrated organization, UHA is attempting to develop a true continuum of care—within a corporate environment that provides all the necessary administrative support services.

UHA created a strong vision and mission that it has communicated to all divisions. UHA is striving to be the health care system of choice in the entire region. It has stated that each hospital should endeavor to become a center of excellence in one or more areas of health care. Therefore, within the UHA network, each hospital would offer the best care in a particular medical specialty, supporting UHA's vision of becoming the regional health system of choice.

LMC's current major losses have forced the parent organization to provide continual financial subsidies. One UHA vice president stated that as a not-for-profit organization, UHA can accept small losses (\$1–\$2 million) from LMC, because many of the other divisions are quite profitable. However, this still requires a substantial financial improvement for LMC. Therefore, the issue facing LMC is the need to turn around operations in its currently tempestuous environment, while conforming to the overall goals and objectives of the parent organization, UHA.

EXTERNAL ENVIRONMENT— THE OUTSIDE FORCES AFFECTING LMC

Sociodemographics

Figure 1 is a map of the entire city, which consists of northern, eastern, southern, and western sections. LMC is located within the western section of the city, and a detailed breakdown of the various regions of that area is shown.

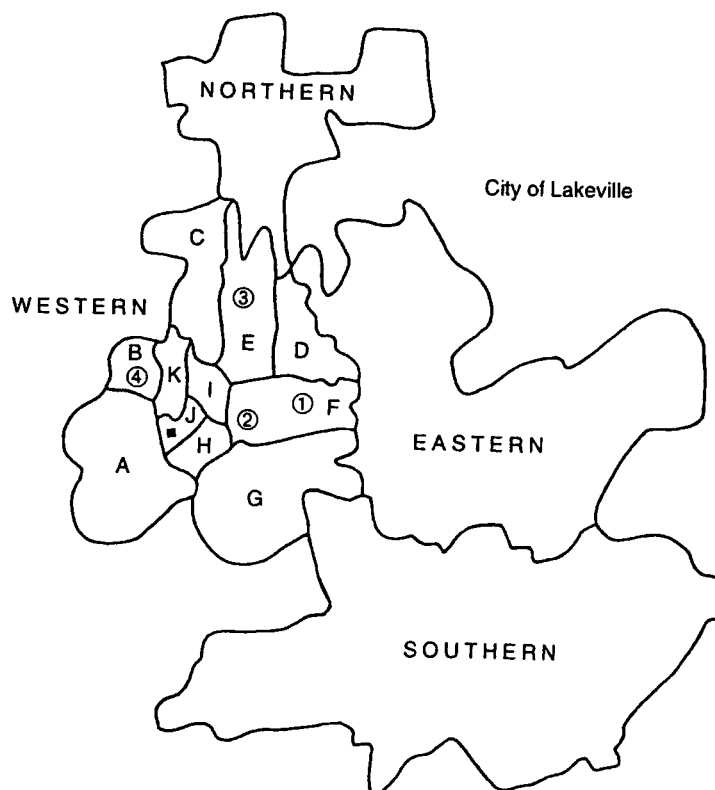


Figure 1. City map showing the four city sections and the regions and major medical facilities located within the western section. ■, Lincoln Medical Center; 1, Community General Hospital; 2, Holy Cross Medical Center; 3, Pacific Specialty Hospital; 4, Lakeville Memorial Hospital.

All of the regions shown in the western section except Region G are included in LMC's service area. Specifically, Regions E, I, J, K, and the western half of Region F comprise LMC's primary service area. Regions A, B, C, D, H, and the eastern portion of Region F comprise LMC's secondary service area.

Table 1 shows the total population, by region, for 1980 and 1990. As shown, all areas, except for the eastern section of the city, are experiencing rapid population increases.

Table 2 shows the population breakdown by ethnicity for 1980 and 1990. Table 3 shows the mean household income in 1980 for the city. It should be noted that the mean income of the western area (\$10,561) is the lowest in the city and the mean incomes of the regions in LMC's primary service area are among the lowest in the western section.

It should also be noted that, in 1980, over 20% of the people under 55 in the western area of the city lived below the poverty line, compared to 7.5% in the southern section, 8.5% in the eastern section, and 12.4% in the northern section.

Finally, Table 4 shows the 1990 Lakeville population by age and by sex.

Table 1. Population by section: Western, southern, eastern, and northern

	1990 population	1980 population	Percent change
Western—11 regions			
A	237,315	198,229	19.72
B	94,558	81,279	16.34
C	234,621	186,984	25.48
D	169,397	151,528	11.79
E	257,469	220,969	16.52
F	271,631	225,406	20.51
G	213,847	180,996	18.15
H	84,229	76,650	9.89
I	107,527	92,414	16.35
J	25,823	22,829	13.11
K	14,551	12,851	13.23
Total	1,710,968	1,450,135	17.99
Southern	1,216,851	1,017,365	19.61
Eastern	375,525	346,338	8.43
Northern	182,054	153,012	18.98

Market Conditions

Two critical market factors in this region should be considered. The first concerns the state of the trauma/emergency services system.

Since the inception of the regional trauma network in the early 1980s, almost half of the involved hospitals have withdrawn. Most of these hospitals cited significant financial losses from the trauma centers as their reason for withdrawing from the network. The financial losses are blamed primarily on high utilization by uninsured and underinsured individuals.

The city's trauma network has been seriously impaired as a result of these rapid closures. Many portions of the city are not now within the recommended 20-minute travel time to a trauma center. This crisis is only expected to escalate as an increasing number of hospitals threaten to withdraw from the fragmented network.

Six months after LMC opened its trauma center, it decided to withdraw from the network. The administration at LMC projected that, because of the large proportion of nonpaying patients, the trauma center would have lost the hospital more than \$5 million. Nonetheless, LMC continues to operate a high-volume emergency room (with a moving average of 2,000 visits per month), which they consider to be the linchpin holding the trauma network together in this region. Moreover, although LMC is not certified as a trauma center, they must often treat serious trauma-level patients.

Lack of adequate low-cost obstetrical services is the second critical factor in this area. Low-cost obstetrical services are provided mainly by the city-run district health services system. The district operates five hospitals and contracts with many others for obstetrical services to low-income women, for which they are reimbursed by the state Medicaid program.

Table 2. Ethnicity distribution: Western, southern, eastern, and northern sections

	White non-Hispanic	Hispanic	Black	Asian/Pacific Islander	Native American	Other non-Hispanic
1980 Data						
Western—11 regions						
A	54,514	120,261	2,601	19,412	1,491	41
B	2,169	73,618	1,575	3,540	327	2
C	1,280	52,126	129,067	1,017	462	
D	10,784	15,919	115,035	9,110	661	19
E	11,690	52,700	149,952	6,024	786	11
F	99,345	55,701	32,776	36,458	890	236
G	115,378	39,670	8,719	16,309	920	
H	21,522	34,927	1,634	18,062	494	
I	15,703	64,487	2,954	8,737	564	
J	6,456	12,305	4,680	1,836	318	
K	1,988	4,428	2,719	3,659	66	
Total	340,829	526,142	451,712	124,164	6,979	309
Southern	756,257	184,450	32,171	37,151	6,982	42
Eastern	265,893	44,950	11,538	22,514	1,346	10
Northern	69,480	60,428	9,253	12,168	1,287	361
1990 Data						
Western—11 regions						
A	42,312	151,448	3,980	38,108	786	681
B	1,481	88,964	695	3,064	102	252
C	1,735	137,447	92,911	1,407	235	886
D	8,804	46,468	104,874	8,067	388	796
E	11,350	115,204	122,547	6,781	486	1,101
F	79,184	103,703	30,035	57,219	598	892
G	107,030	76,183	8,914	20,614	582	524
H	16,779	42,903	1,606	22,390	282	269
I	6,956	85,267	3,099	11,524	270	411
J	4,865	12,660	5,315	2,725	192	66
K	1,723	4,655	3,289	4,782	30	72
Total	282,219	864,902	377,265	176,681	3,951	5,950
Southern	687,946	382,609	48,096	91,606	4,019	2,575
Eastern	263,979	56,936	16,290	36,585	1,031	704
Northern	65,460	86,964	12,638	15,796	773	423

In 1989, the number of deliveries in all hospitals within the city of Lakeville exceeded the hospital capacity by more than 4,000 deliveries. Between 1977 and 1988, the number of annual births increased by 44% and the number of births in the health district system (city facilities and city-contract hospitals) more than doubled. These increases are expected to continue.

Table 3. 1980 Mean household income: Western, southern, eastern, and northern sections

Section	Mean income (\$)
Western—11 regions	
A	13,802
B	10,503
C	7,269
D	12,538
E	9,814
F	12,072
G	13,860
H	13,036
I	8,816
J	6,561
K	7,899
Section mean	10,561
Southern	26,392
Eastern	31,647
Northern	20,235

Currently, LMC has a contract with the health services district to provide obstetrical services to overflow patients from the city facilities. The current capacity of LMC's obstetrical unit is about 250 patients per month, but it has been averaging more than 400 patients per month. Because of this lack of capacity, LMC must discharge patients

Table 4. 1990 Lakeville population by age and sex

	Population	Percent
By age (years)		
Under 5	282,358	8.10
5-17	580,919	16.67
18-20	181,298	5.20
21-24	277,046	7.95
25-44	1,245,072	35.72
45-54	320,581	9.20
55-59	127,141	3.64
60-64	123,270	3.54
65-74	202,168	5.80
75-84	110,126	3.16
85 and over	35,419	1.02
Total	3,485,398	100.00
By sex		
Male	1,750,055	
Female	1,735,343	

within 24 hours after delivery. Therefore, LMC receives only a single day's per diem payment from the state's Medicaid program. LMC estimates that the Medicaid payments cover only about 67% of its obstetrical costs because the most costly obstetrical services are provided within that first 24 hours. Thus, the high turnover in the obstetrics unit results in a lowered average length of stay (ALOS) and, consequently, decreased reimbursement from the state. Moreover, in order to expand the labor and delivery areas to accommodate the current demand, LMC would have to spend nearly \$5 million.

LMC's Competitors

LMC faces a tough environment. The diverse sociodemographics of the Lakeville area are one component of this difficult environment. The general lack of adequate health care for the indigent and the lower median household income are other factors.

Other external conditions increase the financial pressure at LMC. Excess hospital capacity, recent Medicare cuts, uncompensated care, costly emergency room visits, and reimbursement complexities for the delivery of such care are some. Although revenues decrease and operating expenses continue to rise, the new capital investment required to remain competitive is at a peak.

Many hospitals survive amidst such an environment. For example, LMC's surrounding competitors face the same environment and market conditions. However, these facilities have adopted varied strategies that have allowed them to gain certain competitive advantages in this market.

LMC's main competitors include Community General Hospital, Pacific Specialty Hospital, Holy Cross Medical Center, and Lakeville Memorial Hospital. The locations of the hospitals are shown on the map in Figure 1. Table 5 lists the number of licensed and staffed beds, occupancy rates, hospital ownership, patient days, patient discharges, patient days by payer category, and net revenue by payer category for each hospital in 1990. Table 6 gives a brief summary of services offered at the hospitals. Table 7 provides some financial information for the hospitals for 1990.

Community General Hospital is a 410-bed, general acute care facility. It is one of the leading centers for cardiovascular medicine in the western United States. Although Community General's surrounding environment imposes severe fiscal pressure, the hospital has become a center of excellence that draws patients from all over the region. Referral practices of widely known, highly skilled specialists support this center of excellence. Also, referrals from HMO physicians or other network physicians provide access to important additional revenue sources. This is complemented by an aggressive recruitment program to continually enlist new physicians and their patients to the hospital.

Community General emphasizes other specialty services as well: cardiovascular surgery, angioplasty, and sophisticated treatment of arrhythmias; bone cancer treatment; specialized orthopedic procedures, such as hip replacements and repair of pelvic fractures; neonatology; laser and endoscopic removal of bile duct and pancreas stones; advanced, experimental treatment of brain cancer; reproductive technology; and advanced radiological blood vessel technologies.

Table 5. Hospital characteristics for the year ending December 31, 1990

	Lincoln Medical Center	Community General Hospital	Pacific Specialty Hospital	Holy Cross Medical Center	Lakeville Memorial Hospital
Beds/occupancy					
Beds—licensed	350	410	168	375	380
Beds—staffed	302	375	106	317	276
Percentage of staffed beds occupied	58.4	76.7	32	64.1	85.4
Percentage change in occupancy rate from 1989	+0.9	-1.7	+3.0	+1.0	-10.7
Ownership	Not-for-profit/ nongovernment	Not-for-profit/ nongovernment	Not-for-profit/ nongovernment	Not-for-profit/ church-owned	Not-for-profit/ church-owned
Patient days/discharges					
Patient days—1990	65,670	101,810	11,950	73,290	87,620
Percentage change in patient days from 1989	+0.9	+6.0	+0.3	+1.0	-2.5
Patient discharges—1990	13,785	13,512	2,083	10,140	13,758
Patient days by payer					
Medicare	14,540	59,170	1,850	38,730	30,520
Medicaid	21,120	1,350	3,870	14,450	39,320
Other	30,010	41,290	6,230	20,110	17,780
Net patient revenue by payer					
Medicare (\$)	12,580,000	63,833,000	2,826,000	34,581,000	39,261,000
Percentage change from 1989	-20.0	+16.4	+30.3	-14.8	+19.6
Medicaid (\$)	8,007,000	1,379,000	4,849,000	10,700,000	25,431,000
Percentage change from 1989	-20.2	+22.9	+49.8	+19.3	+20.2
Other (\$)	49,868,000	72,378,000	20,212,000	45,358,000	32,135,000
Percentage change from 1989	+20.9	+18.3	-2.7	+26.7	-4.7
Total net patient revenue (\$)	70,455,000	137,590,000	27,887,000	90,639,000	96,827,000
Fixed assets (net depreciation) (\$)	83,720,000	110,210,000	15,890,000	47,220,000	47,060,000

Table 6. Hospital services

	Lincoln Medical Center	Community General Hospital	Pacific Specialty Hospital	Holy Cross Med- ical Center	Lakeville Memorial Hospital
Alcohol/chemical dependency recovery unit					X
Birthing/labor room, delivery, recovery, postpartum	X	X			X
Burn care unit					
Cardiac intensive care unit		X		X	X
Emergency department	X	X	X		X
Geriatric care					
Hemodialysis		X		X	
Home health services		X		X	X
Lithotripsy					
Medical/surgical intensive care unit	X	X	X	X	X
Neonatal intensive care unit	X	X			X
Obstetrics unit	X	X			X
Pediatric inpatient unit	X		X		X
Psychiatric inpatient/outpatient unit					X
Rehabilitation unit—inpatient		X			X
Rehabilitation unit—outpatient	X	X	X	X	X
Skilled nursing facility	X	X			X
Surgery—outpatient	X	X	X	X	X
Transplants (tissue/organ)				X	

Community General has established an active governing board, made up of key business and community members. The board has helped to maintain and further Community General's successful donor network.

Holy Cross Medical Center is the 375-bed neighbor of LMC, and was established in the mid-19th century. Holy Cross is part of the Sisters of Charity hospital system, which is one of the largest not-for-profit hospital networks in the country. The hospital's mission is to provide service to the sick and the poor through respect, quality of service, simplicity, advocacy, and treatment of the "whole" person through pastoral and social services.

Holy Cross is widely known for its specialty care and advanced technology. It has established itself as a center of excellence for cardiac care and has treated more than 50,000 heart patients. Other surgical specialties include neurosurgery, thoracic medicine, ophthalmology, urology, and orthopedics. Ear and hearing problems, cancer, and organ transplantation are other emphasized specialty services. In contrast to LMC, Holy Cross has chosen not to offer obstetrical services and does not operate an emergency room.

Holy Cross has attempted to make itself more accessible by opening facilities in different neighborhoods and by marketing itself to various ethnic groups. Primary care centers were opened in affluent areas of Regions A and F in western Lakeville.

Table 7. Hospital financial information (in thousands of dollars) for the year ending December 31, 1990

	Lincoln Medical Center	Community General Hospital	Pacific Specialty Hospital	Holy Cross Medical Center	Lakeville Memorial Hospital
Gross revenue					
Inpatient	141,444	295,072	26,106	169,627	154,488
Outpatient	21,297	31,323	18,977	20,152	34,608
Total gross revenue	<u>162,741</u>	<u>326,395</u>	<u>45,083</u>	<u>189,779</u>	<u>189,096</u>
Less deductions from revenue	<u>(92,287)</u>	<u>(188,805)</u>	<u>(17,216)</u>	<u>(99,141)</u>	<u>(92,270)</u>
Adjusted gross revenue	<u>70,454</u>	<u>137,590</u>	<u>27,867</u>	<u>90,638</u>	<u>96,826</u>
Operating expenses					
Inpatient	76,385	133,028	19,821	81,482	79,815
Outpatient	11,497	14,138	14,433	9,702	17,899
Other	0	0	2,480	881	2,555
Total operating expenses	<u>87,882</u>	<u>147,166</u>	<u>36,734</u>	<u>92,065</u>	<u>100,269</u>
Net income from operations	<u>(17,428)</u>	<u>(9,576)</u>	<u>(8,867)</u>	<u>(1,427)</u>	<u>(3,433)</u>
Capital expenditures	2,497	16,679	2,253	4,799	12,153
Deductions from revenue—by category					
Bad debt	3,582	10,270	928	3,431	4,523
Medicare contract adjustments	18,074	95,331	4,860	51,708	23,174
Medicaid contract adjustments	45,689	8,357	7,136	26,011	50,859
Charity care	2,973	7,481	1,482	829	2,173
Gifts/subsidies for indigent care	(316)	(253)	(1,239)	0	(270)
Other deductions	<u>22,285</u>	<u>67,619</u>	<u>4,049</u>	<u>17,162</u>	<u>11,811</u>
Total deductions from revenue	<u>92,287</u>	<u>188,805</u>	<u>17,216</u>	<u>99,141</u>	<u>92,270</u>
Percentage change from 1989	+16.9	+20.1	+34.0	+51.8	+0.4

A cardiac testing office was opened in the eastern section of Lakeville. Clairbourne Villa is a 25-bed subacute skilled nursing unit within the hospital. The Tai Chi Pavilion, a 16-bed wing, was opened in 1985 for patients of Chinese descent. The pavilion offers bilingual staff and is geared to serving the medical needs of the nearby Chinese community.

Two other facilities compete directly with LMC. Lakeville Memorial Hospital is a large facility (380 beds) and a member of the Adventist hospital system. Only a few years ago, Lakeville Memorial faced problems similar to those currently facing LMC. Lakeville Memorial was able to turn itself around through marketing efforts focused on the diverse ethnic neighborhoods in its downtown environment. It achieved recognition as a leading community advocate through such efforts by meeting community needs while maintaining efficient operations. One breakthrough initiative to improve its payer mix was establishing relationships with various HMOs to increase managed care contracts. Lakeville Memorial is now considered to be one of the best positioned hospitals in the downtown area.

Pacific Specialty Hospital is a 168-bed facility in LMC's service area. In 1990, the facility operated at an occupancy rate of only 32%. Pacific Specialty's services are limited to orthopedic care, and therefore it competes with LMC only in this area. Pacific Specialty does not operate an emergency room.

John F. Kennedy–Lakeville District Hospital (JFK) and the newly opened Frank Mariposa Tertiary Care Center are indirect competitors of LMC. Because of LMC's environment and the proximity of JFK, LMC has reestablished a working relationship with the Lakeville District Health System. As previously discussed, LMC recently established an obstetrics overflow contract (LMC will accept obstetric patients when city facilities are full) with Lakeville as one part of their public–private partnership strategy. LMC also established one of the first nurse-midwife programs in the not-for-profit community as part of the obstetrics assistant program. Other programs in this partnership include transfer arrangements with the city clinics to LMC when city facilities are full, transfer arrangements for trauma patients directly from JFK, and a shared panel of physicians.

The new Frank Mariposa Tertiary Care Center (FMTCC), opened in 1991, is a for-profit entity. The new facility is placing emphasis on the development of a large specialist referral program. Table 8 lists the services provided by FMTCC.

Table 9 shows a comparison of number of discharges, ALOS, and charges per major diagnostic category (MDC) for the hospitals listed above and for LMC. The sample includes only some MDC categories for males, but provides a varied base of categories for comparison.

INTERNAL FACTORS AT LMC

Teaching Programs—Part of the Commitment to Community Service

LMC supports the community through the provision of critical services such as emergency and obstetric services. In addition, they play an integral role in the continuation of community care through their established teaching programs.

Table 8. Hospital services—Frank Mariposa Tertiary Care Center

-
- Anesthesiology (pain management)
 - Family Medicine
 - Internal Medicine (cardiac catheterization, cardiology, diabetes, dialysis, electrophysiology, endocrinology, gastrointestinal/liver disease, geriatrics, hematology, infectious diseases/AIDS, nephrology, oncology, pulmonary disease, rheumatology/arthritis)
 - Lithotripsy
 - Magnetic Resonance Imaging
 - Medical Rehabilitation
 - Neurological Surgery (complex cerebral vascular disease, complex spine, epilepsy surgery, pituitary tumor management, stereotactic neurosurgery)
 - Obstetrics/Gynecology (complex infertility surgery, female incontinence, in vitro fertilization/reproductive endocrinology)
 - Orthopedics (bone infections, complex spine, foot, hand, joint replacement, oncology, pelvic reconstruction, sports medicine, trauma)
 - Otolaryngology—Head and Neck Surgery (balance disorders, cochlear implants, complex cancer reconstruction, complex trauma reconstruction, sinus surgery, vestibular disorders)
 - Pathology—Clinical and Surgical
 - Positron Emission Tomography
 - Psychiatry and the Behavioral Sciences (30-bed unit)
 - Radiology (diagnostic and therapeutic imaging, interventional radiology, neurointerventional radiology)
 - Surgery (cardiovascular, colorectal, endocrine, esophageal, general, gastrointestinal, micro-reconstructive, multiorgan transplant, plastic, vascular)
 - Urology (continent urinary diversion, electroejaculation, kidney transplant, male sexual function, neurogenic bladder, stone disease, urethra and bladder reconstruction)
-

LMC offers its own family practice residency, training 18 residents a year. In addition to the family practice residency, LMC offers surgical, urology, and radiology/oncology residency rotations to residents at JFK. It is through these residencies that LMC continues training new physicians, and orients them to the plight of the indigent and the conditions in the area.

Financial Background and Payer Mix

Table 10 provides a summary of LMC's historical financial results for 1987, 1988, and, 1989, and a financial projection for 1991. Table 5 shows LMC's patient days and net patient revenue by payer (Medicare, Medicaid, or Other), which indicates payer mix. This information allows for a detailed look at potential causes of the hospital's poor financial results.

Mission, Goals, and Plans

As mentioned, LMC's strategy is to create a "public-private partnership," wherein LMC would continue to serve the predominantly uninsured, low-income community, assisted by the state and the city. Specifically, LMC has set forth two main financial remedies.

The first is to negotiate higher per diem rates from the state Medicaid system in order to cover more of their costs of providing service. Because LMC sees such a high

Table 9. Discharges, ALOS, and charges for eight major diagnostic categories (males only)

Major diagnostic category	Discharges	Percentage of all discharges	ALOS	Adjusted average charge/day (\$)
Burns				
LMC	7	0.1	4.1	824
Community General	1	0.0	32.0	765
Pacific Specialty	1	0.0	8.0	759
Holy Cross	2	0.0	30.5	789
Lakeville Memorial	5	0.0	15.6	2,708
Substance abuse/induced diseases or disorders				
LMC	17	0.1	2.5	1,039
Community General	15	0.1	3.4	941
Pacific Specialty	2	0.1	3.5	444
Holy Cross	7	0.1	4.0	700
Lakeville Memorial	9	0.1	8.2	1,624
Mental diseases or disorders				
LMC	11	0.1	6.3	76
Community General	20	0.2	6.6	77
Pacific Specialty	1	0.0	5.0	54
Holy Cross	18	0.2	9.0	73
Lakeville Memorial	14	0.1	6.7	135
Diseases of the blood or blood-forming organs				
LMC	74	0.5	5.0	931
Community General	38	0.4	2.9	1,282
Pacific Specialty	40	1.2	7.8	1,389
Holy Cross	47	0.4	11.0	1,077
Lakeville Memorial	33	0.2	4.5	1,232
Myeloproliferative diseases				
LMC	63	0.4	8.3	1,222
Community General	237	2.3	4.0	128
Pacific Specialty	35	1.0	1.9	206
Holy Cross	107	1.0	8.0	111
Lakeville Memorial	62	0.4	3.9	100
Conditions of newborns/neonates				
LMC	1,540	10.0	4.2	607
Community General	1	0.0	3.0	675
Pacific Specialty	1	0.0	5.0	1,139
Holy Cross	1	0.0	1.0	3,840
Lakeville Memorial	2,438	23.6	14.4	977
Endocrinology/nutrition				
LMC	120	0.8	7.5	115
Community General	142	1.4	7.0	87

(continued)

Table 9. (continued)

Major diagnostic category	Discharges	Percentage of all discharges	ALOS	Adjusted average charge/day (\$)
Pacific Specialty	0	0.00	0.0	0
Holy Cross	100	0.90	7.4	82
Lakeville Memorial	85	0.50	7.5	121
Diseases/disorders of the reproductive system				
LMC	112	0.80	5.7	1,022
Community General	18	1.80	7.3	862
Pacific Specialty	21	0.60	6.3	1,264
Holy Cross	127	1.20	7.1	889
Lakeville Memorial	120	0.70	6.1	1,323

volume of Medicaid patients (approximately 35% of LMC's patient population), it believes it should be allocated a higher rate than other hospitals.

The second remedy involves increasing the occupancy rate of the hospital. Pursuant to successful completion of step one (higher rates from the state), LMC would like to set up a referral network between the city facilities and itself to fill its empty beds. LMC already works with the city to handle overflow obstetric patients (as was previously outlined), but it would like to receive medical/surgical and pediatric patients as well. With higher rates and an increased volume, LMC believes it can reduce its financial losses to a level tolerable to the parent company.

Table 10. Lincoln Medical Center—historical and projected financial results (in thousands of dollars)

	1987	1988	1989	1991*
Revenue/expense report				
Gross revenues	89,479	115,895	133,264	162,975
Less deductions	(33,582)	(52,236)	(68,040)	(93,351)
Net revenue	55,897	63,659	65,224	69,624
Other operating revenue	818	976	915	2,412
	56,715	64,635	66,139	72,036
Less operating expenses	(55,190)	(62,434)	(62,583)	(75,487)
	1,525	2,201	3,556	(3,451)
Less capital costs	(6,813)	(11,558)	(11,431)	(12,541)
	(5,288)	(9,357)	(7,875)	(15,992)
Nonoperating revenue	2,671	2,090	1,747	1,402
Net gain/(loss)	(2,617)	(7,267)	(6,128)	(14,590)
Balance sheet				
Assets				
Short-term	15,310	15,968	7,268	7,681
Long-term	94,577	93,646	101,774	100,167
	109,887	109,614	109,042	107,848
Liabilities and equity	109,887	109,614	109,042	107,848

*Projected data.

In addition to the above goals, LMC hopes to improve its payer mix. This may be achieved through two strategies. One is to focus on the general managed care arena, and improve its overall contracts with private payers. Second, LMC will continue to encourage the development of an independent practice association (IPA). A sound IPA will potentially provide a steady stream of commercial and managed care patients to the hospital.

A strong community advocacy program is in its initial implementation stages as well. A large fund-raising movement is one component of this program. LMC has an established foundation specifically for these purposes. Their community-active, diverse, business-oriented board is also a component of this program.

CONCLUSION—CASE ANALYSIS

As the President and CEO of LMC, Harold Irvings has a myriad of issues facing him. He has been given 24 months by the parent corporation, UHA, to turn the hospital around. Irvings must struggle with the difficult environment surrounding LMC. Any changes he endeavors to make at LMC must conform to the overall goals and directives from UHA, yet need to be sufficient to create a major improvement in the bottom line. Using the information in the case, analyze the prospects for LMC and describe how the hospital might reach its goals

