Financial and Operational Impact of Health Reform on MA Health Centers, 2006 - 2012

Presented by:
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MA CHC Patients and Encounters

Health Reform passed April 2006

Chart showing the increase in encounters and patients from 2006 to 2012.
MA Health Center Patient Payer Mix

- **2006:**
  - Medicaid: 41%
  - Medicare: 18%
  - Private Insurance: 7%
  - Other Public: 1.0%
  - Uninsured: 33%

- **2007:**
  - Medicaid: 42%
  - Medicare: 19%
  - Private Insurance: 5.8%
  - Other Public: 8%
  - Uninsured: 26%

- **2008:**
  - Medicaid: 42%
  - Medicare: 20%
  - Private Insurance: 8.8%
  - Other Public: 8%
  - Uninsured: 21%

- **2009:**
  - Medicaid: 42%
  - Medicare: 19%
  - Private Insurance: 10.1%
  - Other Public: 8%
  - Uninsured: 20%

- **2010:**
  - Medicaid: 43%
  - Medicare: 19%
  - Private Insurance: 9.0%
  - Other Public: 9%
  - Uninsured: 20%

- **2011:**
  - Medicaid: 42%
  - Medicare: 19%
  - Private Insurance: 8.1%
  - Other Public: 9%
  - Uninsured: 21%

- **2012:**
  - Medicaid: 43%
  - Medicare: 20%
  - Private Insurance: 10.1%
  - Other Public: 10%
  - Uninsured: 21%
MA CHCs – Total Revenue and Expenses

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenues</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY07</td>
<td>$541</td>
<td>$530</td>
</tr>
<tr>
<td>FY08</td>
<td>$588</td>
<td>$580</td>
</tr>
<tr>
<td>FY09</td>
<td>$644</td>
<td>$638</td>
</tr>
<tr>
<td>FY10</td>
<td>$688</td>
<td>$682</td>
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<td>FY11</td>
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<td>$730</td>
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<tr>
<td>FY12</td>
<td>$803</td>
<td>$786</td>
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</table>
MA CHCs Revenue Mix

NPSR = Net Patient Services Revenue
GCR = Grants & Contract Revenue
OOR = Other Operating Revenue
Revenue Composition for the Median Health Center

MA CHCs – Revenue vs. Encounters
MA CHCs Operating Margins

- 75th National = 6.6%
- 50th National = 2%
- 25th National = -1%
Days Cash On Hand

Massachusetts Health Centers

Days Cash on Hand

FY06 FY07 FY08 FY09 FY10 FY11 FY12

MA 75th Percentile
MA Median
MA 25th Percentile

75th National = 66
50th National = 31
25th National = 11
Median Operating vs. Bottom Line Margins

Massachusetts Health Centers

Margin %

2006 2007 2008 2009 2010 2011 2012

MA Median Operating Margin
MA Median Bottom Line Margin
The Lowest Quartile is Struggling

Massachusetts Health Centers

Operating Margin

-5.0%  -4.0%  -3.0%  -2.0%  -1.0%  0.0%  1.0%  2.0%

2006  2007  2008  2009  2010  2011  2012

The Upper Quartile is Stable
Federal Capital Grants to MA Health Centers

Includes capital grants awarded under the American Recovery and Reinvestment Act and the Affordable Care Act.
Investments in Fixed Assets and Debt

Massachusetts Health Centers

Millions

<table>
<thead>
<tr>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$100</td>
<td>$200</td>
<td>$300</td>
<td>$400</td>
<td>$500</td>
<td>$600</td>
</tr>
</tbody>
</table>

- **Total Gross Fixed Assets**
- **Total Current & Long-term Debt and Capital Leases**
Impact of Depreciation and Interest Expense

MA Health Centers

Depreciation + Interest Expense as % of Op Revenue

FY06  FY07  FY08  FY09  FY10  FY11  FY12

75%  50%  25%

0.0%  1.0%  2.0%  3.0%  4.0%  5.0%  6.0%
In Comparison:
National Financial & Operating Trends

See: Community Health Center Financial Perspectives: Issue 1
(Capital Link, 2013)

Payer Mix

Health Center Patients by Payer

Operating Margin

Cash

![Health Center Days Cash on Hand](image)

1. **Rapid growth and positive payer mix shift does not necessarily lead to financial strengthening. Why not?**

   - The rate of uninsurance may decline more slowly than the grant funds that support care to the uninsured.
   - Additional costs associated with growth and systems change are not fully anticipated or adequately reimbursed (e.g. facility costs and outreach/enrollment activities).
   - Adoption of EHR hurts productivity and negatively affects margins (almost always); EHR implementation occurring simultaneously with rapid growth is a double-whammy and difficult to manage well.
Take-Aways and Food for Thought

2. In a FFS environment, small misalignments between growth in revenues and growth in visits can rapidly erode operating margins and deplete cash reserves
   - The likelihood of “misalignments” in an environment of payment reform is very high
   - Health centers’ margin for error is very low
   - A focus on maintaining/improving adequate rates and subsidies to support care to uninsured and patients with complex needs will be critical to health centers’ financial survival
Take-Aways and Food for Thought

3. The strong are getting stronger …
   – What are they doing right?
   – How can we implement their best practices throughout the system?

4. The weak are likely to get weaker …
   – How can they be strengthened?
   – Can we afford for them to fail?
   – If failure is not an option, what are the alternatives?