NC Rural Health Research & Policy Analysis Center

Getting to 2015: Key Issues Facing CAHs in an Evolving Healthcare System

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Agenda

- Are all types of rural hospitals under financial pressure?
- How does distance affect CAHs?
- Why does CAH financial performance differ by state?
- What can we conclude?

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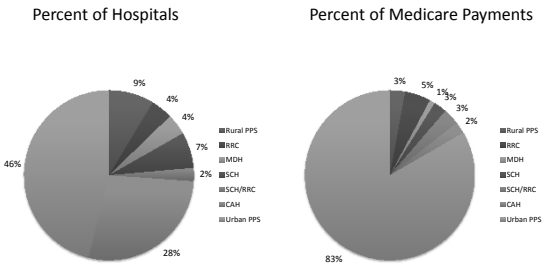
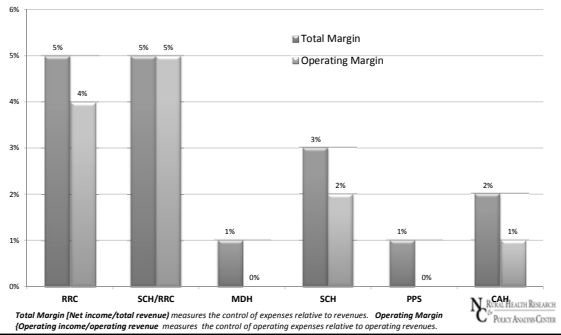
Are all types of rural hospitals under financial pressure?

- 2010 data presented are medians unless noted

Hospitals versus Payments

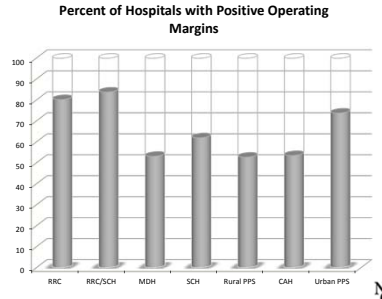


Profitability



Total Margin (Net income/total revenue) *measures the control of expenses relative to revenues.* ***Operating Margin (Operating income/operating revenue*** *measures the control of operating expenses relative to operating revenues.*

Is the glass half empty or half full?



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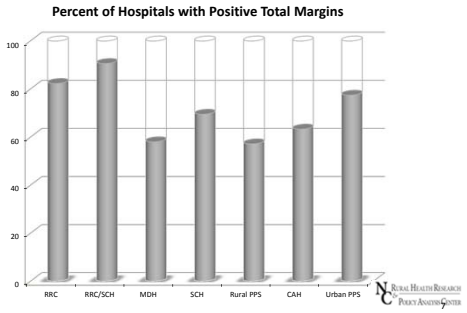
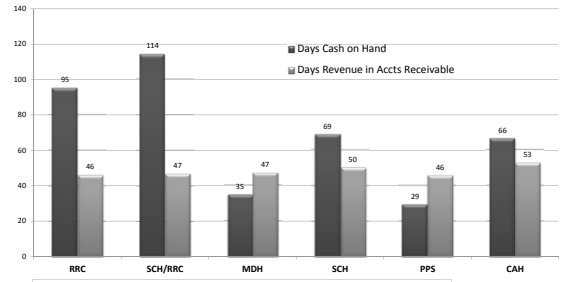
Is the glass half empty or half full?



Liquidity

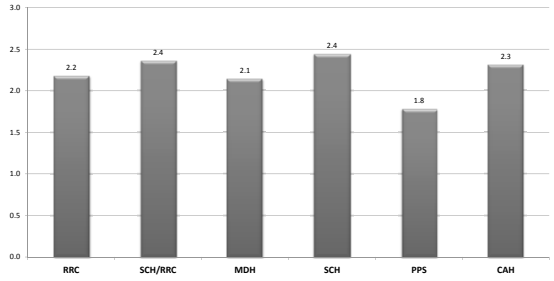
Cash on Hand and Days in AR



Days Cash on Hand *measures the number of days an organization could operate if no cash was collected.* ***Days Revenue in Accounts Receivable*** *measures the number of days that it takes an organization, on average, to collect its receivables. A low value indicates efficient collection.*

Liquidity

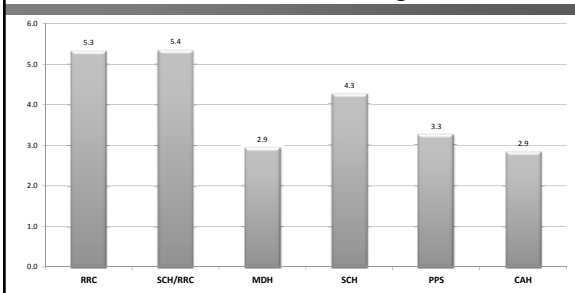
Current Ratio



Current Ratio *(current assets/current liabilities) measures ability to pay short-term obligations. A value greater than 1 indicates current assets are greater than current liabilities.*

Capital Structure

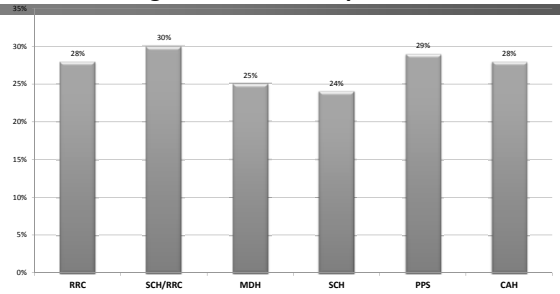
Debt Service Coverage



Debt Service Coverage *measures ability to pay long-term debt. A value greater than 1 indicates indicates cash flow greater than current fixed charge obligations.*

Capital Structure

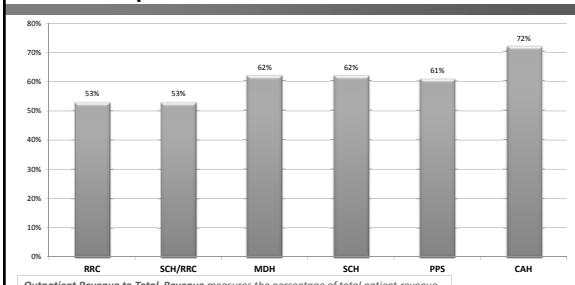
Long-Term Debt to Capitalization



Long-Term Debt to Capitalization *(long-term debt/[long-term debt + net assets]) measures the percentage of total capital that is debt.*

Revenue

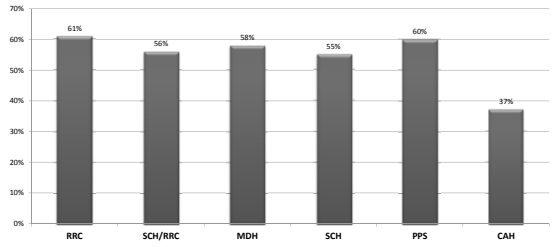
Outpatient Revenue to Total Revenue



Outpatient Revenue to Total Revenue *measures the percentage of total patient revenue that is received for outpatient services including rural health clinics, freestanding clinics and home health clinics.*

Revenue

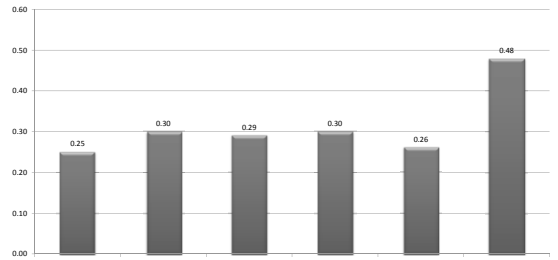
Patient Deductions



Patient Deductions ([contractual allowances + discounts]/gross patient revenue) *measures allowances and discounts as a proportion of gross patient revenue.*

Revenue

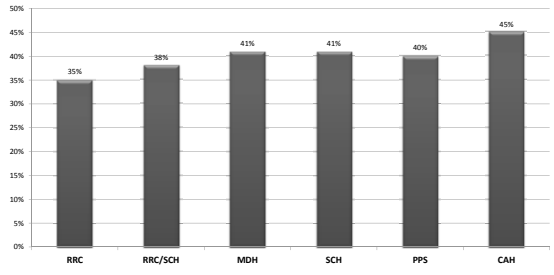
Medicare Outpatient Cost to Charge Ratio



Medicare Outpatient Cost to Charge *measures the percent of charges that are actual costs. A value less than 0.5 indicates that outpatient costs are less than one-half of outpatient charges.*

Cost

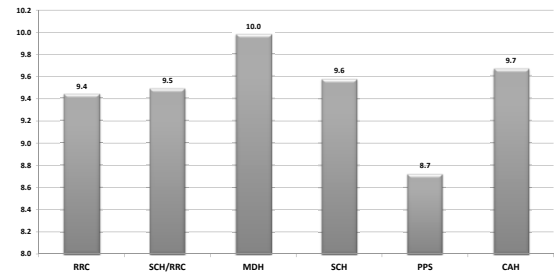
Salaries to Net Patient Revenue



Salaries to Net Patient Revenue *measures the percent of net patient revenue that is labor cost.*

Cost

Average Age of Plant and Equipment



Average Age of Plant *measures the average age in years of the fixed assets of an organization.*

Conclusions

- The primary goal of reimbursement programs is financial stability to ensure population access to care. CAHs predominate among hospitals eligible for rural reimbursement programs.
- Distribution of hospitals across the US varies considerably. CAHs are the most likely source of care in the most rural areas and in the middle of the country.

Conclusions – continued

- CAHs…
  - Are in counties with the lowest population density but the highest percent of population 65 years and older
  - Operate with the lowest patient volume
  - Provide swing bed care as a portion of all care more frequently than other hospitals
  - Provide surgical services in lower volume and predominantly outpatient surgery

Conclusions - continued

- Financially, CAHs…
  - Have a higher percentage of Medicare patients
  - Take longer to collect their receivables
  - Receive more of their revenue from outpatients
  - Have lower levels of allowances and discounts
  - Have a higher Medicare outpatient cost to charge ratio
  - Have higher salaries to net patient revenue

Conclusions - continued

- There is variation in financial condition among rural hospitals. All rural hospitals are not under financial pressure; some are under a lot of pressure (CAHs, MDHs and R-PPS hospitals) and some have done quite well (RRCs).

How does distance affect CAHs?

- Distance is only one eligibility criterion.
- It is frequently mentioned in policy debate.
- There is particular focus on CAHs that are near other hospitals – some in the same town.
- How do CAHs vary by distance?

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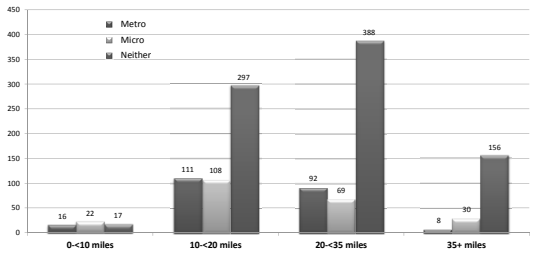
CAH Distance from Next Hospital



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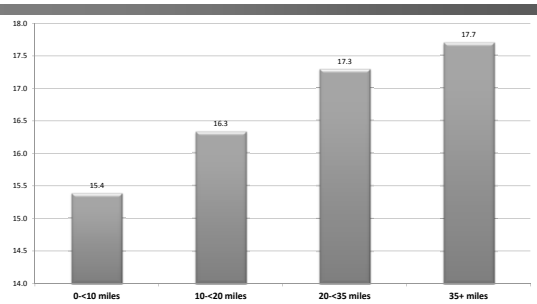
Percent of County Population 65 Years and Older



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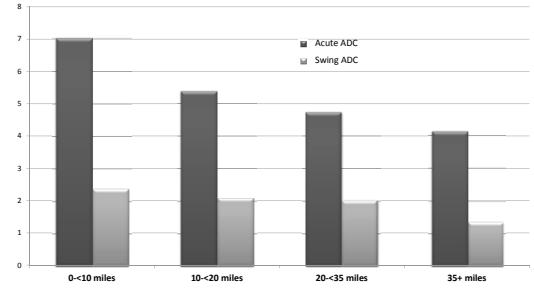
2010 CAH Average Daily Census



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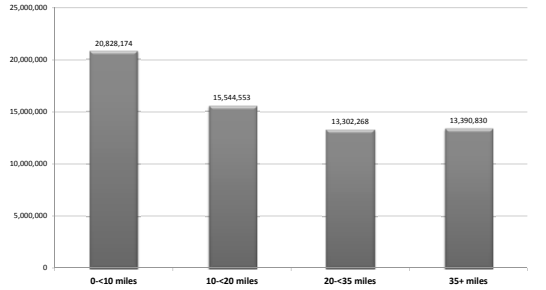
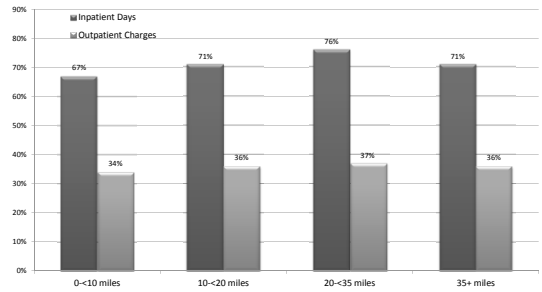
2010 CAH Net Patient Revenue



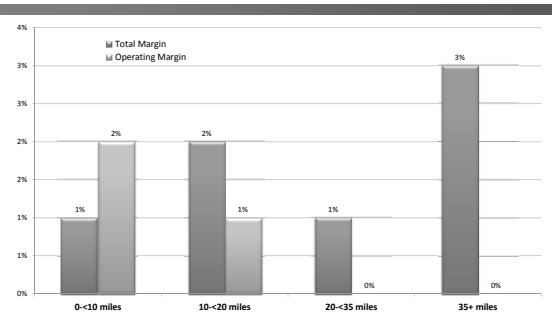
CAH Medicare Patient Volume

2010 Percent of Inpatient Days and Outpatient Charges



CAH Profitability

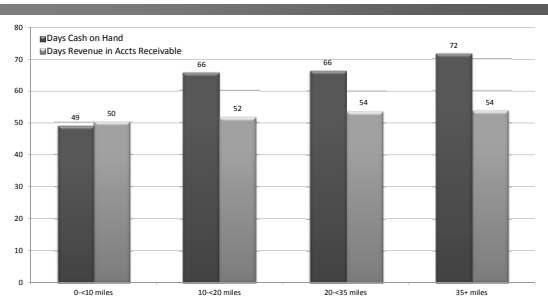
2010 Total Margin and Operating Margin



Total Margin [Net income/total revenue] *measures the control of expenses relative to revenues.* ***Operating Margin [Operating income/operating revenue*** *measures the control of operating expenses relative to operating revenues.*

CAH Liquidity

2010 Days Cash on Hand and Days in AR



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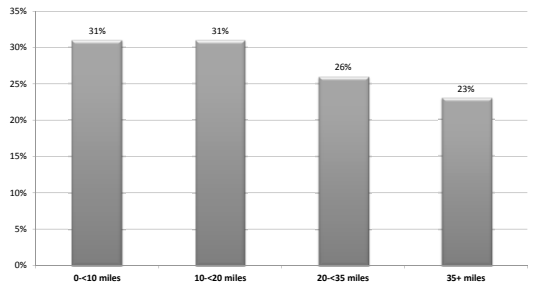
CAH Capital Structure

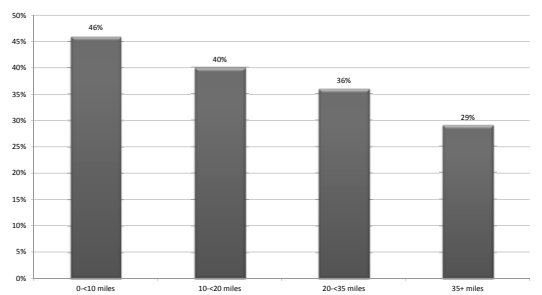
2010 Long-Term Debt to Capitalization



Long-Term Debt to Capitalization *[long-term debt/[long-term debt + net assets]] measures the percentage of total capital that is debt.*

CAH Revenue

2010 Patient Deductions



Patient Deductions [(contractual allowances + discounts]/gross patient revenue] *measures allowances and discounts as a proportion of gross patient revenue.*

Why does CAH financial performance differ by state?

NC, SC, US

CAHs in 2010

Net patient revenue:	NC	SC	US
Less than $7.5 million	10% (2)	0% (0)	20%
$7.5-20 million	52% (11)	80% (4)	47%
Greater than $20 million	38% (8)	20% (1)	33%
# of hospitals	21	5	1297

CAHs in 2010

Management:	NC	SC	US
Government	19% (4)	80% (4)	43%
Not government	81% (17)	20% (1)	57%
# of hospitals	21	5	1297

CAHs in 2010

Long term care:	NC	SC	US
Provides LTC	43% (9)	20% (1)	29%
Doesn't provide LTC	57% (12)	80% (4)	71%
# of hospitals	21	5	1297

CAHs in 2010

Rural Health Clinic:	NC	SC	US
Operates a RHC	29% (6)	40% (2)	47%
Doesn't operate a RHC	71% (15)	60% (3)	53%
# of hospitals	21	5	1297

CAHs in 2010 Summary

- **Compared to the US, a higher percentage of CAHs in North Carolina:**
  - Have greater net patient revenue
  - Are not government managed
  - Provide LTC
  - Do not operate a RHC
- **Compared to the US, a higher percentage of CAHs in South Carolina:**
  - Have greater net patient revenue
  - Are government managed
  - Do not provide LTC
  - Do not operate a RHC
- All of these affect financial performance and there are substantial variations among states

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CAHs in 2010

	NC	SC	US
Percent of hospitals with a negative total margin	62%	60%	36%
Percent of hospitals with a negative operating margin	57%	60%	46%

*Red=worse performance than U.S. median

CAHs in 2010

Indicator:	NC median	SC median	US median
Profitability:			
Total margin	-2%	-6%	2%
Cash flow margin	5%	-5%	6%
Return on equity	-0.4%	-28%	5%
Operating margin	-2%	-11%	1%
Liquidity:			
Current ratio	1.5	1.2	2.3
Days cash on hand	42	14	68
Days revenue in accounts receivable	57	71	53

*Red=worse performance than U.S. median

CAHs in 2010

Indicator:	NC median	SC median	US median
Capital structure:			
Equity financing	53%	43%	58%
Debt service coverage	2.43	-0.17	2.97
Long-term debt to capitalization	30%	34%	28%
Revenue:			
Outpatient revenue to total revenue	69%	74%	72%
Patient deductions	54%	41%	37%
Medicare inpatient payer mix	72%	62%	72%
Medicare outpatient payer mix	39%	29%	36%
Medicare outpatient cost to charge ratio	0.39	0.43	0.48
Medicare revenue per day	$1,678	$1,601	$1,911

CAHs in 2010

Indicator:	NC median	SC median	US median
Cost:			
Salaries to net patient revenue	44%	40%	45%
Average age of plant	7.9 years	16 years	9.8 years
FTEs per adjusted occupied bed	6.0	5.0	5.9
Average daily census swing/SNF beds	1.5	3.0	1.6
Average daily census acute beds	7.1	5.1	3.9

CAHs in 2010 Summary

- **Compared to the US, CAHs in NC:**
  - Are less profitable
  - Are less liquid
  - Have more debt and are less able to service debt
  - Have a lower proportion of outpatient revenue and Medicare revenue per day
  - Have a higher proportion of patient deductions
  - Have same Medicare payer mix but lower outpatient cost to charge
  - Have much younger age of plant
  - Have lower ADC swing but higher ADC acute beds

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CAHs in 2010 Summary

- **Compared to the US, CAHs in SC:**
  - Are less profitable
  - Are less liquid
  - Have more debt and are less able to service debt
  - Have higher proportion of outpatient revenue, patient deductions and lower Medicare revenue per day
  - Have lower Medicare payer mix and outpatient cost to charge
  - Have much older age of plant
  - Have higher ADC swing and ADC acute beds

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NC CAHs are less profitable than average US CAH. Why?

- Potential reasons from the data:
  - More CAHs with RHC and LTC
  - Lower proportion of outpatient revenue
  - Higher Medicare payer mix
  - Lower Blue Cross payment rates
  - Higher outpatient cost to charge
  - Older age of plant
  - Higher ADC acute beds
  - Other reasons?

NC CAHs are less profitable than average US CAH. Why?

- Other potential reasons:
  - Net revenue is relatively lower (less patient volume, lower rates, worse payer mix, Medicaid)
  - Costs are relatively higher (wage rates, bad debt, charity care, efficiency)
  - Non-operating income is relatively lower (investment income, state or county support, charitable revenue?)
  - System / network affiliation

What can we conclude?

•Is the glass half empty or half full?

CAHs, MDHs, and rural PPS are under a lot of financial pressure compared to other hospitals.

•What is the effect of eligibility change on CAHs and SCHs?

CAHs <10m=few SCHs → CAHS <35m=half of SCHs

•How does distance affect CAHs?

Older population, lower volume, less revenue, lower operating profit, less debt, lower patient deductions

What can we conclude?

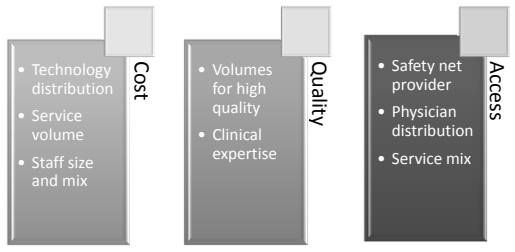
- Why does CAH financial performance differ by state?

  Variation in commercial payer rates, Medicaid LTC reimbursement, RHC provision, system affiliation, physician supply…

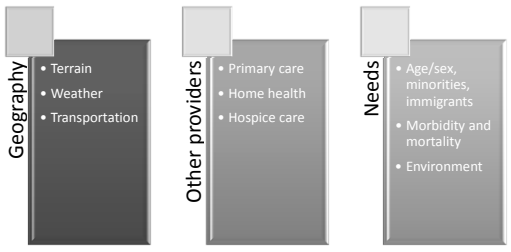
- Are low volume hospitals sustainable?

  Low volume hospitals in small markets are at greatest risk of financial distress

Distance matters but other factors matter, too



Distance matters but other factors matter, too



Contact information

- If you need a username and password, please email the CAH Financial Indicators Report Team email at:
  CAH.finance@schsr.unc.edu
- Flex Monitoring Team website
  http://www.flexmonitoring.org

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Appendix – How did CAHs in NC and SC compare to the US in 2010?

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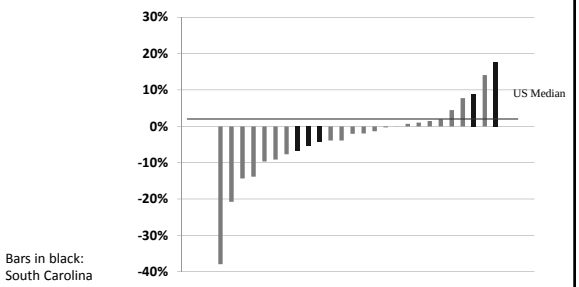
CAHs in NC, SC and US - 2010
Profitability:
Total margin

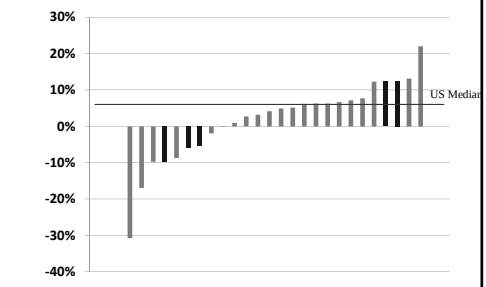


Bars in black:
South Carolina

Net income
Total revenue

51

CAHs in NC, SC and US - 2010
Profitability:
Cash flow margin



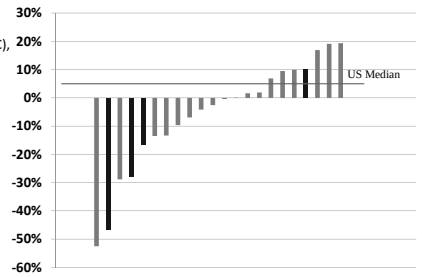
Bars in black:
South Carolina

Net income – (Contributions, investments, and appropriations) + Depreciation expense + Interest expense
Net patient revenue + Other income – (Contributions, investments, and appropriations)

52

CAHs in NC, SC and US - 2010
Profitability:
Return on equity

Outliers: -2200% (SC), -237% (NC), -197% (NC), 92.7% (NC)

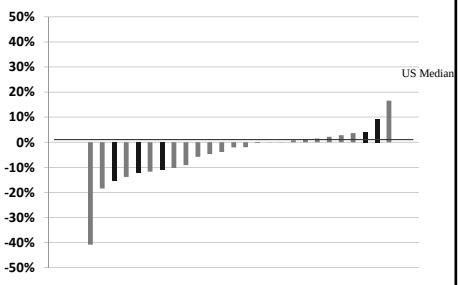


Bars in black:
South Carolina

Net income
Net assets

53

CAHs in NC, SC and US - 2010
Profitability:
Operating margin

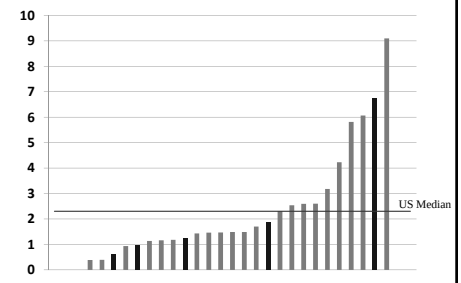


Bars in black:
South Carolina

Operating income
Operating revenue

54

CAHs in NC, SC and US - 2010
Liquidity:
Current ratio

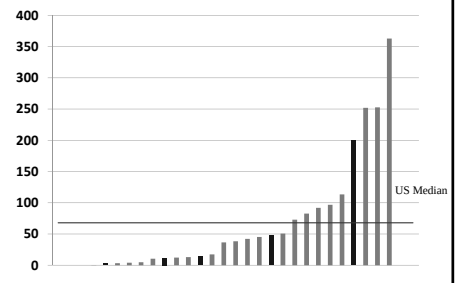


Bars in black:
South Carolina

Current assets
Current liabilities

55

CAHs in NC, SC and US - 2010
Liquidity:
Days cash on hand



Bars in black:
South Carolina

Cash + Marketable securities + Unrestricted investments
(Total expenses – Depreciation) / Days in period

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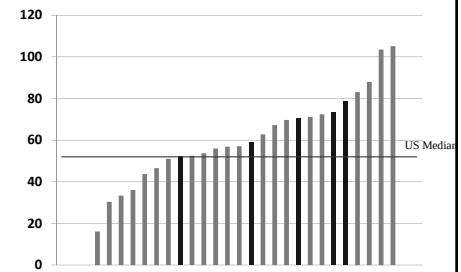
CAHs in NC, SC and US - 2010
Liquidity:
Days revenue in accounts receivable



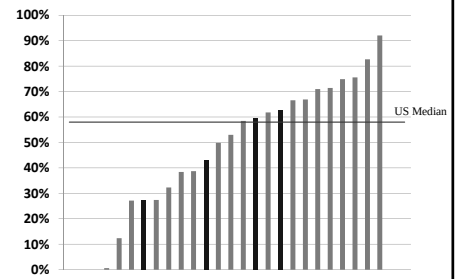
Bars in black:
South Carolina

Net patient accounts receivable
(Net patient service revenue) / Days in period

57

CAHs in NC, SC and US - 2010
Capital Structure:
Equity financing

Outliers: -72%
(NC), -70%
(NC), -2% (SC)



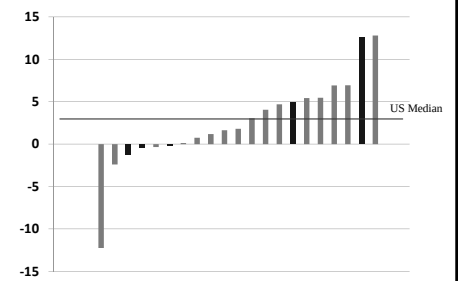
Bars in black:
South Carolina

Net assets
Total assets

58

CAHs in NC, SC and US - 2010
Capital Structure:
Debt service coverage

Missing: 5



Bars in black:
South Carolina

Net income + Depreciation + Interest expense
Current portion of long-term debt + Interest expense

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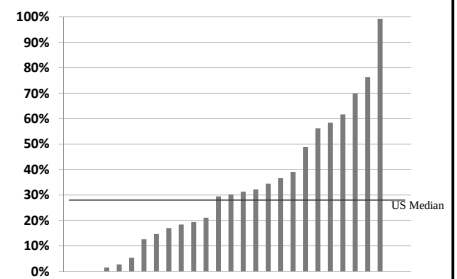
CAHs in NC, SC and US - 2010
Capital Structure:
Long-term debt to capitalization

Outliers: 105% (SC),
228% (NC)

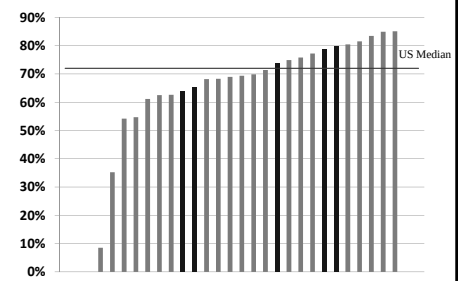


Bars in black:
South Carolina

Long-term debt
Long-term debt + Net assets

60

CAHs in NC, SC and US - 2010
Revenue:
Outpatient revenue to total revenue

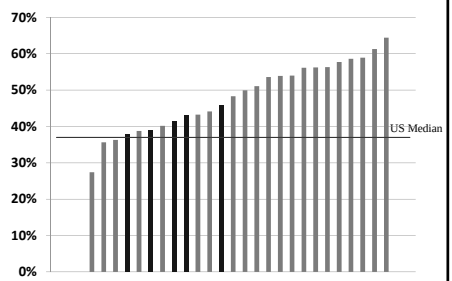


Bars in black:
South Carolina

Total outpatient revenue
Total patient revenue

61

CAHs in NC, SC and US - 2010
Revenue:
Patient deductions

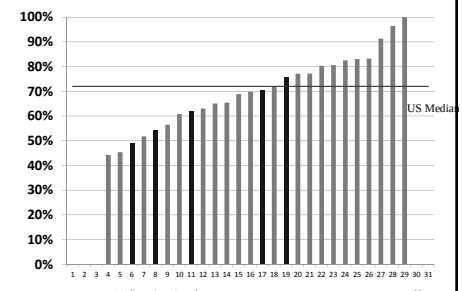


Bars in black:
South Carolina

Contractual allowances and discounts
Gross total patient revenue

62

CAHs in NC, SC and US - 2010
Revenue:
Medicare inpatient payer mix

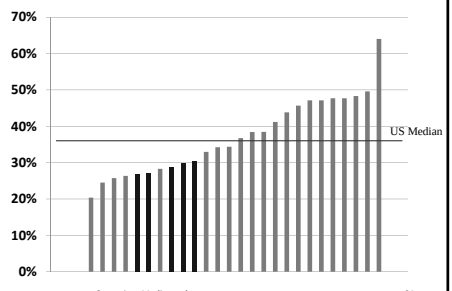


Bars in black:
South Carolina

Medicare inpatient days
Total inpatient days – Nursery bed days – NF Swing bed days

63

CAHs in NC, SC and US - 2010
Revenue:
Medicare outpatient payer mix

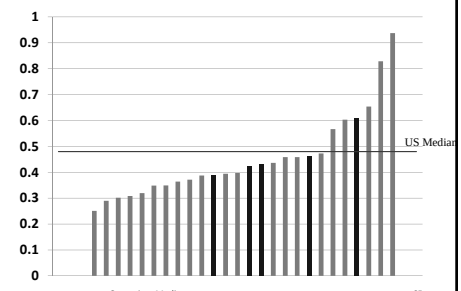


Bars in black:
South Carolina

Outpatient Medicare charges
Total outpatient charges

64

CAHs in NC, SC and US - 2010
Revenue:
Medicare outpatient cost to charge



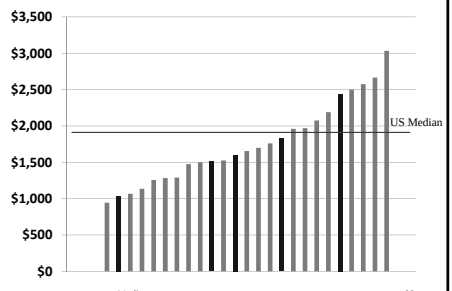
Bars in black:
South Carolina

Outpatient Medicare costs
Outpatient Medicare charges

65

CAHs in NC, SC and US - 2010
Revenue:
Medicare revenue per day

Missing: 1

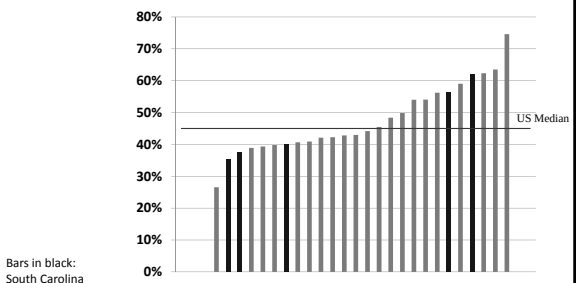


Bars in black:
South Carolina

Medicare revenue
Medicare days – SNF Swing bed days

66

CAHs in NC, SC and US - 2010
Cost:
Salaries to net patient revenue



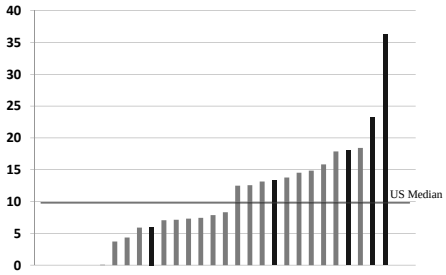
Bars in black:
South Carolina

Salary expense
Net patient revenue

67

CAHs in NC, SC and US - 2010
Cost:
Average age of plant

Note: Highlands Cashiers and Blowing Rock Hospitals listed as 0 years old



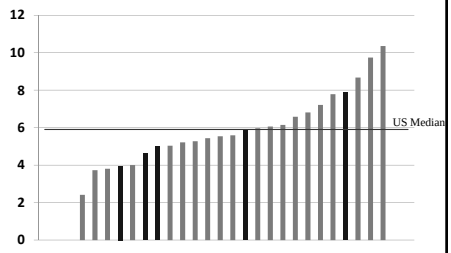
Bars in black:
South Carolina

Accumulated depreciation
Depreciation expense

68

CAHs in NC, SC and US - 2010
Cost:
FTEs per adjusted occupied bed

Outlier: 22



Bars in black:
South Carolina

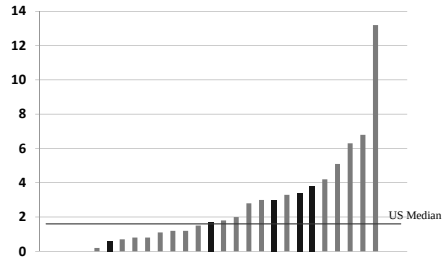
Number of FTEs
Adjusted occupied beds**

** (Inpatient days – NF Swing days – Nursery days) *
(Total patient revenue / (Total inpatient revenue – Inpatient NF revenue – Other LTC Revenue)) / Days in period

69

CAHs in NC, SC and US - 2010
Utilization:
Average daily census swing/SNF beds

Outliers: 0 (NC), 0 (NC)



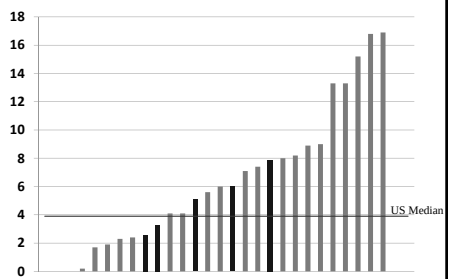
Bars in black:
South Carolina

Inpatient swing bed SNF days
Days in period

70

CAHs in NC, SC and US - 2010
Utilization:
Average daily census acute beds

Outlier: 0 (NC)



Bars in black:
South Carolina

Inpatient acute care bed days
Days in period

71