

Using the Flex Monitoring Team Annual CAH Financial Indicators Reports

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CAH Financial Indicators Report Team



A Performance Monitoring Resource for
Critical Access Hospitals, States, and Communities

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Agenda

- What is the *CAH Financial Indicators Report* ?
- What was the Critical Access Hospital 2012 Financial Leadership Summit?
- Theory: How is profitability measured?
- Exercise: Why might profitability differ between two states?
- Lessons learned: How should SFCs use indicators?
- Your take away: What can I do?



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What is the CAH Financial Indicators Report (CAHFIR)?



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CAHFIR

- 21 indicators of financial performance and condition developed with expert advice
- Profitability, liquidity, capital structure, revenue, cost, and utilization
- Peer groups
- Benchmarks
- Financial distress model
- New outpatient indicators



CAHFIR Resources available to State Flex Coordinators

- ***State level***
 - State Summary
 - State Graphs
 - State Data
 - State Medians
- ***Hospital level***
 - Hospital Summary
 - Hospital Report
 - Hospital Graphs
 - Hospital Cover Letters
- ***Other resources***
 - Presentation
 - Calculator
 - Primer
 - FMT Reports and Data



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What was the Critical Access Hospital 2012 Financial Leadership Summit?



Purpose of the Summit

Meeting was prompted by the declining financial circumstances of many CAHs across the country, as well as the new challenges in the provisions of the Accountable Care Act

Goals:

- Identify barriers to sustainable CAH financial performance
- Consider the definition of financial crisis in CAHs
- Identify the most important CAH financial measures
- Identify strategic interventions to improve CAH financial performance
- Provide input on the availability and/or development of useful financial resources for both CAHs and state Medicare Rural Hospital Flexibility (Flex) Programs



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Theory: How is profitability measured?



Profitability: Total Margin

Definition

$$\frac{\text{Net income}}{\text{Total revenue}}$$

Interpretation

Measures the percent of total revenues that is profit or loss. A positive value indicates total expenses are less than total revenues (a profit). Very high positive values may indicate higher patient volumes, which drive down the cost per unit of service. A negative value indicates total expenses are greater than total revenues (a loss). Very high negative values may indicate financial difficulty.

2010 CAH median 1.9%



Profitability: Operating Margin

Definition

$$\frac{\text{Net operating income}}{\text{Total operating revenue}}$$

Interpretation

Measures the percent of operating revenues that is profit or loss. A positive value indicates operating expenses are less than operating revenues (an operating profit). Very high positive values may indicate higher patient volumes, which drive down the cost per unit of service. A negative value indicates operating expenses are greater than operating revenues (an operating loss). Very high negative values may indicate financial difficulty.

2010 CAH median 0.8%



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***Exercise:
Why might profitability differ
between two states?***

2010 Median Indicator values			
Performance Dimension and Indicator	High State	U.S.	Low State
Profitability			
Total margin	4.5%	1.9%	-1.4%
Cash flow margin	9.5%	6.2%	-4.2%
Return on equity	5.9%	4.7%	-3.0%
Operating margin	2.3%	0.8%	-8.4%
Liquidity			
Current ratio	3.0	2.3	2.2
Days cash on hand	122	68	51
Net days revenue in accounts receivable	54	52	54
Capital Structure			
Equity financing	71%	60%	63%
Debt service coverage	4.1	2.6	1.3
Long-term debt to capitalization	20%	26%	18%
Revenue			
Outpatient revenues to total revenues	72%	72%	66%
Patient deductions	22%	37%	27%
Medicare inpatient payer mix	78%	73%	86%
Medicare outpatient payer mix	47%	36%	47%
Medicare outpatient cost to charge	0.58	0.48	0.57
Medicare revenue per day	\$2098	\$1897	\$1582
Cost			
Salaries to net patient revenue	46%	45%	53%
Average age of plant	9.1 years	9.9 years	12.9 years
FTEs per adjusted occupied bed	6.3 FTEs	5.8 FTEs	5.87 FTEs
Utilization			
Average daily census swing-SNF beds	1.53	1.63	2.22
Average daily census acute beds	2.50	3.90	2.27



Financial performance and condition of the two states

- Profitability: Much lower in the low state and much higher in the high state compared to U.S. medians.
- Liquidity: Much lower days cash on hand in low state and much higher DCOH in high state compared to US median.
- Capital structure: Much lower debt service coverage in low state and much higher DSC in high state compared to U.S. median.



Financial performance and condition of the two states

- Revenue:
 - Lower outpatient revenue to total revenues in low state
 - Lower patient deductions in high state
 - Higher Medicare inpatient payer mix in low state
 - Lower Medicare revenue per day in low state
- Cost:
 - Much older average age of plant in low state
 - Higher salaries to net patient revenue in low state
- Utilization
 - Higher ADC-SNF in low state



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Why might profitability differ between two states?



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***Lessons learned:
How should SFCs use financial
indicators?***



Implications for SFCs

- Higher (lower) indicator values are not always good. Most indicators have a middle range of “good” values and extremes are “bad” values
- Each CAH has some indicators that look “good” and some that look “bad” relative to other CAHs, which may make overall financial position difficult to determine

Implications for SFCs

- Indicator values are ratios that are not scaled. Both of the hospitals below have total margins of 1 percent:

Hospital	Net income	Total revenue
A	\$30,000	\$3,000,000
B	\$300,000	\$30,000,000

- For these reasons, significant judgment is required when analyzing financial and operating performance



SFC Rules of Thumb

- Compare relative financial performance of a CAH:
 - First to benchmark
 - Second to peer group median
 - Third to state median
 - Fourth to U.S. median
- Assign greater weight to recent indicator values



SFC Rules of Thumb

- Investigate indicator values that are:
 - Far above or below peer group, state, and U.S. medians
 - Trending in the wrong direction
 - Highly erratic (data quality?)
- Understand the indicators as a group of measures



Conclusion

- “Firms that have high profits, lots of cash, little debt, and new plants have great financial strength. Firms with losses, little cash, lots of debt, and old physical facilities will not be in business long.” (Cleverley and Cameron)



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*Your take away:
What can I do?*



Strategic interventions to improve CAH financial performance

- Reviews and assessments
 - Cost Report review and strategy
 - Strategic, financial and operational assessments
 - Revenue cycle management
 - Physician practice management assessments
- Education
 - Lean process improvement training
 - Financial education for CAH department managers
 - Financial education for CAH boards



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Strategic interventions to improve CAH financial performance

- Collaboration
 - Pooling Small Rural Hospital Improvement Program (SHIP) dollars
 - Developing CFO networks
- And with unabashed self-interest
 - Use the CAHFIR!
 - Read “Critical Access Hospital 2012 Financial Leadership Summit: Top CAH Financial Indicators and Interventions”

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