

Fall
2012

CAPITALink

A Quarterly Newsletter by Capital Link

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A Message from the CEO

Health centers are facing uncertainty as the final quarter of 2012 progresses, both on the state level given changes to Medicaid and the payer system, and nationally as the Presidential election approaches and the future of health reform remains unclear. It's tempting to put expansion goals on hold until the dust settles, but health centers that want to achieve their growth objectives need to focus on operational and financial readiness so they can move ahead when the time is right to build.



Allison Coleman, CEO

The following pages contain Capital Link's recommendations on what health centers can be doing right now to prepare, especially as changes to Medicaid are debated at the state level. The article "*Medicaid Expansion: Challenges and Opportunities*" details ways the Supreme Court ruling could affect health centers, while "*Take Control of Your Future: the Importance of Financial Forecasting in the Face of Uncertainty*" recommends CHCs engage in contingency planning and develop financial feasibility scenarios. Also, "*Getting Ready for Growth: Improvements to Make Today*" provides an overview of meaningful improvements health centers can make that will enhance their operational fitness for growth.

Another way to effectively prepare to expand is to learn how facility design can impact your health center's outcomes, a process known as evidence-based design (EBD). Cindy Barr, Capital Link's Operations and Facilities Planner, provides an introduction to EBD and access to resources for health centers interested in learning more. Cindy Barr is also presenting at a series of regional seminars hosted by the Center for Health Design, "*Community Health Center Design: Transforming Primary Care Environments through Evidence-Based Design.*" More information about the seminars is listed inside on page 9.

This issue also includes a federal update, details about upcoming presentations and webinars, and a new addition to our collection of publications. We hope this information helps with your capital development efforts.

Regards,
Allison Coleman, CEO

Federal Update



Medicaid Expansion

The Supreme Court's decision to deem the Affordable Care Act's Medicaid expansion optional for states has resulted in intense interest on the part of health centers and other providers and debate among state legislatures about whether to adopt the Medicaid expansion. As Medicaid is an absolutely essential part of most health centers' payer mix, these developments will have huge ramifications. For more information on this issue, see "*Medicaid Expansion: Challenges and Opportunities*" on page 3.

Budget and Appropriations

Unable to hash out a final agreement on FY13 appropriations before the elections, Congress recently passed a 6 month Continuing Resolution (CR) that will fund federal programs at a rate of \$1.047 trillion, the levels agreed to under the 2011 Budget Control Act. Although this is an \$8 billion increase over FY 2012, it is unlikely that the Office of Management and Budget (OMB) will actually distribute the additional funding until receiving further instructions from Congress.

Following the election, Congress and the President will need to work quickly to address several major policy challenges. Unless Congress takes action by the end of the year, automatic across-the-board spending cuts will take effect and the Bush-era tax cuts will expire. Added to the mix, the nation is once again approaching the statutory debt ceiling. Congress will need to raise the ceiling or risk further downgrades to the U.S. credit ratings.

New Markets Tax Credits (NMTC)

Congress has yet to reach final agreement on legislation to reauthorize the NMTC program, although the Senate Finance Committee debated legislation to reauthorize and extend a variety of tax credit provisions, proposing a two-year extension of the NMTC authorizing \$3.5 billion in credits in both 2013 and 2014. NMTC continues to enjoy bipartisan support and stands a good chance of being reauthorized as part of broader tax reform legislation.

To prepare for additional credits next year, the U.S. Treasury Department announced a new competition for tax credit allocation under the New Markets Tax Credit (NMTC) Program in July. Capital Link is working to ensure that health centers are on the radar screen of potential NMTC allocates in time for next year's announcement. The NMTC Program is an important source of low-cost capital for health center facility projects.

For a guide to NMTC, health centers and PCAs can access Capital Link's *Spotlight on Capital Resources: New Markets Tax Credits* on our website: <http://www.caplink.org/resources/publications>



Medicaid Expansion: Challenges and Opportunities

In the wake of the Supreme Court decision earlier this year declaring the Affordable Care Act (ACA) Medicaid expansion to be an option as opposed to a mandate, the debate has rapidly shifted to states as they consider whether to adopt the Medicaid expansion. States effectively have three options:

- Expand Medicaid according to ACA
- Reject the expansion outright
- Partially expand or rework existing Medicaid plans (subject to federal approval)

Although the federal subsidies for expansion are substantial, many states still fear the long term fiscal impact of these changes. For health centers, the debate over Medicaid poses a unique opportunity to both educate about the impact of Medicaid expansion, and also illustrate the importance of health centers and primary care overall in their communities. To be truly effective, centers will need to show not only the potential gains in terms of patients served, but also the economic impact and system-wide savings likely for states adopting the expansion. Many states are strictly considering the cost-benefit equation before deciding whether or not to move ahead.

How will Medicaid changes affect fiscal and economic impacts?

For health centers in states considering whether to adopt the Medicaid expansion, it is critical to evaluate the fiscal and economic impacts of the expansion. Health centers should be prepared to determine not only how many patients will be served, but also whether the added state costs will be offset by reduced ER spending. On top of that, what economic impact will new Medicaid spending have in terms of jobs and tax revenues?

The federal government is expected to cover the full cost of the expansion from 2014-2016, with the federal share declining to 90% of total costs in 2020 and beyond. Although this sounds generous, skeptical lawmakers have three primary concerns.

1. Many worry that publicly adopting the expansion will attract many patients who currently qualify for Medicaid but are not enrolled—expanding the costs of the existing Medicaid program.
2. Adding any new commitments to state budgets could result in a sizeable financial commitment, even though the state share would ultimately be 10% of total costs.
3. The federal government's growing debt is cited as evidence that states will ultimately be forced to adopt a greater share of the costs.

To address these concerns, health centers should have an understanding of their state's Medicaid budget and how it will be affected over time. Currently, health centers serve a high percentage of Medicaid patients—even though they account for a small portion of overall Medicaid spending. By providing valuable, cost-effective primary care, health centers help hold down costs in other parts of the health care system. Gathering the data to share this story should be a top priority for health centers going forward.

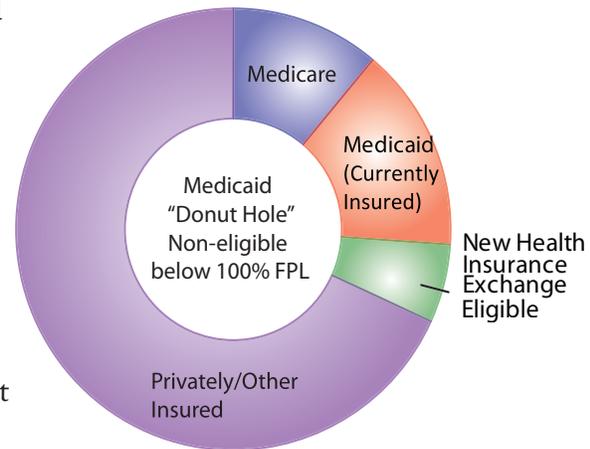


Medicaid Expansion: Challenges and Opportunities (cont.)

How will Medicaid changes affect growth plans?

While the policy discussions occur, health center leaders continue to plan for facility growth and ACA implementation. For health centers in states planning to fully adopt the expansion, updated growth plans should be fairly straightforward. However, in states that are undecided or have already refused to adopt Medicaid expansions, health centers may need to revise earlier patient growth estimates.

Ironically, the Affordable Care Act framework assumed that since all individuals below 133% of FPL (Federal Poverty Level) would qualify for Medicaid, the subsidies available to help lower income individuals buy insurance via the new exchanges only needed to be available for citizens between 100-400% of FPL. The law specifically dictated these ranges, but left an unintended “donut hole” of individuals who don’t qualify for Medicaid and earn less than 100% of FPL; these individuals are required to purchase insurance, but are not eligible for the subsidies to cover it.



This “donut hole” is estimated to leave approximately 4 million Americans uninsured and subject to IRS penalties for failing to purchase coverage. To address this new gap in coverage, many states are considering partial adoption of the ACA expansion to at least cover those earning less than 100% of FPL or variations on this theme.

Take Control of Your Future: the Importance of Financial Forecasting in the Face of Uncertainty

Uncertainty is a current reality for health centers at both the state and national levels. Health centers must continue to serve patients and expand while questions remain concerning Medicaid expansions, how Accountable Care Organizations will form, and how entitlement programs will change at the federal level due to ongoing budget conflicts. How these issues are decided will have ramifications on patient growth and the health center payer mix, making it important for health centers to update their financial projections to reflect the latest situation in their state.

Contingency planning

How can health centers prepare to respond to the variety of possible outcomes? Don’t just leave your current system in place and wait for the debate to be settled! Create a contingency plan with a range of financial feasibility scenarios to help your health center envision how your operating statement will be impacted in the face of change. Contingency planning will help your health center proactively address whether any changes on the horizon may require your health center to modify its growth plans based on changes to payer mix and patient growth. The following are ways to modify your financial projections based on the move towards including community health centers as Accountable Care Organizations, the shift to global payments, and changes to Medicaid.



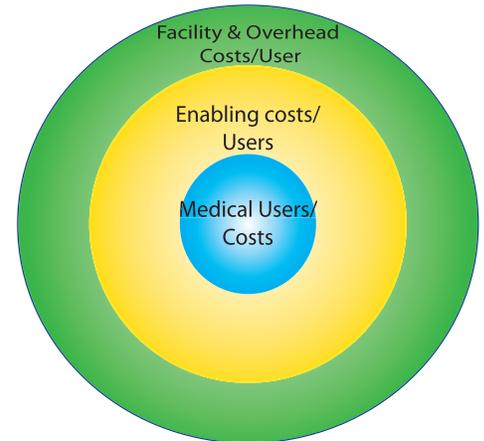
Financial Forecasting in the Face of Uncertainty (cont.)

Transitioning to ACO and Global Payments

The shift from outputs to outcomes that is part of the creation of Accountable Care Organizations should not be seen as something to dread or fear but as an opportunity to finally get reimbursed for the true cost of providing care to the high-need populations that health centers serve. To adjust financial projections to reflect this shift, health centers should focus on calculating costs and revenues by user instead of visit.

For example, to arrive at the true cost per user:

- First, calculate the medical cost per user
- Add the cost of medical services and wrap-around enabling services including case management, eligibility screening, and any other services that are not directly covered by current funding streams.
- Finally, include the cost of facility and overhead in the calculation to be sure the full cost of providing care to that user is reflected.



Another aspect of determining cost per user is to track which of your current patients are the most frequent users of care at your health center. Understanding how patients use your services will help you to reduce the costs of care in the future. Similarly, calculate your revenue by payer type by user, not by visit. This exercise in combination with the cost analysis outlined above will help your health center prepare for the inevitable shift to global payments.

Accounting for Medicaid

Financial projections can also be used for contingency planning to prepare for the possibility of a Medicaid expansion and patients insured by the health insurance exchanges. Below are some specific recommendations on how to account for Medicaid:

- Determine the maximum number of new patients eligible for Medicaid if health reform is implemented as written. Capital Link's webinar "*Payer Mix and Patient Growth Forecasting*" provides details. Health centers and PCAs can access it at www.caplink.org/resources/webinars.
- Adjust your cost and revenue calculations to include newly-eligible Medicaid patients and add them to your operating projections.
- Assess your facility's current capacity per patient and develop a rough estimate of the incremental square footage that would be needed to serve these additional patients.
- Consider staffing costs. Add providers as well as supporting staff, contracted services, consumables and any other variable costs.
- Adjust debt service, depreciation, utilities and maintenance costs of new facilities to reflect the new costs associated with the increased volumes.

As the effects of Health Reform play out, health centers should remember that change can lead to tremendous opportunities. Health centers stand to see their uninsured patient base convert to Medicaid, while also finally getting reimbursed for their true cost of care. Health centers will be in the best position to take advantage of these opportunities if they begin to adjust their projections now.



Getting Ready for Growth: Improvements to Make Today

While much of this newsletter has focused on looking outward at policy and fiscal changes on the horizon, it is also important to look internally at your organization and complete an operational and fiscal analysis. To develop a long-range facility expansion plan, health centers need to engage in strategic capital planning, the first step of which is a self assessment. This essential process will help your organization identify immediate action steps to improve the efficiency of your current operations and financial condition. Below are some suggestions to help health centers pinpoint the areas where improvements can be made.

Have you analyzed your current operations?

A thorough analysis of your current operations (completed before you plan a new or expanded facility) will help in two ways: 1. Ensure that your new facility has the most efficient layout for effective program delivery, and 2. Confirm your facility expansion needs. Operating an effective and efficient health center should result in a strong financial condition, which allows you to weather the impacts of a constantly changing political, economic and funding environment over time.

Facilities

Facility Utilization. For each existing health center site, what facility characteristics assist or impede service delivery? What is the current program, staffing and operational model for each site and to what extent are they defined by the physical space rather than in response to defined community needs and cultural preferences?

Programs & Services

Organizational Programs. Consider how the scope and volume of your services integrates with grant or cooperative agreement opportunities, market/needs assessment findings, and referral barriers. What changes can be made to better serve patients?

Site Specific Programs. Does the program of services offered at your sites reflect the needs of their distinct patient populations? Look at the unique characteristics of the immediate community, established resources and facility strengths and see if each site is making the best use of what you have available.

Staffing

Staff. For each site, what type and number of staff will be required to support the desired program using the chosen model in the available facility? Develop a listing of current staff by site, department and service and see if it matches your operating model. If not, what training is required for current staff to work more effectively? What recruitment strategies would better support your operating model?

Operational Metrics

Operational Metrics. It is helpful to track various metrics over time so positive trends as well as warning signs are recognized in a timely manner. Of course, each health center will have its own approach to measuring progress along chosen indicators, but whichever metrics are used, it is important that the data is tracked consistently and comprehensively.



Improvements to Make Today (cont.)

Examples of such operational tracking measures might include some of the following:

- **Growth:** Total Visits; Total Patients, Total FTEs, Providers/FTEs.
- **Productivity:** Visits per Provider, Patients per Provider, Patients per Provider Panel (or Providers + Clinical Support Staff), Visits per Provider FTE.
- **Utilization & Revenues/Costs:** Visits per Payer; Patients per Payer, Net Revenue per Visit, Net Revenue per Visit per Payer; Cost per Visit; Cost per Patient, Visits per Exam Room (per day and year).

The benefit of trending operational metrics over time is that it provides a health center with its own baseline from which to measure progress. For certain measures, there may also be standardized benchmarks to compare against, especially if provided by HRSA. Capital Link is also developing benchmarks for various operational indicators that can be sized to various peer groups. Although data results often can be misleading on their own, they do point to operational areas that may need further attention or at least point to alternative metrics that may better represent the model of care for a specific health center.

Is your health center financially sound?

Strong financial measures are the result of strong operations. A fiscally sound health center has strong operating margins and a solid balance sheet, achieved through good provider productivity, properly coding patient visits and a strong outreach and enrollment program to match patients with the best programs for which they are eligible. Tracking these measures is vital to informed decision-making and planning, both for short-term success and future growth. Some key indicators to consider:

Profitability

Profitability: The Operating Margin and Bottom Line Margin are key indicators of health centers' ability to generate income needed to sustain current operations and to support both short-term and long-term growth.

Growth

Growth: Year-to-year growth rates for Operating Revenue, Net Patient Service Revenue and Grant and Contract Revenue, as well as for Operating Expense.

Solvency

Solvency: Current Ratio, Days Unrestricted Cash on Hand, Days in All Accounts Receivable, Days in Patient Accounts Receivable, Days in Accounts Payable reflect the health centers' ability to maintain a positive cash flow and to meet immediate obligations.

Debt Capacity

Debt Capacity: The Leverage Ratio and the Debt Service Coverage Ratio examine the ability to meet long-term obligations to creditors and other third parties.



How does your health center compare to others?

Capital Link constantly strives to answer this question with the most relevant and timely metrics. We are currently conducting multiple studies in different areas to ensure the metrics for financial performance we analyze are always relevant to the changing needs. In addition to customizing our internal databases, we are conducting a study with support from the California Healthcare Foundation and Blue Cross Blue Shield Foundation of California to assess the current financial health of California clinics and define a framework for the development of tiers for peer group financial assessment and benchmarking. Defining a framework for the development of tiers based on select financial, operational, and programmatic data, and defining high performance financial benchmarks for each tier will provide clinics with peer group comparative financial measures to identify strengths, challenges and benchmarks for improvement. Stay tuned! Results will be published in the second quarter of 2013.

An Introduction to Evidence-Based Design

Like the unique clinical plan of care we develop for patients, creating the most effective environment for patients considers their cultures, assets, challenges and resources. Compiling the health center's experiences, patient experiences and new options gained from research results in a facility design that is neither arbitrary nor rigid but evidence-based and uniquely suited to the health center's needs.

In the words of the Center for Health Design, "Evidence-based design is the process of basing decisions about the built environment on credible research to achieve the best possible outcomes." Utilizing the following eight progressive steps during the planning process for any renovation, expansion or new construction will ensure that your project does not just yield a facility that is the same only larger, but rather larger and more effective.

- 1. Define evidence-based goals and objectives.*
- 2. Find sources for relevant evidence.*
- 3. Critically interpret relevant evidence.*
- 4. Create and innovate evidence-based design concepts.*
- 5. Develop a hypothesis.*
- 6. Collect baseline performance measures.*
- 7. Monitor implementation of design and construction.*
- 8. Measure post-occupancy performance results.*

Evidence-Based Design Resources and Upcoming Webinars:

Evidence Based Design & Research Webinar

Offered by the Nursing Institute for Healthcare Design

Part I - Friday, October 26, 2012, 12:00 noon - 1:00 pm (CST)

Part II - Tuesday, October 30, 12:00 noon - 1:00 pm (CST)

Presented by Terri Zborowsky PhD, EDAC

Offered at no charge even for non-members. NIHD website: <http://www.nursingihd.com/>

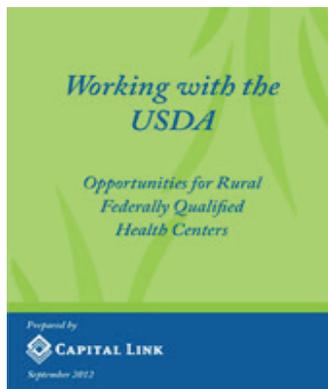


Community Health Center Design: Transforming Primary Care Environments Through Evidence-Based Design

Offered by the Center for Health Design and The Kresge Foundation, these seminars provide a deep-dive look at how evidence-based design can impact community health center design. Each of the regionally-located seminars will provide attendees with the opportunity to explore EBD with respect to facility design and operations, and the increasing demands being placed on community health centers. Cindy Barr, RN, EDAC, Capital Link Operations and Facilities Planner, will participate in all of the seminars (see back page for dates and locations). Visit CHD's website at www.healthdesign.org for white papers, education materials, conferences and seminars, and a directory of affiliates and EDAC certified professionals in your area.

New Resources

As part of our assistance to health centers, Capital Link has a vast collection of resource publications to assist health centers in accomplishing specific tasks related to the capital development process. These publications are provided to Federally Qualified Health Centers (FQHCs) and Primary Care Associations (PCAs) free of charge. A recent addition to our resource publications is described below. Look for additional resources coming soon!



“Working with the USDA: Opportunities for Federally Qualified Health Centers” describes the array of programs offered by the United States Department of Agriculture (USDA). Health centers considering capital expansions that are located in eligible areas may find these programs extremely beneficial. This resource was supported by the Health Resources and Services Administration.

Fall Webinar Series

Capital Link conducts webinars designed to offer useful information for health centers in the midst of capital development. The webinars have no charge, but participation is limited to the first 100 registrants. Reserve your spot today! Contact Joe McKelvey at jmckelvey@caplink.org or 202-331-4602 with any questions. Access our registration form via the link below:
<http://surveys.verticalresponse.com/a/show/614760/47af83d8fc/0>

Engaging Your Patients in the Capital Development Process

Wednesday, October 31st, 2-3 PM EDT

Presented by Cindy Barr, Operations and Facilities Planner, Capital Link

Strategic Capital Planning Series

Tuesdays, November 6th and November 13th, and Thursday, November 15th,
2-3 PM EDT

Presented by Terry Glasscock, Senior Project Consultant, Capital Link

Upcoming Conferences

Capital Link regularly presents information related to capital development to health centers and primary care associations at industry conferences. Below are a few of our upcoming events. Visit our website at <http://www.caplink.org/newsevents/events> for more information.

Date/Time	Place	Details
November 1, 2012	Minnesota Healthy Communities Conference	<i>"Panel Discussion on Community Development Sector Education for Health and Human Services Professionals"</i> Presented by Allison Coleman, Chief Executive Officer
November 1, 2012	MACHC Annual Conference – Leading through Change, Harbortowne Golf and Conference Center, St. Michael's, MD	<i>"Cheap is Almost as Good as Free: Using Market Conditions to Assemble Low-Cost Financing for Your Capital Project"</i> Presented by Dan Woodman, Project Consultant, Capital Link
November 13, 2012	NACHC Financial, Operations Management/IT Conference (FOM/IT), Las Vegas, NV	<i>"High Performance Community Health Care: Focusing Your Operations to Enable a Capital Project in the Future."</i> Presented by Tony Skapinsky, Project Consultant and Steve Rubman, Manager of Data Resources and Analysis
October 14, 2012 November 13-14, 2012 February 6, 2013 March, 2013	A series of four regional seminars hosted by The Center for Health Design in conjunction with The Kresge Foundation. To register, access: http://www.healthdesign.org/chd/conferences-events October: Denver, CO November: Chicago, IL February: Houston, TX March: New York, NY	<i>"Designing Tomorrow's CHC Clinic: Promising Practices"</i> Presented by Cindy Barr, RN, EDAC, Operations & Facilities Planner

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About Capital Link:

Since 1998, Capital Link has provided planning and capital solutions for hundreds of health center building projects. A non-profit organization, we assist health centers and primary care associations in accessing capital for building and equipment projects, and we provide extensive technical assistance throughout the entire capital development process.

For more information, visit www.caplink.org