



California Community Health Centers Financial & Operational Performance Analysis, 2011-2014



Prepared by

CAPITAL LINK

Sponsored by

Blue Shield of California Foundation

Introduction

This report, prepared by Capital Link with support from Blue Shield of California Foundation, was developed to provide an update to *California Community Health Centers, Financial & Operational Performance Analysis, 2010-2013*, an aggregate financial and operational profile of California health centers published in 2015. By presenting multi-year statewide results as well as comparative data from health centers nationally, this report offers a framework for identifying the financial strengths, challenges, and benchmarks that will support opportunities for performance improvement. Covering the four-year period of 2011 to 2014, the analysis incorporates data from health center financial audits as well as operational and utilization data reported by the Uniform Data System (UDS). This update focuses on the following trends for California Federally Qualified Health Centers (FQHCs) and FQHC Look-Alikes (LALs):

- Growth and expansion rates
- Financial performance as shown by operating margins, revenues, and liquidity
- Financial health as measured by accounts receivable and expense ratios
- Operational measures such as patient utilization and practice mix
- Productivity and quality of care indicators

To access Capital Link's financial and operational profiles for California, visit <http://www.caplink.org/resources/reports>.

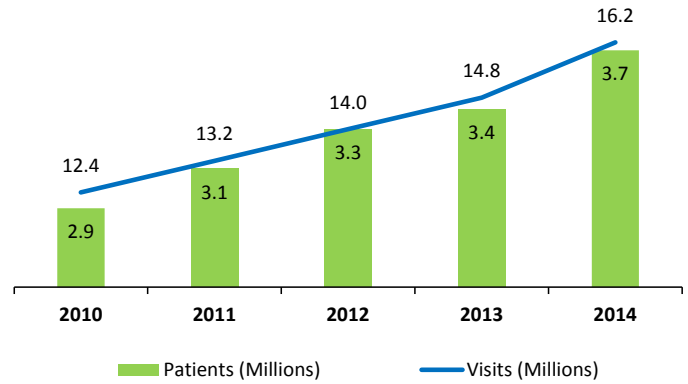
Growth and Expansion

California health centers experienced rapid growth in patients, visits, and sites. Due to the impact of the Affordable Care Act, their payer mix shifted, resulting in higher Medi-Cal enrollment and fewer uninsured patients.

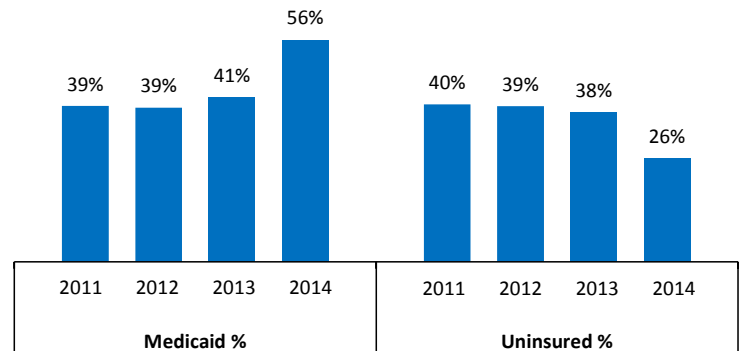
The California FQHC program continued to expand, providing services to 3.7 million patients in 2014, up 28% from 2010. Annual patient visits increased 31% to 16.2 million over the review period. Health centers also had relatively high utilization growth in 2013 and 2014, consistent with the statewide insurance expansion initiated by the Affordable Care Act.

The insurance expansion associated with national health care reform has had a significant impact on the patient payer mix of California health centers. Medi-Cal, California's Medicaid program, increased enrollment to cover 56% of patients served at FQHCs in 2014 while the percentage of uninsured patients dropped to 26%. Of the remaining patients, 5% had insurance coverage through Medicare and another 6% were privately insured, median results that have remained relatively consistent over the last several years.

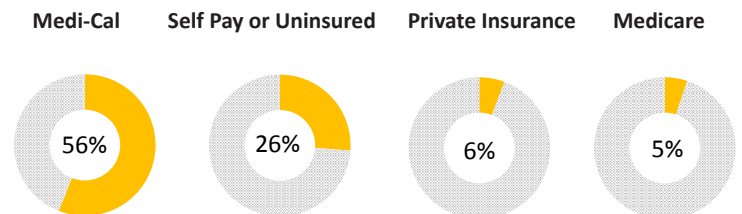
CA Health Centers: Five-Year Patient & Visit Growth Trends



CA Health Centers: Medi-Cal and Uninsured Patient Percentage (Median)



CA Health Centers: Patients by Payer Source (Median Health Center, 2014)*



*Percentages represent median result for each payer source and therefore do not sum to 100%.

Financial Performance

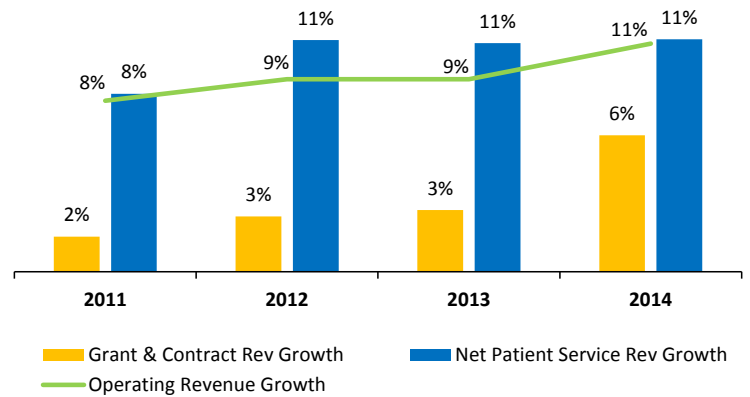
California health centers, at the median, have increased revenues, improved operating margins, and boosted liquidity. However, at least 25% of health centers continue to operate below a financial breakeven level in each year.

California health centers generated strong revenue growth over the four-year assessment period, with a 11% improvement in operating revenues in 2014. This high growth has been driven primarily by patient service revenues (11% in 2014) and, to a lesser extent, grant and contract revenue (6% in 2014).

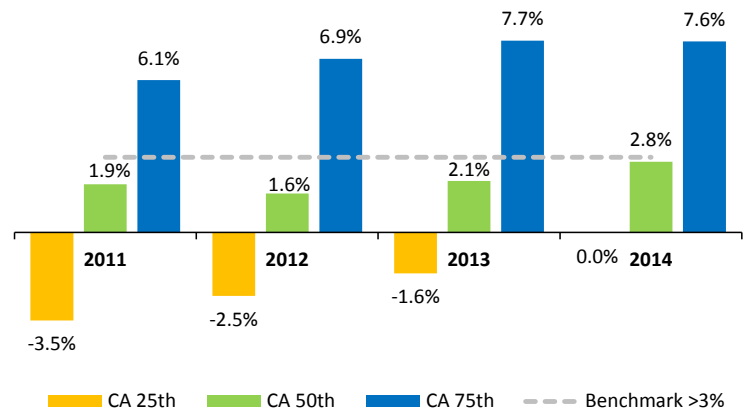
Operating performance for California health centers has been relatively stable in recent years, but in 2014 there was a notable increase in median operating margins to 2.8%, approaching the 3% industry benchmark. However, at least 25% of health centers continue to generate negative operating margins.

Personnel-related expenses for health centers have consistently hovered between 74% and 75% at the median over recent years. Health centers are facing intensifying pressure to manage staffing costs given increasing competition for providers as well from additional staffing to support team-based care models. Generally speaking, health centers that spend 75% or more of their budget on personnel-related costs are at higher risk of generating operational losses.

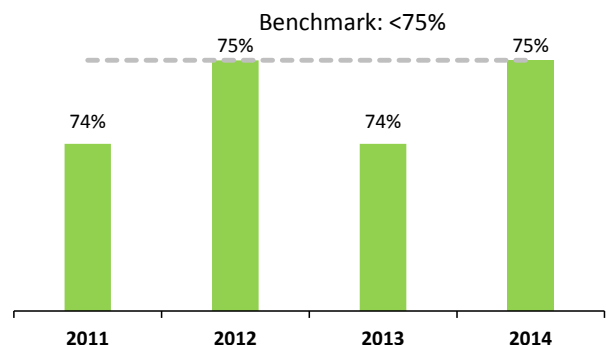
CA Health Centers: Revenue Growth by Source (Median)



CA Health Centers: Operating Margin (Percentile)



CA Health Centers: Personnel-Related Expense as a Percentage of Operating Revenue (Median)



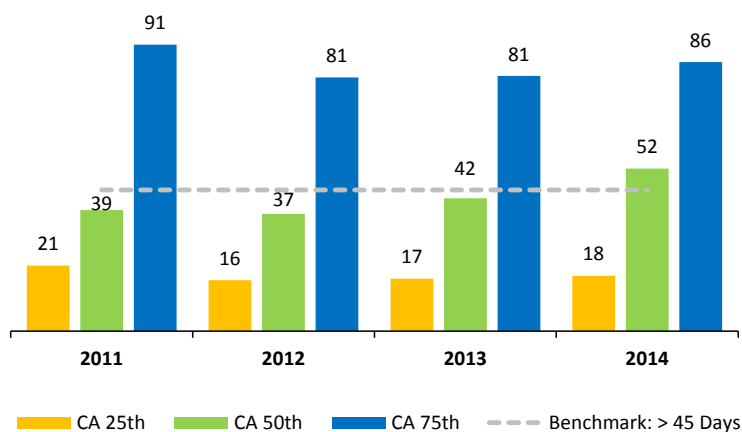
Financial Condition

Health centers in California enhanced their liquidity position in 2014, which is a function of not only better operating performance but also improved financial management systems. Healthy operating reserves will become increasingly important to help fuel continued growth in capacity.

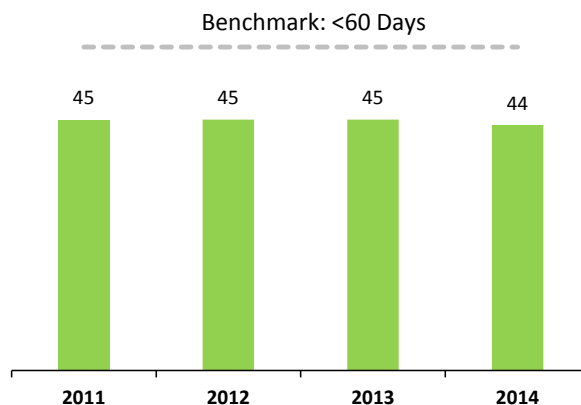
Median operating liquidity improved to 52 days in 2014, which indicates that the majority of California health centers operate with cash reserves above the 45 day minimum operating benchmark level. However, at least 25% of health centers still operate with 18 days of cash or less, well below the level needed to support efficient financial operations.

The median trends for patient accounts receivable days over the 2011-2014 period have been maintained within recommended ranges. In 2014, the median result improved slightly, and further improvements in accounts receivable collections may be supported by the continued transition to fixed monthly payments for Medi-Cal managed care patients.

CA Health Centers: Days Cash on Hand (Percentile)



CA Health Centers: Net Patient Days Accounts Receivable (Median)



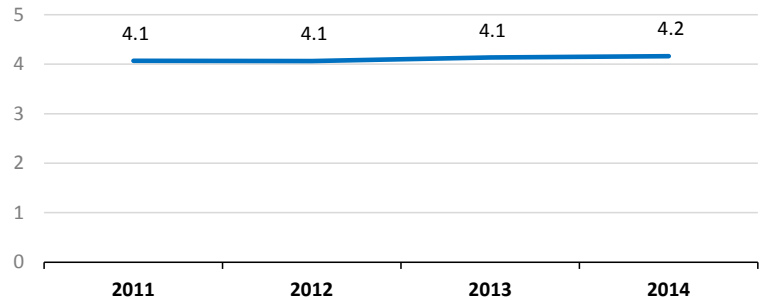
Utilization

Patient utilization has remained relatively steady at California health centers, as measured in terms of visits, consistent with the current reimbursement model. In an emerging patient-centered payment model, however, utilization may be impacted.

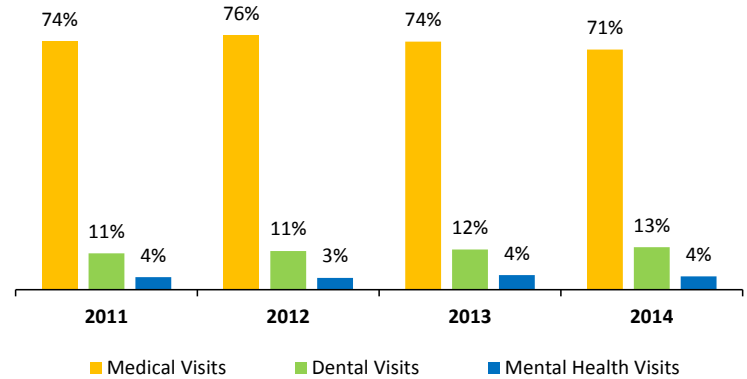
Annual patient utilization remained stable at 4.1 visits per year at the median. As payment reform proceeds in California, health centers will be incentivized to implement alternative care models that increase access and result in healthier populations while controlling costs associated with clinical visits.

Though medical visits still represent over 70% of total patient visits for the median health center in California, recent growth has been particularly pronounced in behavioral health and dental programs. This growth is a direct result of the integrated and comprehensive patient care models supported by health reform as well as the reinstatement of adult dental eligibility within the Medi-Cal program.

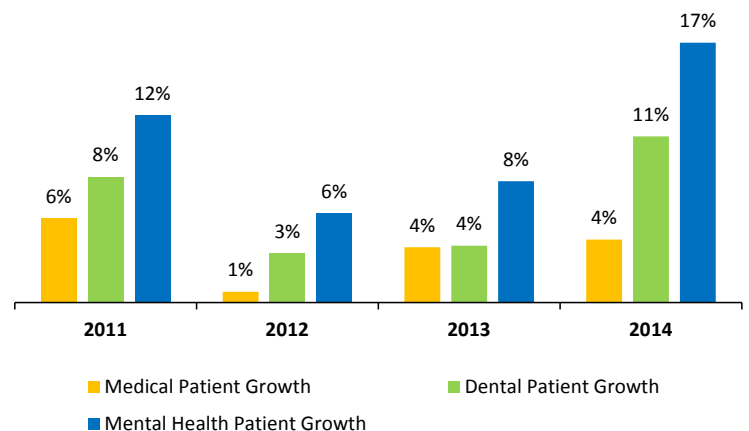
CA Health Center: Visits per Patient per Year



CA Health Centers: Patient Visits as a Percentage of Total Visits (Median)



CA Health Centers: Patient Growth by Practice Area (Median)



Productivity and Quality of Care

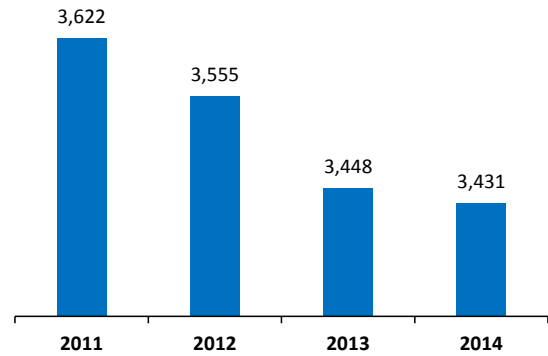
California health centers experienced declining productivity between 2011 and 2014. This fall off coincided with a period of transformation of health center operational models associated with national health reform, notably the implementation of electronic health records (EHRs) and other patient-centered care initiatives.

Provider productivity as measured in visits continued its downward trend through 2014, dropping by 5% over the four-year review period.

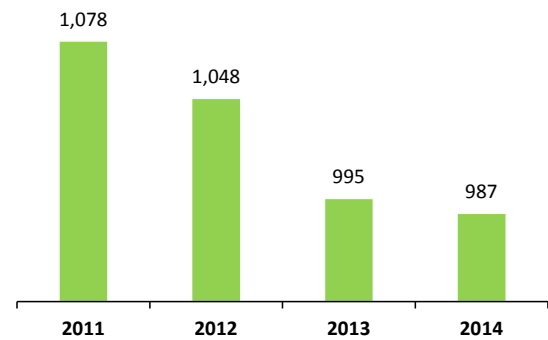
The median number of patients managed by medical providers at health centers also dropped, falling 8% since 2011. Though California health centers are responding to health reform and patient growth with the addition of new staff, the evolving models of team-based care are not yet enabling providers to manage more patients.

Despite the decline in productivity, it is notable that key quality of care metrics as reported to HRSA have shown an improvement in recent years.

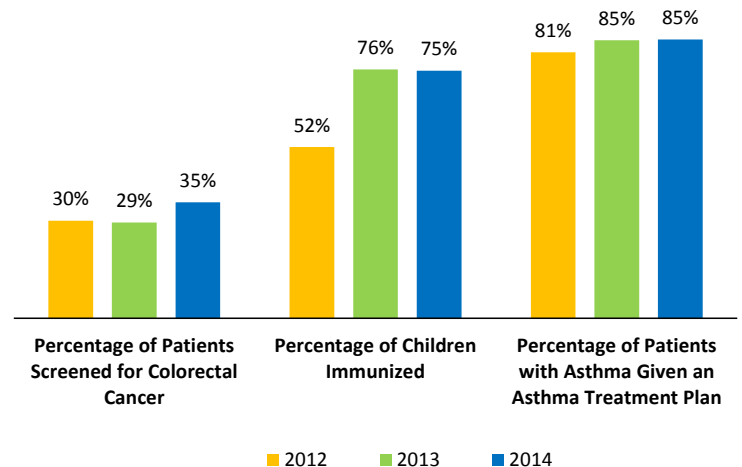
CA Health Centers: Medical Visits per Medical Provider FTEs (Median)



CA Health Centers: Medical Patients per Medical Provider FTEs (Median)



CA Health Centers: Quality of Care (Median)



California Community Health Centers, Financial & Operational Performance Analysis, 2011-2014

CALIFORNIA PERFORMANCE SNAPSHOT		Capital Link Target	2011 CA Median	2012 CA Median	2013 CA Median	2014 CA Median	2014 National Median
# of Financial Audits (FQHC & LALs)			123	120	100	90	400
FINANCIAL HEALTH							
1	Operating Margin	>1-3%	1.9%	1.6%	2.1%	2.8%	1.7%
2	Bottom Line Margin	>3%	3.5%	2.9%	4.4%	4.5%	3.3%
3	Days Cash on Hand	>30-45 Days	39	37	42	52	50
4	Days in Net Patient Receivables	<60 Days	45	45	45	44	44
5	Personnel-Related Expense as % of Operating Revenue	<70-75%	74.2%	74.8%	74.0%	74.5%	72.6%
# of UDS Reports (FQHCs)			115	122	124	129	1,045
PRODUCTIVITY & FINANCIAL OPERATIONS							
6	Physician Visits / Physician FTEs		3,615	3,510	3,496	3,473	3,079
7	Mid-Level Visits / Mid-Level FTEs		3,328	3,118	3,123	3,074	2,573
8	Dental Visits / Dental Provider FTEs		2,942	2,830	2,696	2,793	1,935
9	Medical Patients / Medical Provider FTEs		1,078	1,048	995	987	953
10	Medical Patients / Total Medical Staff FTEs		369	356	330	324	321
11	Accrued Cost per Patient Visit		\$163	\$173	\$180	\$185	\$198
12	Accrued Cost per Patient		\$667	\$715	\$746	\$808	\$766
STAFFING & UTILIZATION							
13	Medical Support Staff Ratio		1.9	2	2.1	2	1.9
14	Administrative & Non-Clinical Staff Percentage		40.1%	39.2%	38.0%	38.0%	37.8%
15	Patient Visit Growth Rate		4.9%	0.4%	4.9%	4.4%	2.3%

METHODOLOGY

Data Sources

The analysis and information contained in this report are based on data from two primary sources covering the 2011-2014 period:

- Audited financial statements of FQHCs (both Section 330s and LALs) as reported by fiscal year.
- UDS reports as submitted annually by FQHCs by calendar year to HRSA

Financial audits were gathered directly by Capital Link to create the data set for California health centers. The comparative national health center data set was developed from Capital Link's proprietary database of health center audited financial statements.

Trends reviewing patient utilization, payer mix, provider productivity, and quality of care for California were calculated from data reported to UDS. The number of FQHCs included in the data set is summarized as follows:

Calendar Year	2011	2012	2013	2014
California (FQHCs only)	115	122	124	129

Trends reviewing health center financial health and performance were calculated for all California FQHC and LALs for which financial audits were provided to Capital Link. The number of audits included in the data set varies each year and Capital Link continues to add audits to its database as they become available. The health center data set used for the current analysis is summarized as follows:

Fiscal Year	FY11	FY12	FY13	FY14
California (FQHCs & LALs)	123	120	100	90

ACKNOWLEDGMENT

Capital Link was pleased to prepare *California Community Health Centers, Financial & Operational Performance Analysis, 2011-2014* and gratefully acknowledges the support of Blue Shield of California Foundation.

Blue Shield of California Foundation

Blue Shield of California Foundation (BSCF) is one of California's largest and most trusted grantmaking organizations. BSCF focuses its support in two program areas: Health Care and Coverage and Blue Shield Against Violence. The foundation's mission is to improve the lives of all Californians, particularly the underserved, by making health care accessible, effective, and affordable, and by ending domestic violence. For more information, visit www.blueshieldcafoundation.org.

About Capital Link

Capital Link is a national, non-profit organization that has worked with hundreds of health centers and Primary Care Associations for over 15 years to plan capital projects, finance growth, and identify ways to improve performance. We provide innovative consulting services and extensive technical assistance with the goal of supporting and expanding community-based health care. For more information, visit www.caplink.org.