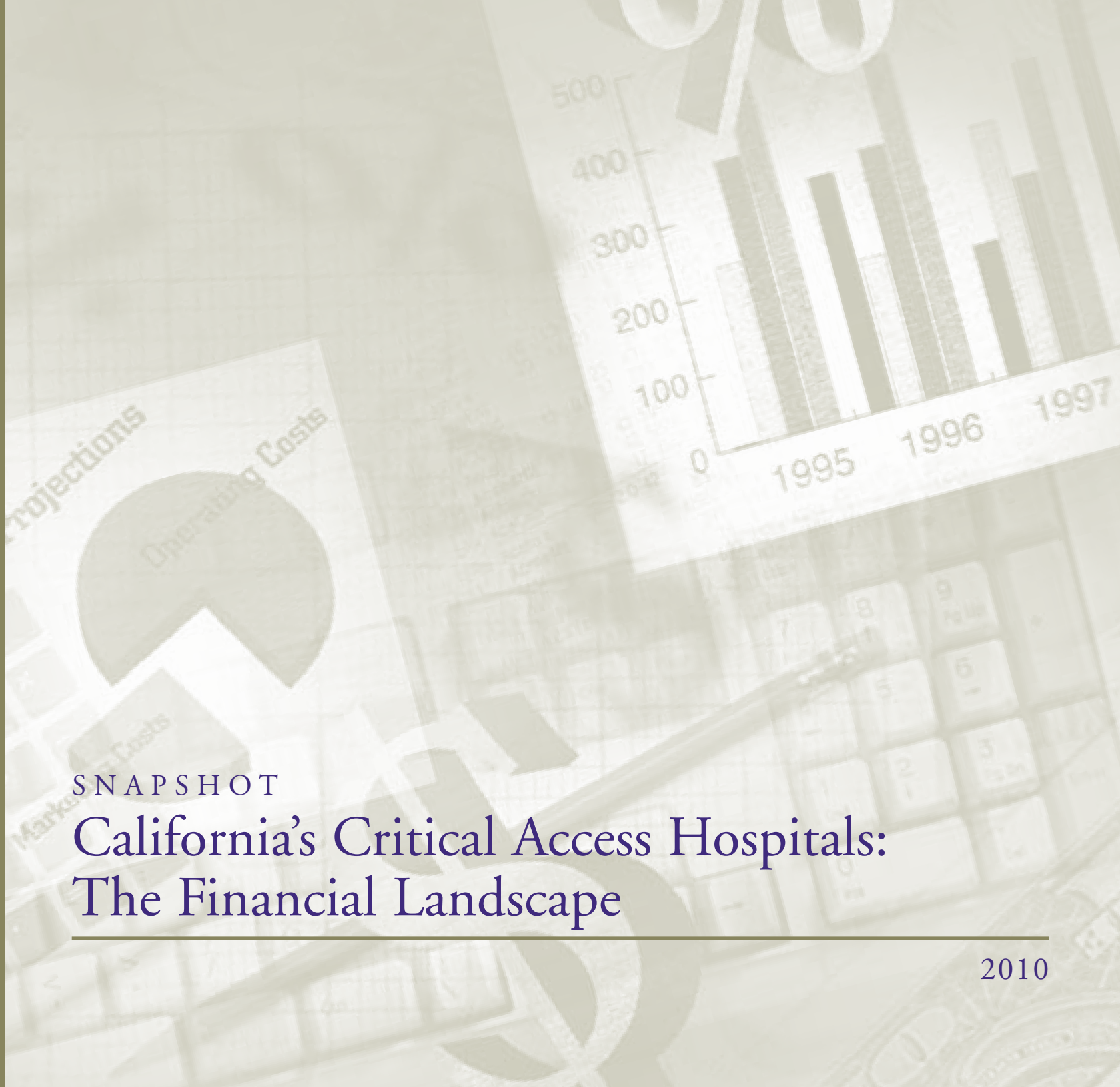

California
HealthCare
Foundation

SNAPSHOT

California's Critical Access Hospitals: The Financial Landscape

2010

Introduction

Critical access hospitals (CAHs) have a unique reimbursement and organizational structure and play an important role in California's health care delivery system. They are small, located in remote or rural parts of the state, and are frequently the only provider of health care services in a community. To be designated a critical access hospital, an institution must:

- Maintain a maximum of 25 acute care beds and up to ten additional beds for psychiatric and rehabilitative services;
- Be located in a rural area or 35 miles from the nearest hospital (15 miles in areas with secondary roads);
- Furnish 24-hour emergency care services (staff may be on-call versus on-site); and
- Have an average annual length of stay of 96 hours or less.

This snapshot highlights the financial health of California's CAHs. Some of the data point to differences between CAHs and the state's general acute care hospitals (GACs) as a whole.

SOME KEY FINDINGS:

- Of California's 28 CAHs, 61 percent are district hospitals, compared to 14 percent of all general acute care hospitals in California.
- Almost two-thirds of the CAHs had negative operating margins in 2008. Yet for many liquidity and capital structure indicators, CAHs performed nearly as well as or even better than California GACs as a whole.
- Financial performance varied widely among CAHs, with differences most apparent between hospitals with or without long term care facilities, or by the type of hospital ownership.

The financial health of these institutions is important to policymakers, providers, and to the communities that rely on them for health care services.

Source: This snapshot is based on the 2010 *Financial Health of California Critical Access Hospitals,* www.chcf.org/topics/hospitals/index.cfm?itemID=134186.

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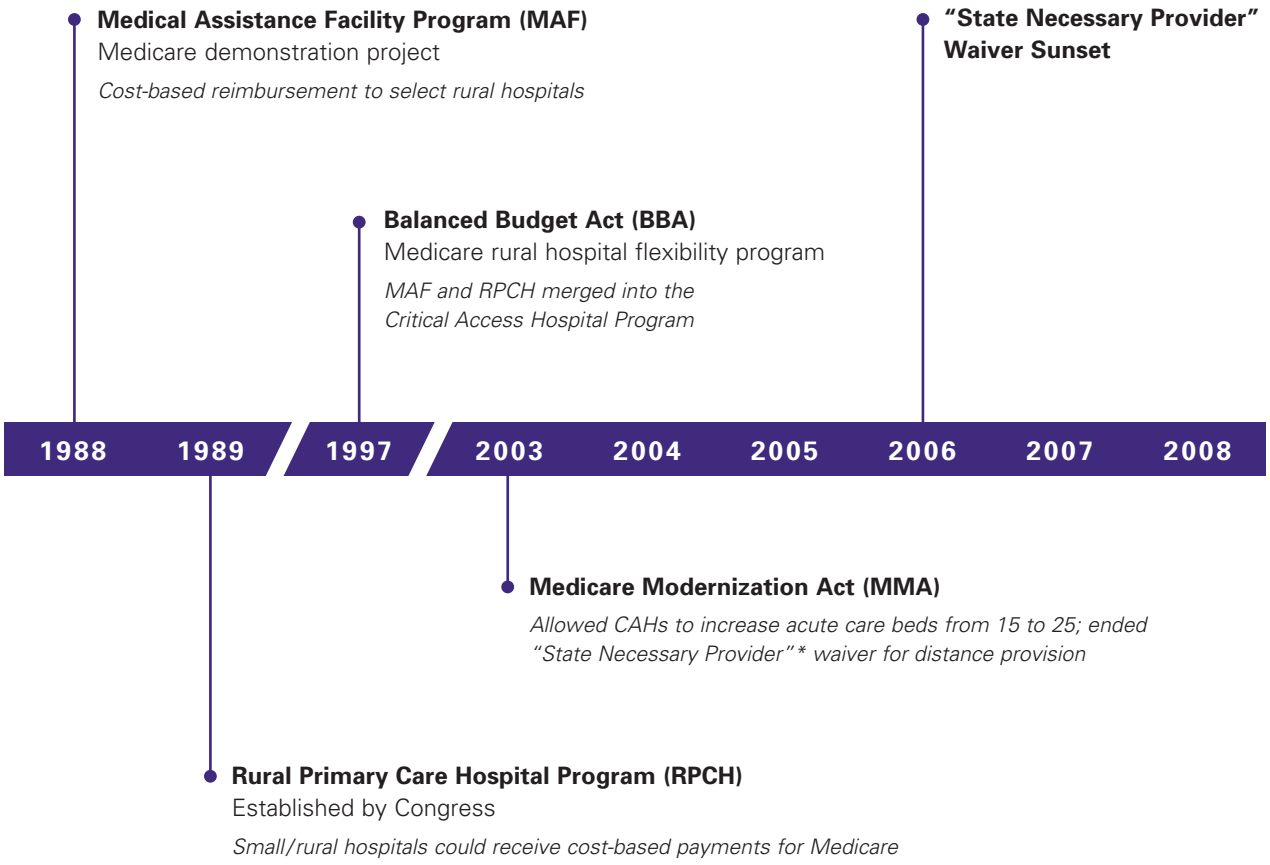
National Critical Access Hospital Program Timeline, 1988 to 2008

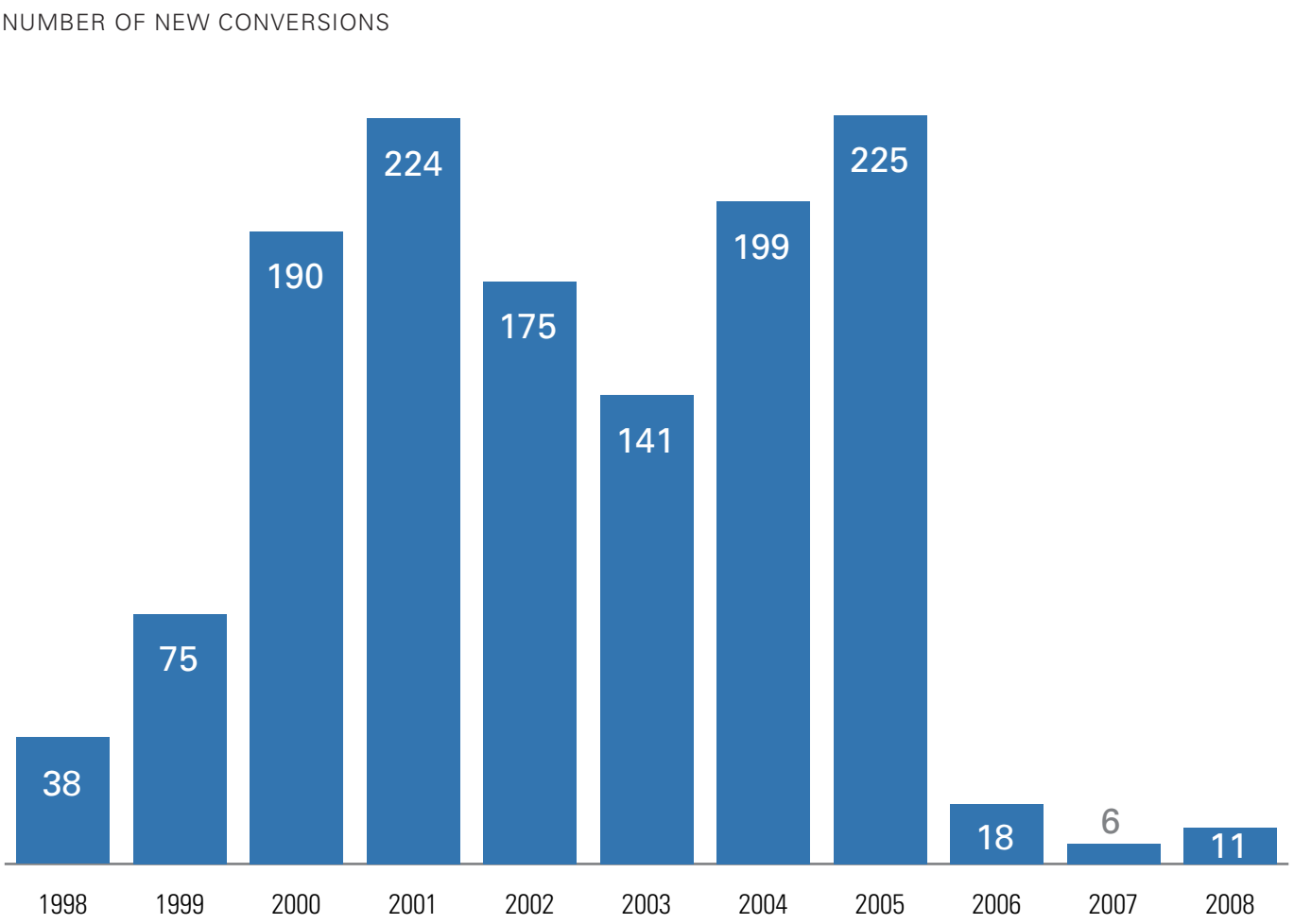


*The "State Necessary Provider" waivers allowed hospitals to convert to CAH status without meeting CMS eligibility criteria for distance.

Sources: CMS – Critical Access Hospital Fact Sheet; MedPac – Critical Access Hospital Payment Basics, 2008.

The Critical Access Hospital Program was created by the Balanced Budget Act of 1997 as a device to assure Medicare beneficiaries health care access in rural areas.

National Critical Access Hospital Conversions, 1998 to 2008



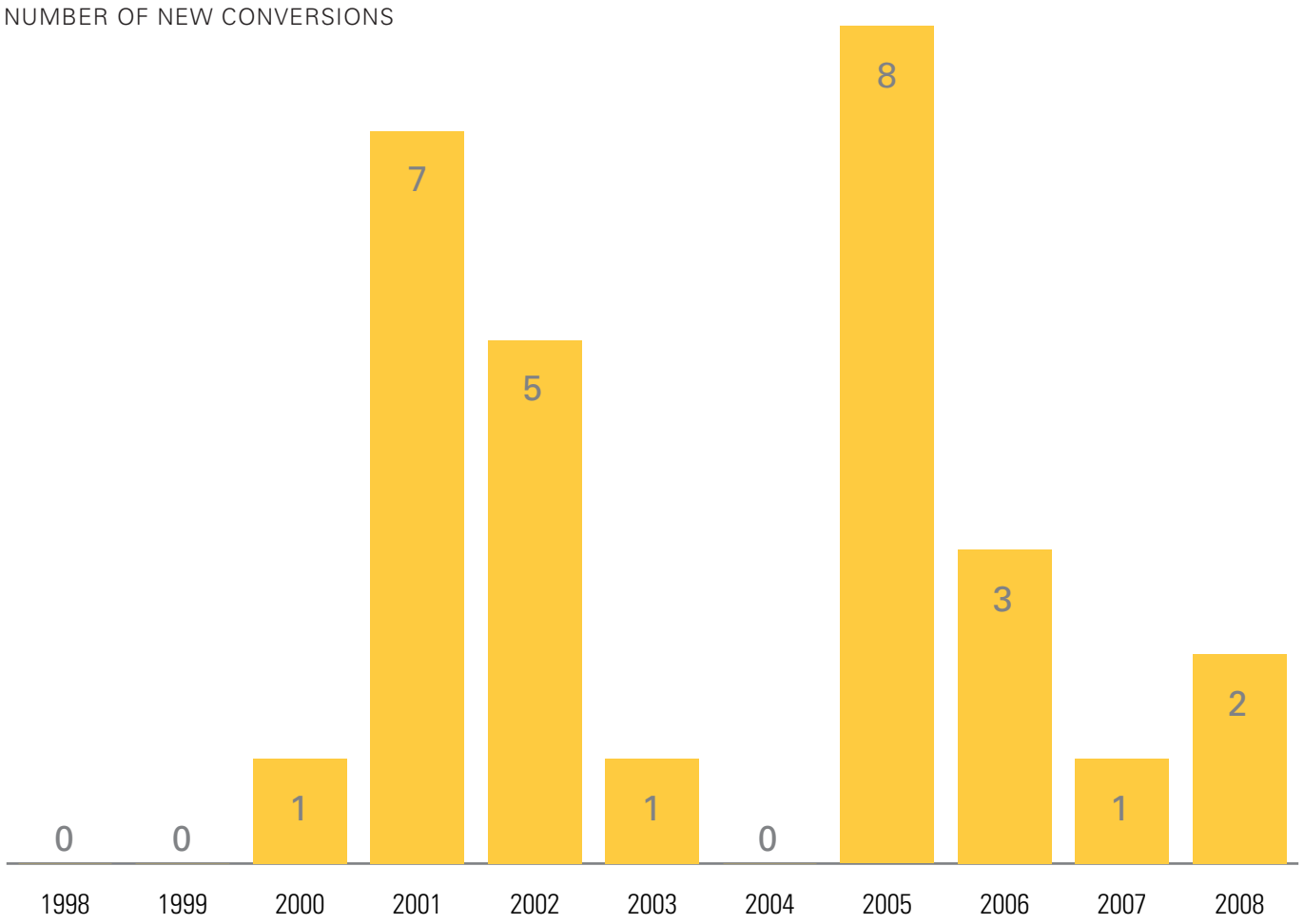
Notes: 2008 conversions estimated by subtracting the current number of CAHs from the total of all conversions through 2007.

Sources: Flex Monitoring Program – Presentation to the National Rural Health Association – 2008, Flex Monitoring Team "List of Critical Access Hospitals in the U.S.," January 2009.

Nationally, CAH conversions increased substantially between 2000 and 2005—only slowing in 2006 after the "Necessary Provider" waiver clause ended.

By January 2009, there were 1,302 CAHs, slightly more than one in four of all community hospitals.

California Critical Access Hospital Conversions,
1998 to 2008



Source: California OSHPD, List of Critical Access Hospitals – current as of June 2009; KSA analysis.

Conversions to critical access status in California began two years after the first conversions nationally, with half of all conversions in California (14) occurring after 2004.

Critical Access Hospital Locations, California, 2008

1	St. Helena Hospital – Clearlake	Clearlake
2	Banner Lassen Medical Center	Susanville
3	Biggs-Gridley Memorial Hospital	Gridley
4	Catalina Island Medical Center	Avalon
5	Colorado River Medical Center	Needles
6	Eastern Plumas Health Care	Portola
7	Fairchild Medical Center	Yreka
8	Frank R. Howard Memorial Hospital	Willits
9	Glenn Medical Center	Willows
10	Jerold Phelps Community Hospital	Garberville
11	John C. Fremont Healthcare District	Mariposa
12	Kern Valley Healthcare District	Lake Isabella
13	Mammoth Hospital	Mammoth Lakes
14	Mayers Memorial Hospital	Fall River Mills
15	Mendocino Coast District Hospital	Fort Bragg
16	Mercy Medical Center, Mt. Shasta	Mt. Shasta
17	Mountains Community Hospital	Lake Arrowhead
18	North Sonoma County Hospital District/ Healdsburg District Hospital	Healdsburg
19	Northern Inyo Hospital	Bishop
20	Plumas District Hospital	Quincy
21	Redwood Memorial Hospital	Fortuna
22	Seneca Healthcare District	Chester
23	Southern Inyo Hospital	Lone Pine
24	Surprise Valley Health Care District	Cedarville
25	Sutter Lakeside Hospital	Lakeport
26	Tahoe Forest Hospital District	Truckee
27	Tehachapi Valley Healthcare District	Tehachapi
28	Trinity Hospital	Weaverville

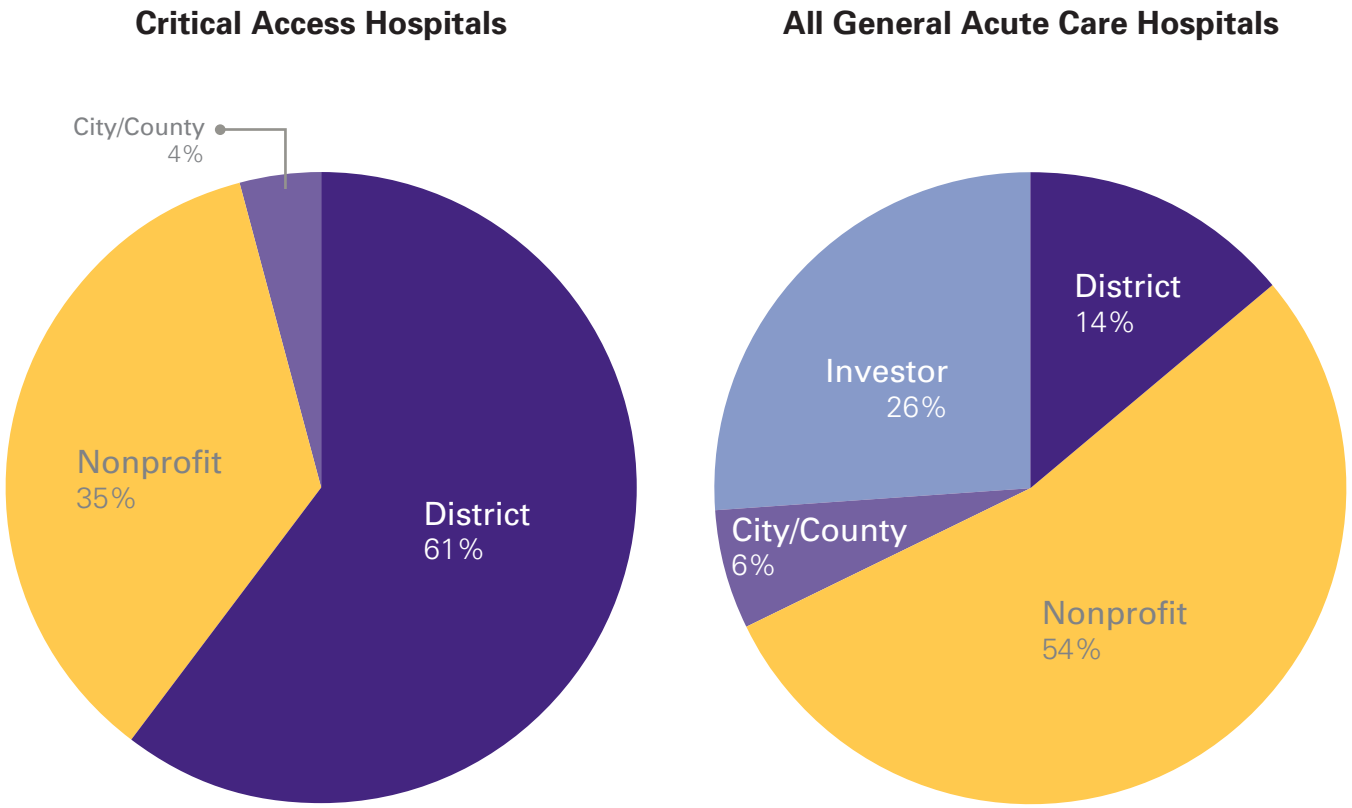
Source: California OSHPD, List of Critical Access Hospitals.

Critical Access Hospitals

<< PREVIOUS NEXT >>

In 2008, there were 28 CAHs in California—19 of them located north of the Bay Area.

CAHs vs. All GACs,
by Ownership Type, California, 2008



Note: Pie segments may not total 100 percent due to rounding.

Source: OSHPD Hospital Annual Financial Data 2008; KSA analysis.

While the majority of general acute care hospitals are nonprofit, most CAHs are district-owned.

CAHs with and Without Long Term Care,
by Ownership Type, California, 2008

	ALL	WITH LONG TERM CARE	WITHOUT LONG TERM CARE	PERCENT OF ALL
Number of Hospitals	**28**	**15**	**13**	**100%**
Ownership Type				
Nonprofit	10	3	7	36%
System Affiliation	6	1	5	21%
Investor	0	0	0	0%
City/County	1	0	1	4%
District	17	12	5	61%

Source: OSHPD Hospital Annual Financial Data 2008; KSA analysis.

Slightly more than half of the 28 CAHs operated a long term care unit. Eighty percent of the facilities with long term care units were district-owned.

Profitability Indicators,
CAHs vs. All GACs, California, 2008

MEDIAN INDICATORS

	CRITICAL ACCESS HOSPITALS			GENERAL ACUTE CARE HOSPITALS
	ALL	WITH LONG TERM CARE	WITHOUT LONG TERM CARE	
Number of Hospitals	**26**	**14**	**12**	**326**
Operating Margin	–3.7%	–10.6%	2.3%	1.4%
Total Margin	3.8%	1.6%	5.2%	2.6%
Return on Equity	10.9%	9.9%	16.6%	9.7%

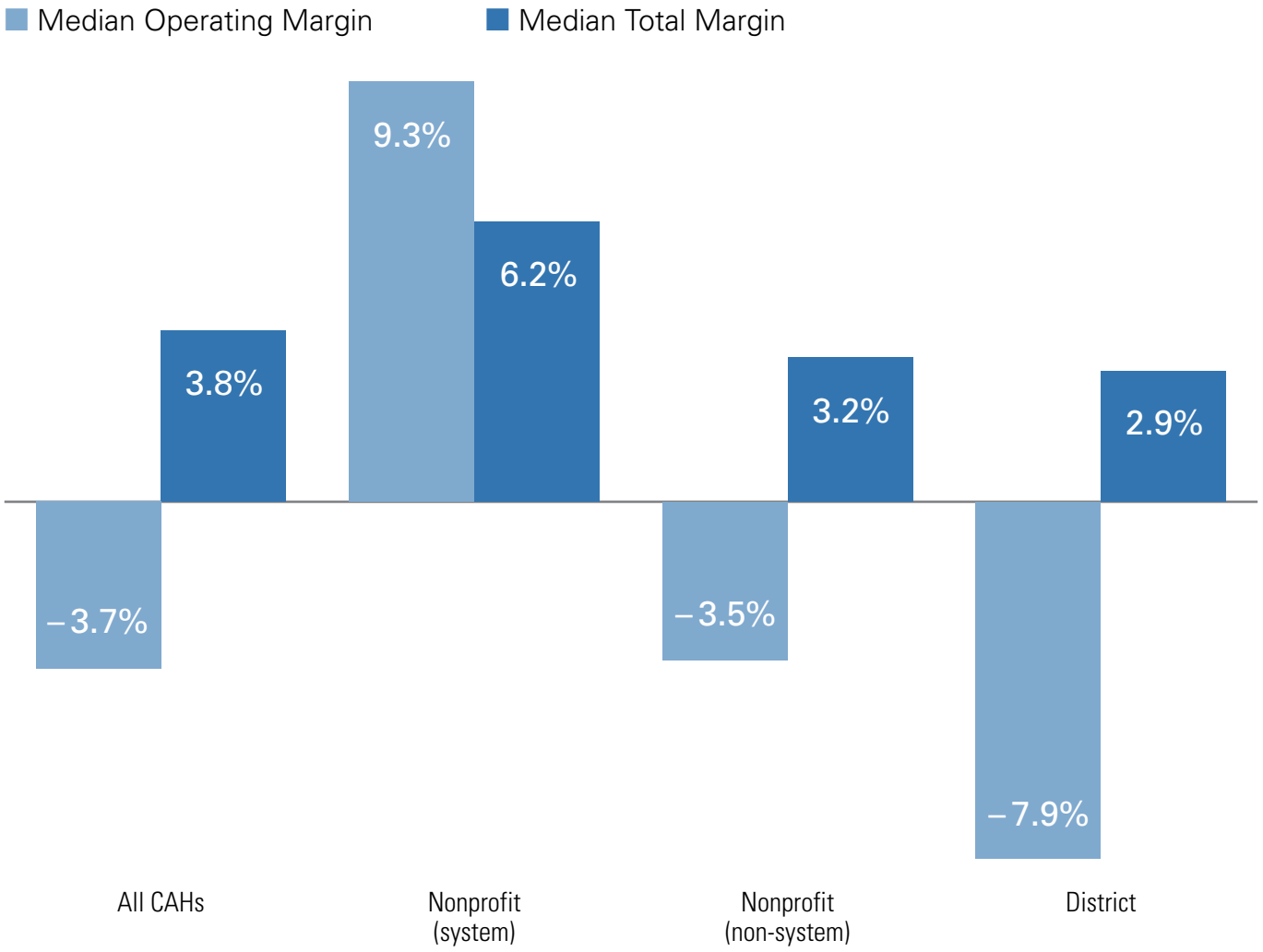
Note: Two hospitals converted to CAH status in 2008 and were excluded from the analysis of 2008 data.

Source: OSHPD Hospital Annual Financial Data 2008; KSA analysis.

Critical access hospitals as a group stuggle to break even on operations. CAHs had lower median operating margins than the state's general acute care hospitals, but performed slightly better on other measures of profitability.

CAHs without long term care significantly outperformed those with long term care.

Operating and Total Margins,
by Ownership Type, California, 2008



Note: One CAH under city/county control was excluded from this analysis due to large fluctuations in reported operating and total margins.

Source: OSHPD Hospital Annual Financial Data 2008; KSA analysis.

Critical Access Hospitals

<< PREVIOUS NEXT >>

Operating margin and total margin also vary by ownership type.

In 2008, only system-affiliated, nonprofit hospitals reported positive medians for both. Non-system nonprofits and district hospitals were able to offset large operating deficits with non-operating revenue.

Financial and Utilization Indicators,
by Profitability, CAHs, California, 2008

MEDIAN INDICATORS

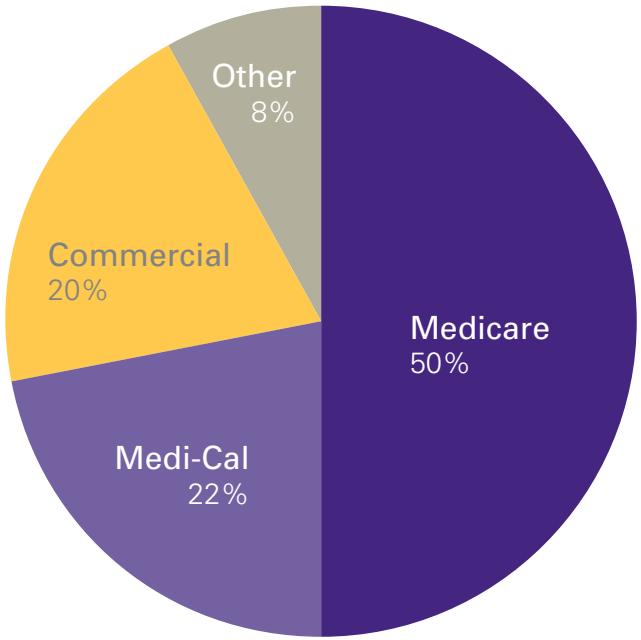
	WITH POSITIVE OPERATING MARGIN	WITH NEGATIVE OPERATING MARGIN
Number of Hospitals	**9**	**17**
Financial		
Operating Margin	9.3%	–10.6%
Total Margin	6.2%	1.8%
Non-operating Revenue as a Percent of Total Revenue	1.2%	9.3%
Utilization		
Total Discharges	1,289	388
Average Daily Census, Acute Care	11.6	4.5

Source: OSHPD Hospital Annual Financial Data 2008; KSA analysis.

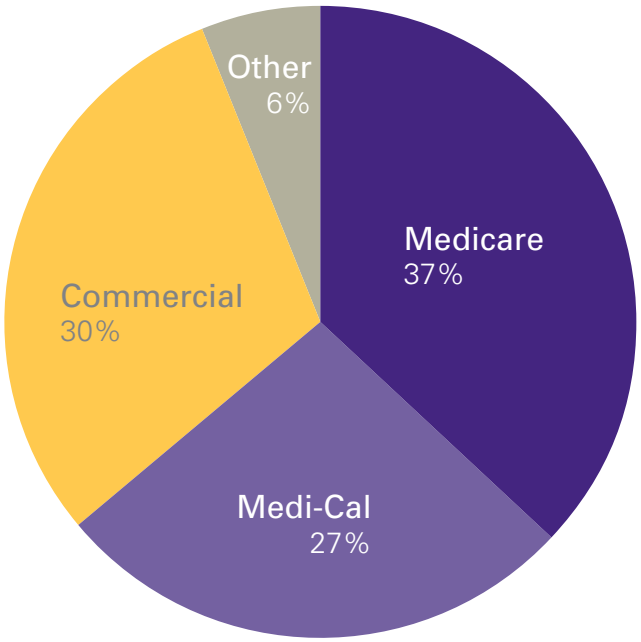
In 2008 only one-third of CAHs had positive operating margins. Those with positive margins had higher volumes and relied less on non-operating revenue.

Total Discharges, by Payer Category,
CAHs and All GACs, California, 2008

Critical Access Hospitals



All General Acute Care Hospitals



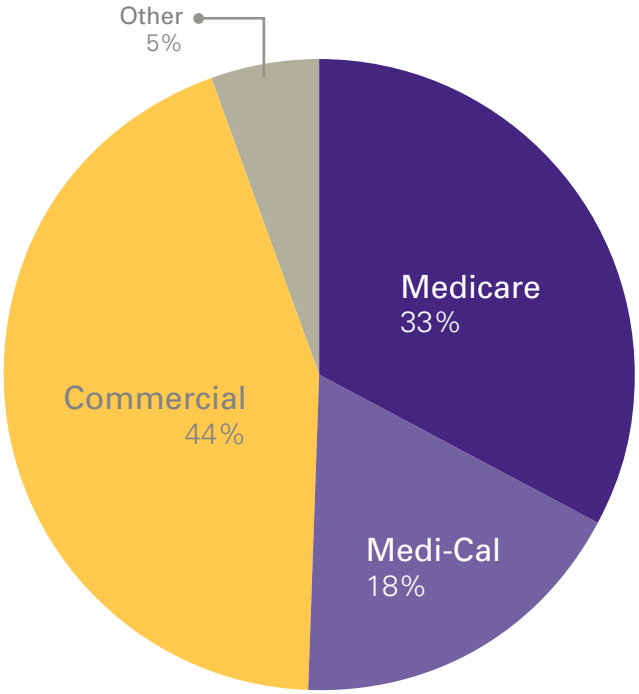
Source: OSHPD Hospital Annual Financial Data 2008; KSA analysis.

Medicare patients accounted for 50 percent of critical access hospitals' discharges, more than California acute care hospitals.

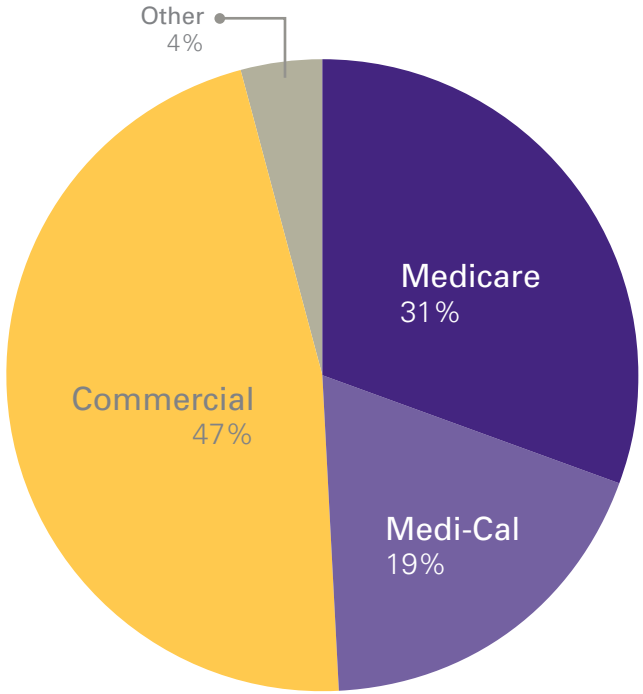
CAHs also had a lower percent of commercially insured inpatients compared to GACs (20 percent versus 30 percent).

Net Patient Revenue, by Payer Category,
CAHs and All GACs, California, 2008

Critical Access Hospitals
Total Revenue: $715.9 million
n=26



All General Acute Care Hospitals
Total Revenue: $59.4 billion
n=326

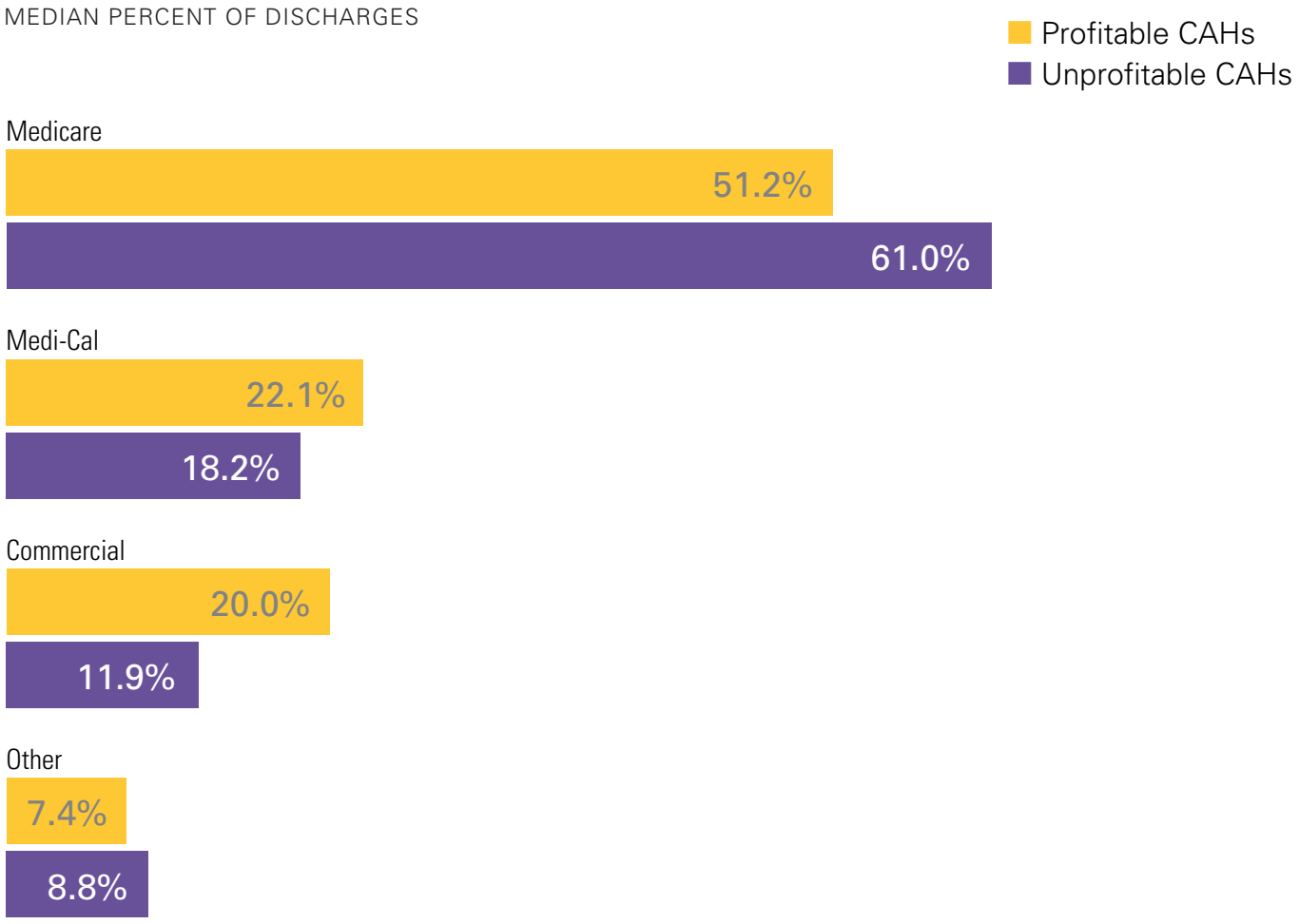


Note: Pie segments may not total 100 percent due to rounding.
Source: OSHPD Hospital Annual Financial Data 2008; KSA analysis.

Although the mix of patients differs, the breakdown of net patient revenue by payer was similar for CAHS and GACs.

CAHs, like all California GACs, rely on commercial payers for more than 44 percent of all revenue.

Discharges, by Profitability and Payer Category,
CAHs, California, 2008

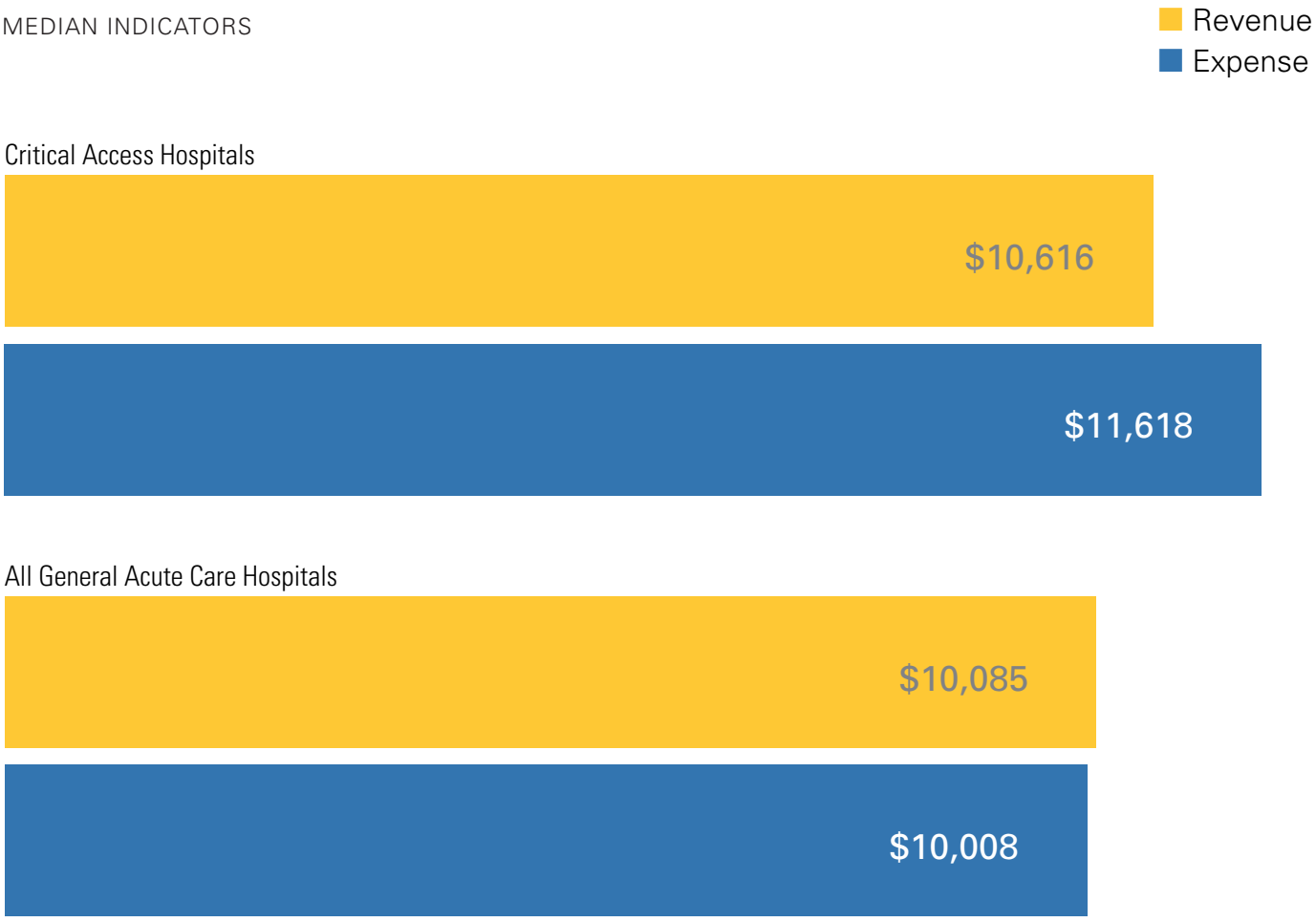


Source: OSHPD Hospital Annual Financial Data 2008; KSA analysis.

In 2008, unprofitable CAHs had a larger percent of Medicare patients while profitable CAHs had a higher proportion of commercial insurance discharges.

Operating Revenue and Expense per Case Mix Adjusted Discharge, CAHs and All GACs, California, 2008

MEDIAN INDICATORS

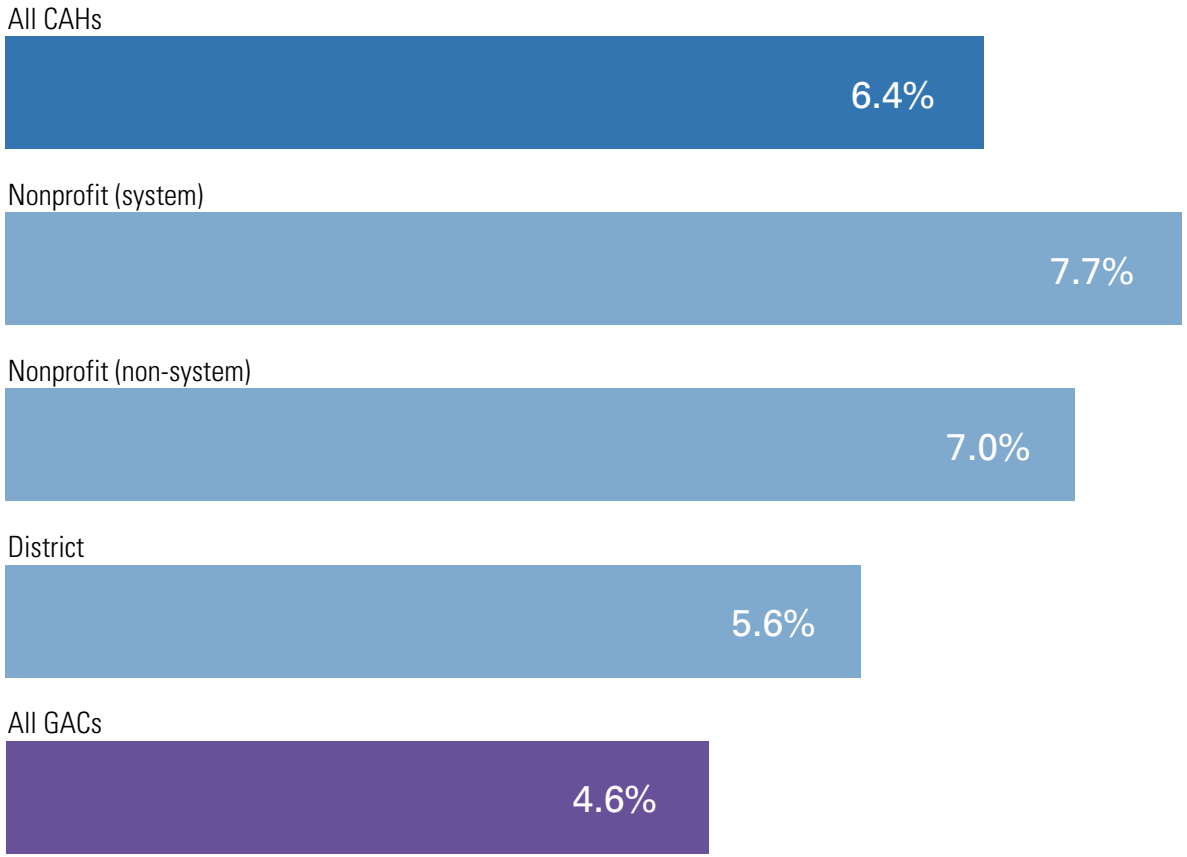


Note: Adjusted discharges is a measure designed to account for both inpatient and outpatient care. Hospital case mix index is defined as the sum of all inpatient MS-DRG weights (defined by CMS) divided by total number of inpatients.

Source: OSHPD Hospital Annual Financial Data 2008; KSA analysis.

Compared to all GACs, CAHs had slightly greater revenue per case mix adjusted discharge. However, expenses were significantly higher, about $1,600 more than for GACs

Uncompensated Care as a Percent of Total Expenses,
by Type of Ownership, California, 2008



Source: OSHPD Hospital Annual Financial Data 2008; KSA analysis.

Nonprofit CAHs within a system had the highest median percentage of uncompensated care compared to other ownership types.

Liquidity and Capital Structure Indicators,
CAHs vs. All GACs, California, 2008

MEDIAN INDICATORS

	CRITICAL ACCESS HOSPITALS			GENERAL ACUTE CARE HOSPITALS
	ALL	WITH LONG TERM CARE	WITHOUT LONG TERM CARE	
Number of Hospitals	**26**	**14**	**12**	**326**
Liquidity				
Days Cash on Hand	39.3	10.3	56.7	21.9
Current Ratio	1.7	1.4	1.9	1.5
Capital Structure				
Debt Service Coverage	3.8	2.0	5.0	2.9

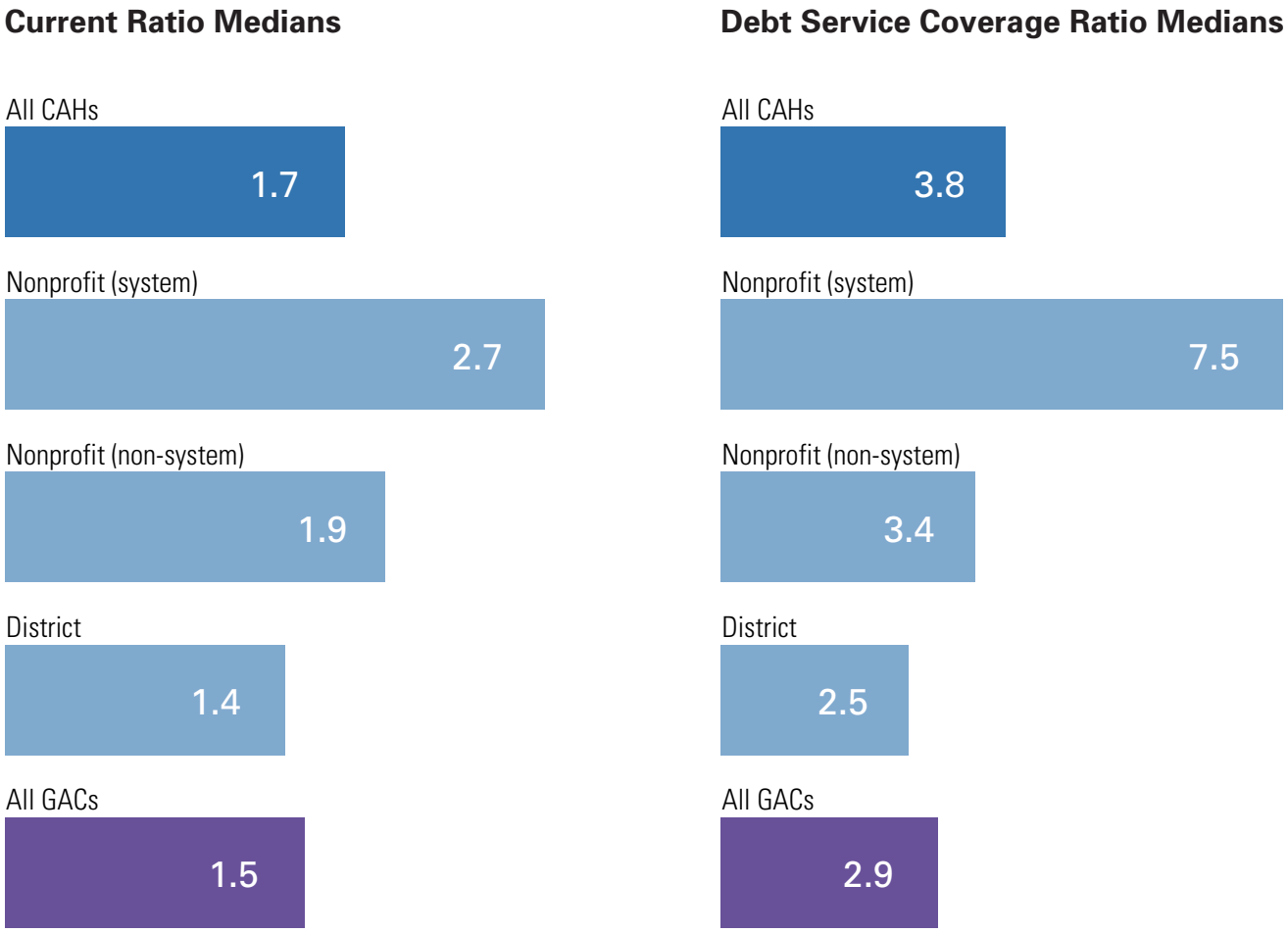
Note: Two hospitals converted to CAH status in 2008 and were excluded from the analysis of 2008 data.

Source: OSHPD Hospital Annual Financial Data 2008; KSA analysis.

Liquidity and capital structure measures correlate strongly with provision of long term care.

In 2008, the medians for CAHs without long term care were significantly better than general acute hospitals. Those with long term care had less favorable liquidity and capital structure measures.

Current and Debt Service Coverage Ratios,
by Ownership Type, California, 2008

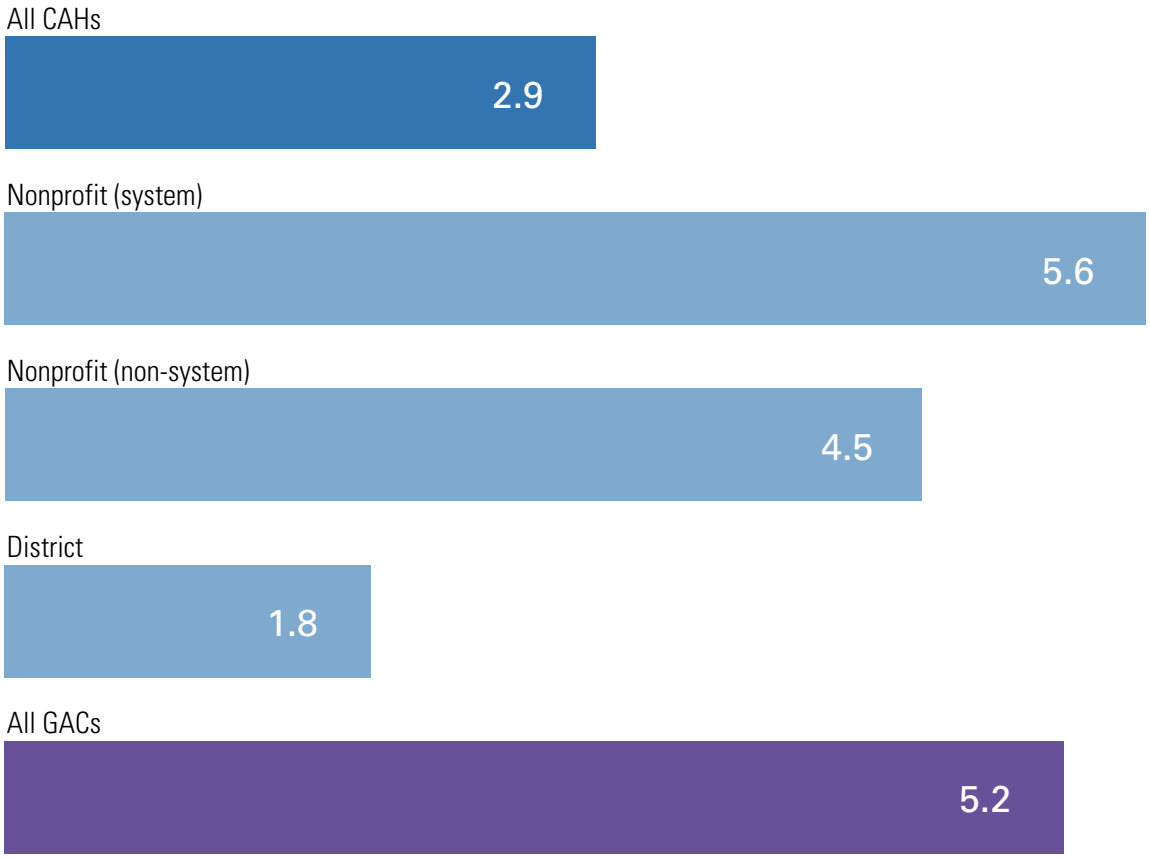


Source: OSHPD Hospital Annual Financial Data 2008; KSA analysis.

In 2008, system-affiliated nonprofit CAHs had higher current and debt service coverage ratios compared to other CAHs and all California GACs.

Staffing Levels,
by Type of Ownership, California, 2008

MEDIAN FTEs PER ADJUSTED OCCUPIED BED

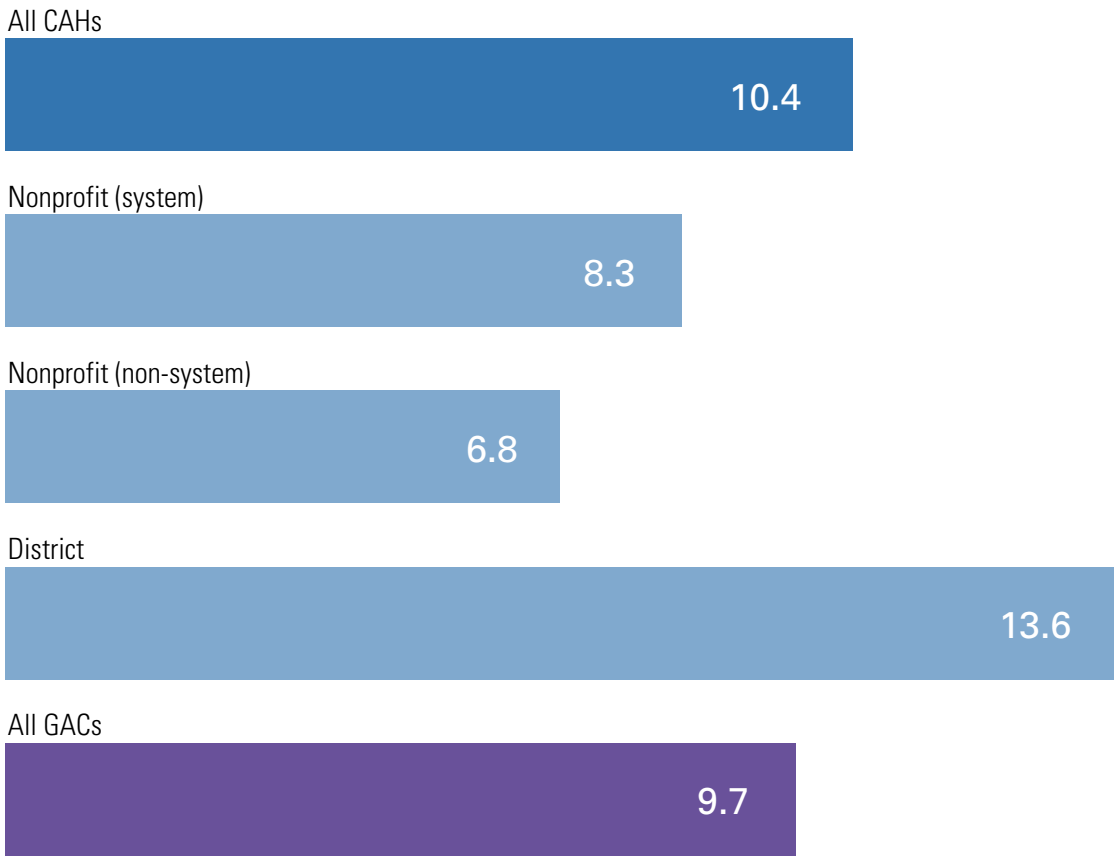


Source: OSHPD Hospital Annual Financial Data 2008; KSA analysis.

The staffing level for CAHs, as measured by FTEs per adjusted occupied bed (AOB), was lower than all California GACs in 2008.

District CAHs had the lowest median FTE per adjusted occupied bed.

Average Age of Plant,
by Type of Ownership, California, 2008



Source: OSHPD Hospital Annual Financial Data 2008; KSA analysis.

While the median average age of plant for California CAHs and GACs were similar, district CAHs were about three years older.

Utilization Indicators,
CAHs and All GACs, California, 2008

MEDIAN INDICATORS

	CRITICAL ACCESS HOSPITALS				GENERAL ACUTE CARE HOSPITALS
	RANGE	ALL	WITH LONG TERM CARE	WITHOUT LONG TERM CARE	
Number of Hospitals	**—**	**26**	**14**	**12**	**326**
Total Discharges	24 to 1,686	747	446	1,138	6,664
ADC Acute Care	0.1 to 15.9	6.4	4.8	10.3	106.3
Case Mix Index	0.74 to 1.45	0.93	0.93	0.94	1.14
Occupancy Rate*	17.7% to 89.9%	63.4%	69.6%	50.5%	63.7%
ED Visits	585 to 16,035	7,443	4,400	9,772	26,802
Surgical Volume	0 to 2,913	455	135	1,259	4,405

*Occupancy rate is based on available beds (all types).

Note: Two hospitals converted to CAH status in 2008 and were excluded from the analysis of 2008 data.

Source: OSHPD Hospital Annual Financial Data 2008; KSA analysis.

CAHs without long term care had higher acute care volumes than those with long term care, though not as high as GACs.

Even for CAHs without long term care, case mix was lower than for GACs, reflecting a less acute patient base.

Utilization Indicators,
CAHs, California, 2003 to 2008

MEDIAN INDICATORS

	2003	2004	2005	2006	2007	2008
Number of Hospitals*	13	14	14	22	25	26
Total Discharges	469	446	456	626	629	747
Average Daily Census, Acute Care	3.0	4.0	4.2	5.4	5.2	6.4
Case Mix Index	0.89	0.89	0.91	0.91	0.92	0.93
Occupancy Rate†	61.0%	67.6%	73.6%	60.1%	62.1%	63.4%
ED Visits	4,800	5,173	4,872	7,429	7,754	7,443
Surgical Volume	11	46	46	457	485	455

*The number of hospitals means those included in the analysis for any given year.

†Occupancy rate is based on available beds (all types).

Source: OSHPD Hospital Annual Financial Data 2008; KSA analysis.

Medians for several utilization indicators have increased from 2003 to 2008, reflecting both increased activity and the inclusion of newer CAHs with larger volumes.

Financial and Operating Indicators,
Two Years Before and After CAH Conversion

MEDIAN INDICATORS FOR SEVEN HOSPITALS THAT CONVERTED IN 2005

	TWO YEARS BEFORE (2003)	TWO YEARS AFTER (2007)
Operating Margin	2.1%	5.0%
Total Margin	0.2%	6.0%
Days Cash on Hand	3.9	21.7
Debt Service Coverage Ratio	3.9	4.5
Revenue per Adjusted Discharge*	$8,746	$8,834
Expense per Adjusted Discharge*	$8,629	$9,386
Average Daily Census, Acute Care	14.3	12.9

*Case mix adjusted.

Source: OSHPD Annual Financial Data 2003–2007; KSA analysis.

Analysis of the seven hospitals that converted in 2005 showed an overall improvement in financial performance after conversion.

Financial Ratio Glossary

Average Age of Plant. Indicates the financial age of the fixed assets of the hospital. The older the average age, the greater the short-term need for capital resources.

Current Ratio. Shows the number of times short-term obligations can be met from short-term creditors.

Days Cash on Hand. Measures the number of days an organization can pay its cash operating expenses if none of the accounts receivable were collected. This indicator shows the minimal survival period of an organization.

Debt Service Coverage Ratio. Measures the organization's ability to meet its debt repayments.

Source: Healthcare Financial Management Association, *Key Hospital Financial Statistics and Ratio Medians.*

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Acknowledgment

Special thanks to Aadam Hussain, analyst at Kurt Salmon Associates.

Methodology

For each hospital, data were collected and analyzed across five dimensions of financial health: profitability, liquidity, capital structure, revenue, and expenses. Utilization was also examined. The processes included:

1. Analysis of 2008 financial data for all critical access hospitals (CAHs) in California.
2. Comparative analysis of financial performance of CAHs relative to other California hospitals and among subsets within the California CAH group.
3. Topic-specific analysis of the impact of financial performance before and after conversion.

Hospitals were included in the analysis beginning the year following the published conversion date (e.g., Kern Valley Hospital converted in 2003, so the first full year as a CAH would be 2004).

The primary data sources were the Hospital Annual Financial Data (HAFD) reports from OSHPD.

It should be noted that in HAFD general acute care hospitals are reporting entities and may include more than one hospital.

Caveat: There was wide variability across hospitals in some indicators. For example, in 2008, average daily census ranged from 0.1 to 15.9.

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