



## FORUM SESSION

### Shifting Sands:

#### Health Center Finances Under Health Reform

MARCH 20, 2015

Policymakers—both proponents and critics of the Patient Protection and Affordable Care Act of 2010 (ACA)—are eager to learn how health reform has affected the operation and finances of safety net providers. Over 1,300 health centers across the United States provide a critical source of primary care, mental health, and oral health services for low-income people. In 2013, health centers served 22.7 million people, over half of whom were living in poverty. Approximately 35 percent of health center patients were uninsured and an additional 42 percent were covered by Medicaid.<sup>1</sup> Collectively, health centers served one-third of all Americans living in poverty; 20 percent of all low-income, uninsured persons; and 14 percent of all Medicaid beneficiaries.<sup>2</sup>

Health centers have grown significantly in recent years. Both total patients served and total patient visits increased by over 16 percent between 2010 and 2013.<sup>3</sup> During the same time period, total federal grant funding to health centers increased by 13 percent, while the total number of health centers receiving grants through the Health Resources and Services Administration (HRSA) grew by nearly 7 percent.<sup>4</sup> This growth in grant funding and service capacity has been supported in large part by investments made through the ACA's \$11 billion Community Health Center Fund, which is set to expire at the end of fiscal year 2015.

Efforts to expand service capacity at health centers have also resulted in rising costs. Cost drivers include increased spending for staff, as well as investments related to electronic health records, service diversification, facility expansions, and other capital improvements to boost both quality of care and quantity of services delivered. For some health centers rising costs have outpaced revenue growth, resulting in downward pressure on the

bottom line. Overly ambitious projections of growth or inadequate management of service expansions can leave health centers in the red for protracted periods, potentially leading to insolvency.

Health centers operate under tight margins and are highly dependent on federal grant funds and Medicaid reimbursement to ensure their financial viability. In 2011, the median operating margin for health centers was 2.1 percent.<sup>5</sup> However, median profitability masks substantial variation in financial status among health centers. Strong performers at the 75th percentile generated operating margins of 79 percent, while weak performers at the 25th percentile had operating margins of -1.6 percent. Multiple factors can influence health centers' financial strength, including size, payer mix, provider productivity, and management effectiveness.

Although several aspects of health reform suggest positive trends for health centers in 2014 and beyond, the financial stability of these essential primary care providers remains uncertain. Insurance coverage expansion, recent boosts in federal grant funding, and changes to Medicare payment methodology promise increased revenue for many health centers. However, the impact of these changes is likely to vary considerably among health center organizations depending on differences in service area demographics, health centers' ability to adapt to changing challenges and incentives, and future policy decisions.

## SESSION

This Forum session reviewed the fundamental business model of health centers and the fiscal challenges they face, examined historical trends in key financial indicators, and explored how recently implemented ACA reforms have influenced the operations and financial stability of health centers. **Allison Coleman, MBA**, chief executive officer of Capital Link, described health center financing and summarized national trends in financial and operational performance based on analyses of HRSA's Uniform Data System (UDS). Ms. Coleman's overview presentation was followed by a panel discussion including **Rachel A. Gonzales-Hanson**, chief executive officer of Community Health Development, Inc., a rural health center located in Texas; **Anita Monoian**, chief executive officer and president of Yakima Neighborhood Health Services, located in central Washington state; **Mark Meyer, CPA**, director of finance for the Greater Prince William Community Health Centers in northern Virginia; and

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**Ralph Silber, MPH**, who serves as both executive director of the Alameda Health Consortium (an association of eight health centers in California) and chief executive officer of the Community Health Center Network (an affiliated organization that contracts with managed care plans). These health center representatives will discuss major changes, challenges, and opportunities experienced by their organizations under health reform.

## KEY QUESTIONS

- Have new coverage opportunities available through Medicaid expansions or health insurance marketplaces significantly decreased the number of uninsured patients served by health centers? How has payer mix changed for health centers following the implementation of ACA's insurance coverage expansions?
- How have state decisions regarding Medicaid expansion influenced levels of uninsurance among health center patients?
- Have health centers been successful in retaining or attracting patients newly enrolled in Medicaid or marketplace-based coverage?
- To what extent have health centers increased service capacity and patient volume? What role has increased federal grant funding played in these expansions?
- To what extent are health centers entering into risk-based payment arrangements with public and private insurers?
- What impact have changes in payer mix and payment terms had on health center revenue?
- How have cost structures changed as health centers have invested in staff and facilities to accommodate growth in patient and service volume? What steps have health centers taken to control costs?
- How have changes in revenues and costs affected health centers' operating and total margins?
- What factors distinguish health centers with strong financial performance from those struggling to remain viable?

## ENDNOTES

1. HRSA, "2013 Health Center Data," <http://bphc.hrsa.gov/uds/datacenter.aspx?year=2013>.

2. National Association of Community Health Centers, *A Sketch of Community Health Centers: Chartbook 2014*, [www.nachc.com/client/Chartbook\\_2014.pdf](http://www.nachc.com/client/Chartbook_2014.pdf).
3. Calculations by author based on data provided by HRSA, “2013 Health Center Data,” <http://bphc.hrsa.gov/uds/datacenter.aspx?year=2013>, and “2010 National Data,” <http://bphc.hrsa.gov/uds/view.aspx?year=2010>.
4. Calculations by author based on data provided by HRSA, “2013 Health Center Data,” table 9E, other revenues, <http://bphc.hrsa.gov/uds/datacenter.aspx?q=t9e&year=2013&state=>, and “2010 National Data,” table 9E, other revenues, <http://bphc.hrsa.gov/uds/view.aspx?q=r9e&year=2010&state=>.
5. Capital Link, “Financial and Operational Ratios and Trends of Community Health Centers, 2008-2011,” Community Health Center Financial Perspectives, issue 1 (July 2013), [www.caplink.org/images/stories/Resources/reports/report-national-health-center-financial-and-operational-trends-%20issue%201.pdf](http://www.caplink.org/images/stories/Resources/reports/report-national-health-center-financial-and-operational-trends-%20issue%201.pdf).