EXPLORING FINANCING OPTIONS AS HEALTHCARE REFORM UNFOLDS

Among the Affordable Care Act’s challenges, healthcare providers must find sources of funding for equipment, technology improvements, and working capital needed to succeed under emerging value-based payment models. While many opportunities exist for lending institutions to invest, they must be aware of potential pitfalls surrounding reimbursement deductions and penalties.

BY GARY LITVAK

The Patient Protection and Affordable Care Act (ACA) is putting healthcare organizations between a rock and a hard place, introducing requirements meant to improve quality of care, while also mandating reduced spending. Because of ACA provisions, many organizations are likely to experience a decrease in overall revenue, which will have a profound impact on operating margins at many hospitals and medical group practices.

“The Affordable Care Act is having a significant impact on cash flow for most healthcare organizations. Medical groups can expect cash flow to decline as more and more responsibility is being placed on patients for payments,” said David Zetter, principal of Zetter Healthcare Management Consultants in Mechanicsburg, PA, and a member of the National Society of Certified Healthcare Business Consultants (NSCHBC).

However, while cash flow is declining, providers must invest in the equipment, infrastructure and technology necessary to succeed under emerging value-based payment models. Because these models reward providers based on quality rather than the quantity of services provided, healthcare provider organizations need to revamp the ways they deliver care.

Making these changes often takes significant capital and, while organizational leaders will undoubtedly look to optimize their cash flow, many will likely need additional funds to fully transition their organizations to the new value-based care delivery environment. This leaves ample opportunity for lenders to get involved in the industry, as healthcare providers seek financing.

“Healthcare organizations that want to remain relevant will most likely turn to trusted lending sources to help solidify their future success under the new value-based care delivery models. It will be extremely difficult for organizations to forge ahead without financing, while meeting all the requirements of the ACA,” says Ira N. Gottlieb, principal in the WeiserMazars Health Care Consulting Practice.
According to *A Guide to Financing Strategies for Hospitals*, a report published by the American Hospital Association (AHA), improving cash flow will most likely not be enough to cover healthcare organizations’ emerging needs. As a result, accessing external capital will become of increasing importance.

“Reform and market changes are accelerating hospitals’ need for capital to fund physician employment and integration, information technology (IT), facility modernization and expansion, and other initiatives,” the report states. “Successful healthcare organizations will need to make substantial capital investments in each of these areas.”

Hospitals and medical group practices are putting electronic health records in place in order to meet the requirements of the federal government’s Meaningful Use program and to succeed under value-based purchasing models, which require ongoing access to clinical and performance data. These systems, however, aren’t cheap – requiring substantial capital to purchase, implement and maintain.

As reform progresses, many provider organizations are similarly finding that they need to merge with others to stay competitive. And, of course, mergers and acquisitions also require significant capital infusions!

To remain relevant in this new world, healthcare organizations need reliable access to capital at a reasonable cost, with reasonable terms and manageable risk. The good news is that the big three credit rating agencies – Standard & Poor’s, Moody’s Investor Service and Fitch Ratings – assessed healthcare reform as a credit-neutral event. With the U.S. economy recovering, accessing capital is also becoming more feasible.

“A few years ago, it was difficult to obtain financing from banks,” Zetter comments. “Now, however, healthcare organizations that have a relationship with a bank most likely will be able to get financing. If they have a good financial history, they should be able to get access to some capital. Start-up organizations, however, might face some challenges.”

**Lenders Beware**

Asset-based lenders should pay particular attention to healthcare reforms as some provisions may affect a borrower’s collateral. As part of the ACA’s Hospital Readmissions Reduction Program, centers for Medicare and Medicaid Services are required to reduce payments to facilities with excessive readmissions. As such, some facilities will not receive the level of reimbursement they used to enjoy, which may have an adverse effect on Medicare receivables.

For example, facilities with excessive readmissions within 30 days of discharge, particularly for patients who were admitted with acute myocardial infarction, heart failure or pneumonia, may be subject to penalties, including a possible reduction of receivables.
Since 2008, the Centers for Medicare and Medicaid Services (CMS) have been tracking hospital readmission rates, and in December, the government published rates of Medicare patients of all diagnoses who returned within 30 days for unplanned reasons from July 2011 through June 2012. In the first year of the program, CMS fined 2,213 hospitals—about two-thirds of those it evaluated—for excessive readmission rates. In August 2013, CMS levied penalties against 2,225 hospitals. The ACA has already raised maximum penalties from a deduction of 1% of regular Medicare payments to 2%. In August 2015, these penalties will increase for a third and final time 3% of regular Medicare payments.

“Lenders should be asking new and existing borrowers about their readmission rates and whether they expect to have lower reimbursements due to excessive readmission rates,” says Kenneth R. Pogrob, partner-in-charge of the Services to Lenders Practice at WeiserMazars. “A lack of reimbursement could financially harm the facilities and, in turn, hurt lenders to the facility. It’s imperative that lenders understand who they are lending to and the risks involved with particular facilities.”

The good news is that there is a way for lenders to learn more about their potential clients and the status of their business. CMS continues to rate hospitals and publish their readmission statistics. Savvy lenders can get a better understanding of potential payment adjustments for facilities with readmissions by using CMS’s published penalty formula.

“The list of hospitals with higher readmission rates is public knowledge. Lenders should absolutely reference this list before making new loans or when assessing existing borrowers. Additionally, lenders can and should look at the formulas for how readmission penalties are determined. This is important information that needs to be considered,” says Ken Pogrob. “Yet, we are finding that very few lenders actually use this public information to their advantage.” TSL


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