CAH/FLEX

National Tracking Project

FINDINGS FROM THE FIELD

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Consortium Members

Project HOPE Walsh Center for Rural Health Analysis

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University of North Carolina Rural Health Research and Policy Analysis Program

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From Arkansas, Georgia, North Carolina, and Texas:

Revenue Enhancement and Cost Containment Strategies

Why Does a Critical Access Hospital (CAH) Need To Worry About Revenues and Expenses?

While cost-based reimbursement under the Rural Hospital Flexibility Program undoubtedly has helped the financial performance of many CAHs, astute CAH administrators readily understand that cost-based reimbursement is not a panacea for all of a CAH's financial problems. By definition, cost-based reimbursement does not provide a profit.

CAH conversion is just one part of an overall strategic plan for improved financial performance and long-term strategic positioning. Thus, the prudent manager must aggressively pursue a range of revenue enhancement and cost containment measures to enhance the CAH's financial condition. The Consortium Evaluation Team site visits yielded numerous examples of entrepreneurial CAH administrators who are doing exactly that.

Revenue Enhancement Strategies

1. Offer New Services

CAHs can perform community needs assessments to identify opportunities to expand appropriate services. A CAH in Arkansas, for example, dropped its home health service (which is not cost-based reimbursed) in favor of cardiac rehabilitation services (which are cost-based reimbursed).

Previous *Findings From The Field*

Vol. 1, No. 11: From Sixteen Critical Access Hospitals: Strategic Planning and the Balanced Scorecard

Vol. 1, No. 10: From Arkansas, Georgia, North Carolina, and Texas: Physician Recruitment and Retention

Project Website: http://www.rupri.org/rhfp-track/

2. Negotiate Better Rates With Other Payers
During rate negotiations with a large payer, one CAH was able to use its new status as evidence of its dire financial situation. The CAH was able to negotiate discontinuing a 15% discount on charges before conversion.

3. Review Pricing Structure
Some CAHs are reviewing their pricing structure and performing product-line profitability analyses to ensure that they make appropriate margins on the services they offer. CAHs can adjust their pricing according to the profitability of a particular service and furthermore, can market profitable services more aggressively.

4. Pursue Managed Care Contracts
Most of the CAHs the Consortium Evaluation Team visited are not being utilized at capacity. Since hospitals have a large base of fixed costs, CAHs must make every effort to increase the volume of services with positive margins. In at least one case, a partner (network) hospital planned to use the CAH as a means of extending coverage to a previously unserved area. This bolstered the hospital's ability to secure new managed care contracts.

5. Pursue Non-Patient Service Revenues
CAHs are realizing they must become entrepreneurial to survive. Grants are an excellent source of non-operating revenue, and states will often provide resources and technical assistance to help CAHs with grant writing.

6. Improve Cash Flows
Actively Manage Accounts Receivable: New systems and revised procedures are helping CAHs ensure that patient records, including payer information, are accurate and complete before the patient is discharged, a critical step in improving collections and reducing bad debt expense. Furthermore, some administrators are getting better collection yields by watching the accounts receivable closely and referring delinquent accounts to outside collection agencies more quickly than before.

Use Restricted Assets: One CAH performed an in-depth review of its temporarily and permanently restricted net assets (assets it had not been using) and found that it could use many of these funds for current activities. While this strategy does not improve the long-term position of the hospital, it can help greatly with short-term cash flow problems.

Review Charity Care Policy: While charity care is important in any community, its use must be monitored. CAH administrators are taking actions to ensure that the charity care policy is clear and applied consistently and appropriately.

Cost Containment Strategies

1. Consolidate Shared Service, Business, and Support Functions
A new or enhanced relationship between a CAH and its network partner can create access to a wider array of support services and an increase in efficiency. For example,

one network partner gave pre-owned furniture and computer equipment to the CAH. This equipment, which was still highly functional and which otherwise would have been discarded, saved the CAH thousands of dollars. Several CAHs said that consolidating purchasing, billing and collection, and legal functions may also result in savings.

2. Reduce Bad Debt Expense

CAHs are reducing bad debt expense by:

- updating billing and collections systems;
- generating more timely bills, or bill through network partners where possible;
- generating more accurate bills through improved coding of diagnostic codes and by training physicians to code for medical necessity;
- following up on bills more quickly and thoroughly; and
- retraining collections personnel to be customer service representatives.

3. Review All Services

Most of the CAHs visited by the Consortium Evaluation Team are carefully considering whether they can continue to offer money-losing services. They cite the need to review all service lines to maximize operational efficiency and ensure that they satisfy the organization's appropriate financial criteria and non-financial criteria. They are also reviewing labor costs in all areas and, as appropriate, aligning staffing levels with workload.

4. Review Equipment and Supplies

Examples of possible cost reductions in this area include:

- obtaining bids for all equipment and supply contracts;
- looking for substitute products that can be acquired less expensively;
- implementation of a formulary;
- switching contrast dyes used in radiology; and
- negotiating lower utility rates.

Where Can I Get More Information?

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BACKGROUND

The Rural Hospital Flexibility Program is a federal initiative to strengthen rural health. The Program:

1. Allows small hospitals the flexibility to reconfigure operations and be licensed as Critical Access Hospitals (CAHs).
2. Offers cost-based reimbursement for Medicare acute inpatient and outpatient services.
3. Encourages the development of rural-centric health networks.
4. Offers grants to states to help implement a CAH program in the context of broader initiatives to strengthen the rural health care infrastructure.

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