South Florida Hospital News and Healthcare Report
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Reviewing the Options Available to Hospitals for Cash Flow Enhancement

March 23, 2010 started a new era in the evolution of the American healthcare system. The Affordable Care Act (ACA aka Obamacare) has affected all aspects of the medical industry from the treatment of patients to the reimbursements that the providers receive for those services and everything in between. We've seen the implementation of long awaited improvements in insurance coverage such as the elimination of the "pre-existing condition" denials, expanded coverage to include those of us less likely to afford insurance and (following a rocky launch) the automation of applying for and

receiving coverage. Although the jury is not quite fully back as yet, some aspects of the ACA have been successful while others need restructuring. One such aspect of the law for example, that offers insurance coverage paid by the US Government to low income families has seen some unintended consequences. One of the expected outcomes from this part of the law was to put less stress on the emergency rooms to provide simple family medical type treatments like flu, simple injuries and the like. However this seems to have backfired somewhat in that, due to the huge amount of new/additional families in the system, appointment delays to see family practitioners range in many cases from four to six weeks. This once again forces these families back to the ER for these family treatment services.

Through all of this there are two items for certain that remain constant: reduced reimbursements and protracted payments. Part of the cost of the ACA has been paid through cutting provider reimbursement rates. Additionally, valiant attempts have been made to get providers paid more quickly which for the most part has not happened. Perhaps certain Medicaid programs pay efficiently and Medicare to some degree may have tried to close the reimbursement gap, but the overall reality for hospitals today is decreased and protracted third party payments. The question then arises what are the financial tools available for the regional facilities? Traditionally there are only three options to any business that may be seeking a financing facility. These are a) selling equity b) issuing debt or c) selling receivables.

Selling equity is essentially offering a portion of the ownership in the hospital to an investor. The process is simple; the facility sells a part of its stock at a pre-determined price per share. With every option there are two sides to the coin. The other side of selling ownership is the loss of some control over the facility. New owners will want to have a say in the functioning of the hospital to some degree. The question then arises “does the current administration or do the majority shareholders want to relinquish any control of the business?” The second option is of course borrowing money which can be looked at as selling

the hospital's and the hospital owners' creditworthiness. With good credit profiles for the facility's owners, and strong financials of the facility itself, borrowing can be accomplished in three formats; 1) municipal debt 2) asset based debt-non bank and 3) bank debt. Each has its own requirements and underwriting specifics, but in the end they all require financial strength. As a side point, depending on how large the hospital is and its business structure, the option (#1), Municipal Debt, may not be available. Finally, the least understood and most misunderstood option is selling receivables commonly known as Factoring. Factoring, unlike the 3 debt options or the equity option, is an ongoing stream of cash flow based on the hospital's daily billing. Very often it is misunderstood as selling off bad debt, which cannot be further from the truth. It is the regular and scheduled selling of current accounts receivable at a small discount to achieve a steady daily, weekly or monthly cash flow stream solely generated from the current billing of services already rendered.

Essentially, the hospital moves from cash flow generated by the carriers' somewhat inconsistent payment cycles to a more stable and predictable stream generated by its own internal billing. Every day, the hospital (medical providers in general) can sell its receivable to get the cash it needs for running the facility thus eliminating the uncertainty of "when". What is the other side to this coin? It is not the least expensive form of finance, as the cost typically can be 2% to 5% of revenue.

Depending on the program that the hospital chooses, factoring can be considered a discounted cost or it can be an interest expense, some factoring companies will offer one or both of these options.
To qualify for this form of finance the hospital has to show a) that it can afford the cost of Factoring and b) the owners' personal credit is irrelevant, as this form of finance is largely based on the payors' creditworthiness.

Hospital administrators should fully evaluate all options to solve financial challenges. Hopefully this analysis can

generate an informed and sensible decision.
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