

Leveraging Hospital Financial Analyses to Inform State Policy

April 9, 2024

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Health Care Costs

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The Peterson-Milbank Program for Sustainable Health Care Costs supports state-led efforts to make health care more affordable for everyone.

As part of this program, five states—[Connecticut](#), [New Jersey](#), [Oregon](#), [Rhode Island](#), and [Washington](#)—are receiving direct support to analyze and address the underlying drivers of health care cost growth, using [cost growth targets](#) to advance affordability.



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Speakers

- Presenters:
 - **Nate Pauly**, Senior Manager, Manatt Health
 - **Sarah Kinsler**, Senior Consultant, Bailit Health
- Panelists:
 - **Kevin McAvey**, Managing Director, Manatt Health (moderator)
 - **Steven Ranzoni**, Hospital Policy Advisor, Oregon Health Authority
 - **Charles Miller**, Senior Policy Advisor, Texas 2036
 - **Maureen Hensley-Quinn**, Senior Program Director, NASHP



Agenda

- Introduction of “Guide to Hospital Financial Analyses”
 - Medicare Cost Reports
 - Audited Financial Statements
 - IRS Form 990 Filings
 - Considerations for Data Selection & Use
- State Leader Panel
- Question & Answer



Guide to Understanding Hospital Spending through Financial Analyses

Analytic Support Resource

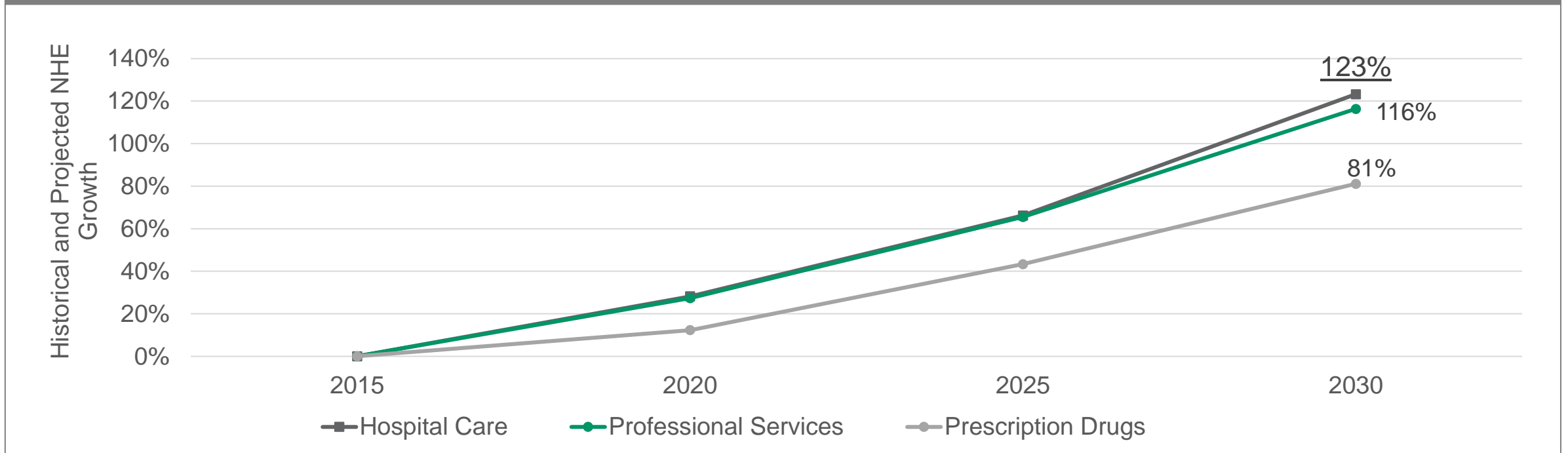


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Background

Hospital spending is a major health care cost driver at the state and national levels. CMS projects hospital spending will continue to increase at 5.8% annually from 2022 to 2031, outpacing growth in most other health care service categories.

Cumulative Historical and Projected National Health Care Expenditure Growth (2015-2030)



Data Source: Historical and projected NHE data and projected GDP data from Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group. National Health Expenditure Accounts Data. Updated July 19, 2023. Available [here](#).

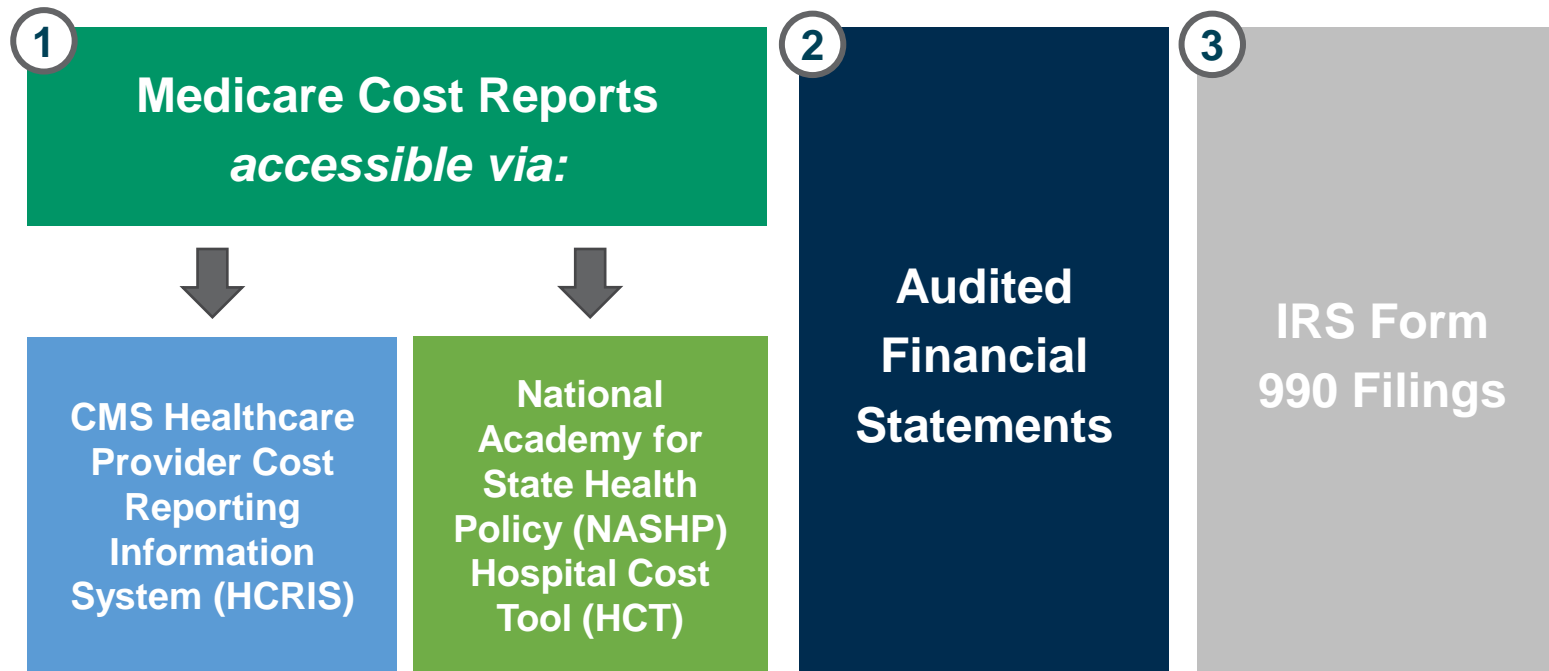


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Guide Overview

The Guide profiles three publicly available data sources and considerations for use.

Hospital Financial Data Source Options



Medicare Cost Reports (MCRs)

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Medicare Cost Reports Overview

All nonprofit and for-profit Medicare-certified institutional providers are required to submit Medicare Cost Reports (MCRs) to CMS every hospital fiscal year

Overview

- CMS uses MCR data to determine government payment rates and other types of hospital funding
- MCRs capture detailed facility-level data, including:
 - Hospital costs (e.g., labor, charity care, bad debt, and uninsured patient costs) and data by cost center
 - Profitability and revenue
 - Facility characteristics (e.g., payer-mix, patient discharges, bed count)
 - Receipt of government subsidies (e.g., graduate medical education funding, COVID-19 relief funding, separate payments)
 - Cost-to-charge ratios

Strengths

- Historical data publicly available for all hospitals
- Federally standardized data source
- Supports comparisons across states

Limitations

- Data are not audited and may contain errors or omissions
- Data lag (up to two years)
- Only available at the facility-level
- Missing some financial elements (e.g., liquidity, debt capacity, capital investments)



Accessing Medicare Cost Reports

MCR data are available from CMS via the Healthcare Provider Cost Reporting Information System (HCRIS) or via the National Academy of State Health Policy (NASHP) Hospital Cost Tool (HCT)



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Medicare Cost Reports via HCRIS

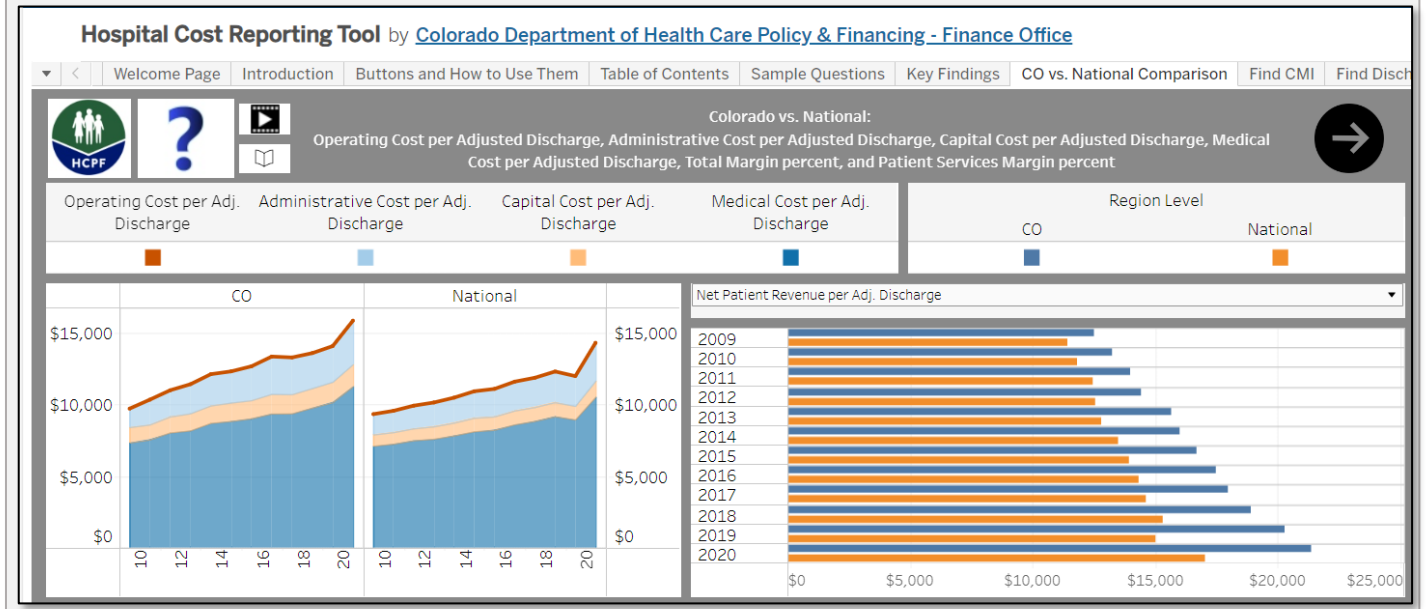
Overview

- HCRIS data capture raw, unedited data from MCRs as reported by health facilities to CMS
- Analyzing HCRIS data can be labor-intensive and requires analytic tools like SAS, SQL, or R
- CMS provides HCRIS data in Excel-based Public Use Files (PUFs) and SAS data files
- HCRIS includes data elements not captured in the NASHP HCT, including:
 - Costs by cost center
 - Information on government subsidies (e.g., graduate medical education funding, disproportionate share hospital payments)

Analytic Example

In 2020, the Colorado Department of Health Care Policy and Financing (HCPF) used HCRIS data as the primary source for their Hospital Cost Reporting Tool

Colorado HCPF Hospital Cost Reporting Tool



Medicare Cost Reports via NASHP HCT

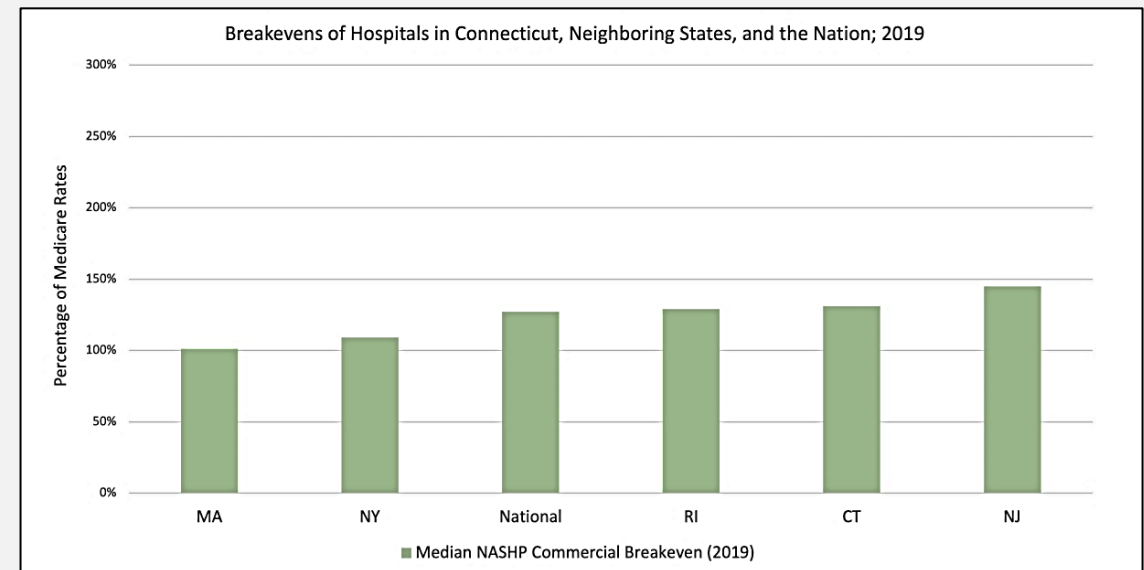
Overview

- The NASHP HCT includes key fields from hospital MCR data abstracted from HCRIS
- NASHP includes multiple calculated and value-added fields in the HCT, including:
 - Commercial breakeven points
 - RAND 4.0 commercial prices
 - Payer-mix adjusted profit margins
 - Operating profit margins by line of business
- Interactive data dashboard allows users to examine characteristics of a single facility or easily compare metrics across states or types of hospitals (e.g., non-profit vs. for profit)
- Excel spreadsheet including data behind the interactive dashboard is available for download

Analytic Example

A 2022 analysis using the NASHP HCT found that hospitals in Connecticut had higher median commercial breakeven points relative to hospitals nationwide, and those in peer states

Median NASHP Commercial Breakevens of Hospitals in CT, 2019



Hospital Audited Financial Statements

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Audited Financial Statements

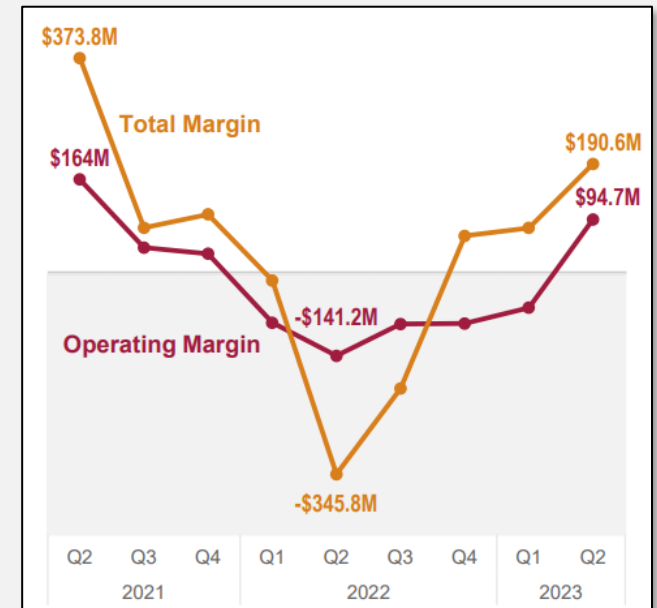
Overview

- Submitted by nonprofit and for-profit hospitals and health systems to a variety of entities to obtain and maintain bond financing, support lender and private investor transparency, and to aid state and federal oversight
- Include detailed facility and health system financial data, including data on income, changes in net assets, cash flow, and debt
- Detailed footnotes describe reporting policies and practices

Analytic Example

The Oregon Health Authority's Hospital Reporting Program collects audited hospital financial data to produce regular reports, such as the quarterly Financial & Utilization Trends Report.

Oregon Acute Hospital Total and Operating Margins Q2 2021 – Q2 2023



Audited Financial Statements

Helping state policymakers answer key questions

- Are hospital claims of current or anticipated financial distress accurate?
- Are hospital claims of solid financial health accurate?
- Which hospitals can handle state strategies to slow hospital spending growth?
- How does financial health vary by region, hospital type (e.g., general acute care vs. critical access), and ownership (non-profit vs. for-profit)?

Strengths

- Most detailed health system financial reporting
- Reported at the health system level, including all holdings
- Available within three to six months
- Use Generally Accepted Accounting Principles (GAAP)

Limitations

- May not be publicly available for all hospitals in all states (although most are)
- Do not always include facility characteristics (e.g., bed count, detailed labor costs)
- May be more consolidated than preferable for some uses
- Require standardizing prior to comparison



Audited Financial Statements

This guide and accompanying resources strive to make analyzing audited financial statements as easy as possible for states

Hospital Financial Analysis Template

This *Hospital Financial Analysis Template* is a companion to the *Guide to Understanding*

Health System Name (State), Date Range						
Enter Unit (dollars or thousands) here						
Fill in Health System Name, State, and most current year in Column C		NAME	NAME	NAME	NAME	
		State	State	State	State	
		YEAR	NA	NA	NA	
BALANCE SHEET						
ASSETS						
Current Assets						
Cash and investments	\$	-	\$	-	\$	-
Current assets - limited use	\$	-	\$	-	\$	-
Net patient accounts receivable	\$	-	\$	-	\$	-
Current assets with donor restrictions	\$	-	\$	-	\$	-
Other current assets	\$	-	\$	-	\$	-
Total Current Assets - Fill from Balance Sheet	\$	-	\$	-	\$	-

Measures

- Eight key financial indicators calculated from Audited Financial Statement data
- Reference ranges from national medians

Tools

- Companion Hospital Financial Analysis Template to help state analysts calculate the eight measures

Source Guide

- Where to find Audited Financial Statements
- How to export them from PDF to Excel



Audited Financial Statements

Interpretation: Four Rules of Thumb

1. **Look across multiple years of data**, ideally three to five years.
2. **Do not draw conclusions from a single measure**, as performance will likely vary by measure.
3. **Key indicators are related.** Example: A high level of long-term debt is generally unfavorable, unless the Debt Service Coverage Ratio is high. This could indicate high cash flow from operations and the ability to carry more debt.
4. **Remember your policy goals.** “Optimal” health system financial performance as measured by the eight key indicators may not serve your state’s overall affordability goals; health systems in financial distress can also result in harm to patients.



IRS Form 990 Filings

Bailit Health



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IRS Form 990 Filings

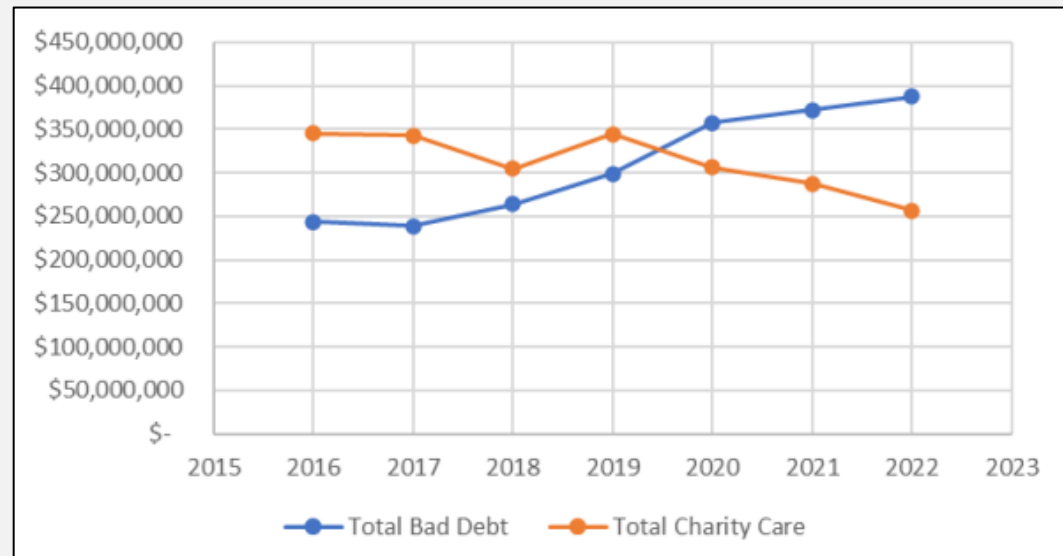
Overview

- Submitted by non-governmental nonprofit hospitals and health systems to the federal Internal Revenue Service (IRS); not available for government-owned or for-profit institutions
- Used by the IRS to collect information about tax exempt organizations
- Includes hospital and health system financial data, but are not comparable to audited financial statements or Medicare Cost Reports
- Includes information on community-benefit spending not consistently captured in other data sources

Analytic Example

The Connecticut Office of Health Strategy's Community Benefit Report analyzes nonprofit hospital IRS Form 990 filings and state-submitted hospital annual reports to the state to examine hospitals' community benefit spending and activities.

Total Connecticut Nonprofit Hospitals' Bad Debt and Charity Care Expenses (2016-22)



Data Source Selection

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Data Source Selection Considerations (1)

MCR Data

Consider leveraging **MCR** data via the **NASHP HCT** when seeking to:

- Conduct financial analyses with limited capable and trained staff
- Conduct quick comparative analyses across states, health systems, or facilities within a state
- Analyze financial metrics at the hospital-level when Audited Financial States are unavailable
- Analyze labor and other costs in context and over time

Consider leveraging **MCR** data via **HCRIS** when seeking to:

- Conduct financial analyses and trained staff and analytic tools are available
- Analyze costs by cost center



Data Source Selection Considerations (2)

Audited Financial Statements

Consider leveraging when seeking to:

- Conduct financial analyses where trained staff are available
- Analyze metrics like days cash on hand, investment income, long-term debt, or average age of plant
- Analyze financial metrics at the health system-level
- Access the most recent data possible

IRS Form 990 Filings

Consider leveraging when seeking to:

- Supplement analyses performed using audited financial statements or MCRs
- Analyze community benefit spending
- Conduct financial analyses where audited financial statements are unavailable.



State Leader Panel

Moderated by Kevin McAvey, Manatt Health



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State Panelists



Maureen Hensley-Quinn
Senior Program Director
NASHP



Charles Miller
Senior Policy Advisor
Texas 2036



Steven Ranzoni
Hospital Policy Advisor
Oregon Health Authority



Closing Remarks

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Other Data Analytic Resources (1)

1 Leveraging Health System Costs and Affordability Data

Offers guidance for states on how to best use publicly available data sources to address common questions related to health care affordability.

- *Health Care Cost and Affordability Data Resource Inventory* catalogues 20 publicly-available data sources; and
- *Introductory Guide to Leveraging Health Care Cost and Affordability Data* provides direction and considerations for data source use.



The screenshot shows an Excel spreadsheet with the following content:

- Row 1: Peterson-Milbank Program for Sustainable Health Care Costs (with logos)
- Row 2: Peterson-Milbank Program for Sustainable Health Care Costs
- Row 3: **Health Care Cost and Affordability Data Resource Inventory**
- Row 4: The *Health Care Cost and Affordability Data Resource Inventory* offers detail on 20 publicly available national and state data sources on health care cost and affordability. Data sources range from the federal American Community Survey to state all-payer claims databases. The Inventory provides information on each source such as the availability of interactive analytic tools, the frequency of updates, the geographic granularity, known limitations, and much more.
- Row 5: For more information, see the [Introductory Guide to Leveraging Health Care Cost and Affordability Data](#) for recommendations on how and when to leverage many of these data sources and the [Making the Case for State Health Care Affordability Sample Slides](#) to create customized slides for your state that help make the case for action on health care affordability.
- Row 6: Inventory Version 10.26.2023
- Row 8: manatt logo
- Row 8: Please contact Nate Pauly, Senior Manager, with questions at NPauly@manatt.com
- Row 11-19: A large green Excel icon.



Other Data Analytic Resources (2)

2

State Health Care Affordability Sample Slides

Provides states with a “starter set” of easy-to-use, customizable slides that highlight national and state health care spending and affordability trends using universally available health care data.

- *Making the Case for State Health Care Affordability Sample Slides*; and
- *Accompanying Databook* includes data for all states and instructions for customizing data visuals.



Making the Case for State Health Care Affordability Sample Slides

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November 2023



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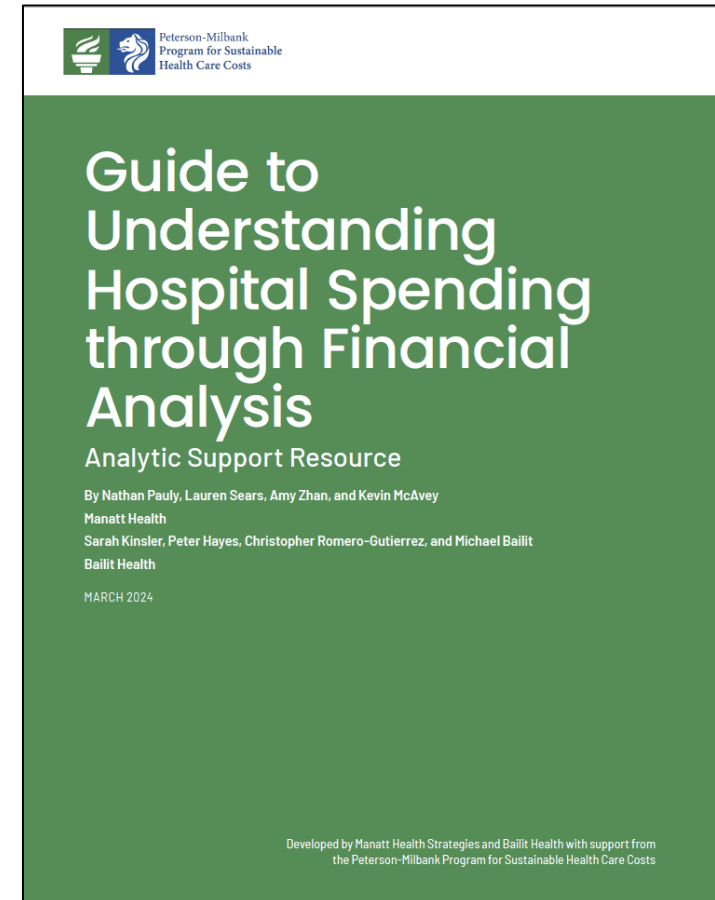
Other Data Analytic Resources (3)

3

Analytic Guides

Provides state technical staff with standard analytic methodologies for translating health care data into actionable insights.

- *Guide to Grouping Outpatient Hospital Claims for Spending Analyses* offers guidance for performing hospital outpatient spending and utilization analyses; and
- *Guide to Understanding Hospital Spending through Financial Analysis* provides directions for assessing hospital and health system financial performance using publicly-available data.



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Thank you for joining us.

Visit www.Milbank.org/cgt for all resources.



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