



CALIFORNIA FEDERALLY QUALIFIED HEALTH CENTERS

Financial & Operational Performance Analysis

2016-2019

PREPARED BY



SPONSORED BY



INTRODUCTION

This report, prepared by Capital Link with support from the California Health Care Foundation, provides an aggregate financial and operational profile of California Federally Qualified Health Centers (herein referred to as health centers or FQHCs)¹. The report offers a structure for recognizing the financial strengths, challenges, and benchmarks that support opportunities for health center performance improvement through an analysis of multi-year statewide trends and median outcomes.

This analysis incorporates health center financial audits as well as operational and utilization data reported by the Uniform Data System (UDS) from 2016 to 2019. Statistical measures are used to depict financial ratios and trends in terms of percentiles. Median performance, the level at which half of the centers rank higher and half are lower, is compared throughout. Quartiles (the top and bottom 25th percentiles for performance, for example) provide further context on some measures. Median-level comparative data from FQHCs across the United States offer additional insight. Industry-recommended benchmarks, where indicated, are from Capital Link's proprietary database of over 20,000 FQHC audits combined with banking guidelines for non-profit organizations.

The following key trends are reviewed:

- ▶ Service Delivery Expansion & Capacity
- ▶ Patient and Visit Growth
- ▶ Payer Mix Trends
- ▶ Financial Health & Performance
- ▶ Patient Utilization
- ▶ Practice Mix
- ▶ Productivity Metrics
- ▶ Quality of Care Indicators

Capital Link's annual financial and operational profiles for the state of California's FQHCs can be accessed [here](#).

1. FQHCs include Section 330 grantees and FQHC Look-Alikes (LALs).

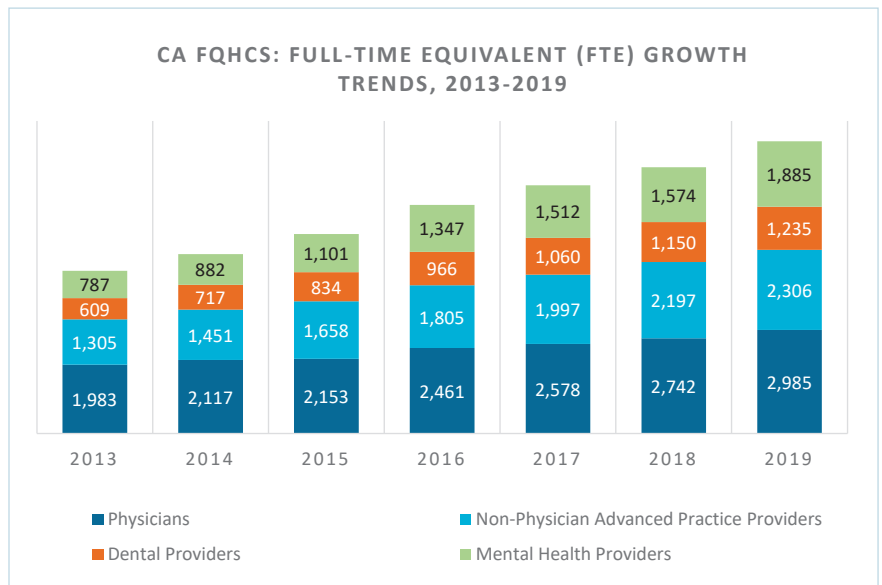
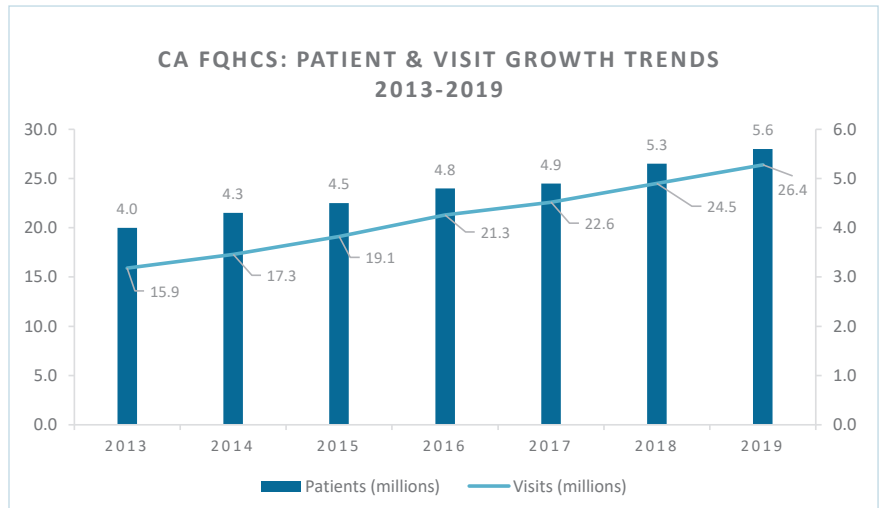
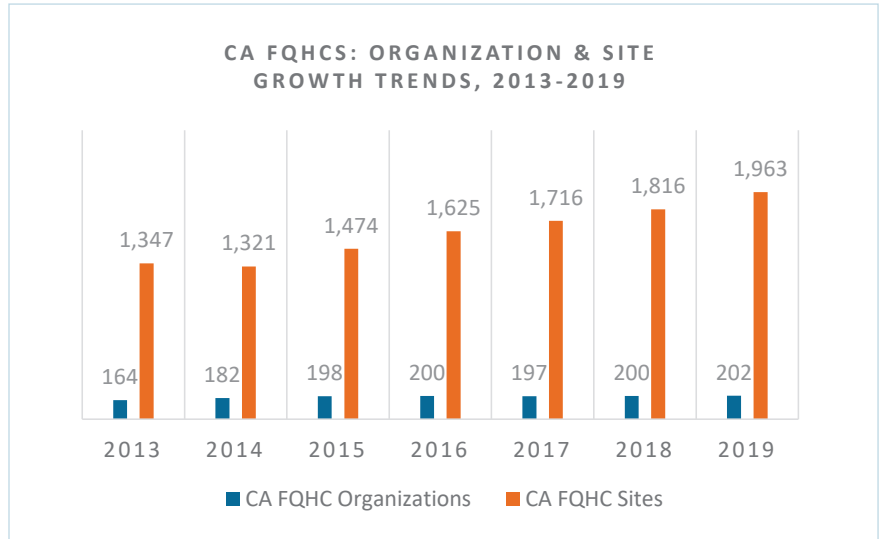
GROWTH AND EXPANSION

California health centers experienced rapid growth from 2013 to 2019. While the addition of new FQHC organizations has slowed in recent years, previously established health centers continued to expand their number of service delivery sites.

California FQHCs reported substantial growth from 2013 to 2019 in terms of patients, visits, sites, and employees. In 2019, California FQHCs served 5.6 million patients and generated 26.4 million patient visits, equating to increases of 40% in patients and 66% in visits over the seven-year review period. At the national level, FQHCs reported a 37% growth in patients and 43% rise in visits over the same timeframe, highlighting California FQHCs' relatively strong growth, particularly in visits.

California health centers expanded to 1,963 delivery sites in 2019, an increase of 147 locations, or 8%, over the prior year. The growth of sites was generated by existing health organizations; indeed, only two new FQHCs were added in the state between 2018 and 2019.

Provider capacity rose accordingly as illustrated in the full-time equivalent (FTE) growth trends chart below. From 2013 to 2019, the number of physician providers employed by California FQHCs increased by 51% to 2,985 FTE employees. Non-physician medical providers jumped 77% from 2013 to 2019, while dental and mental health providers each more than doubled over the period.

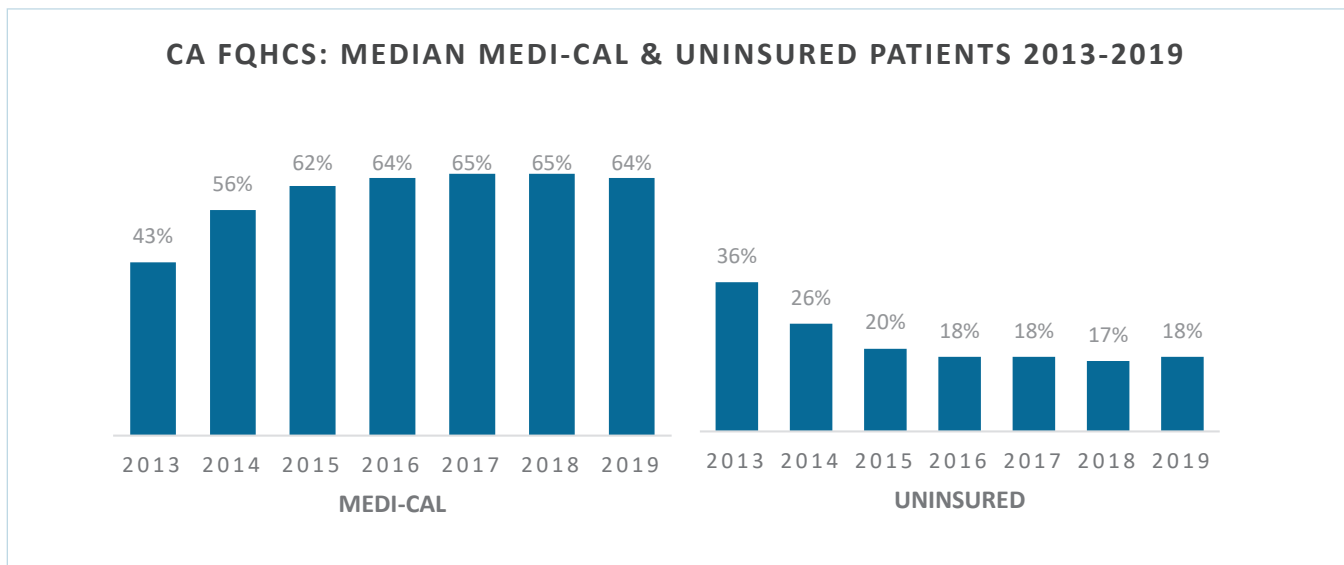


PAYER MIX

Patient mix has remained stable over the past few years after a dramatic shift between 2013 and 2015. Medi-Cal continued to be the largest payer in 2019, providing coverage for a median of 64% of patients in California FQHCs, and contributing to a median of 82% of net patient service revenues.

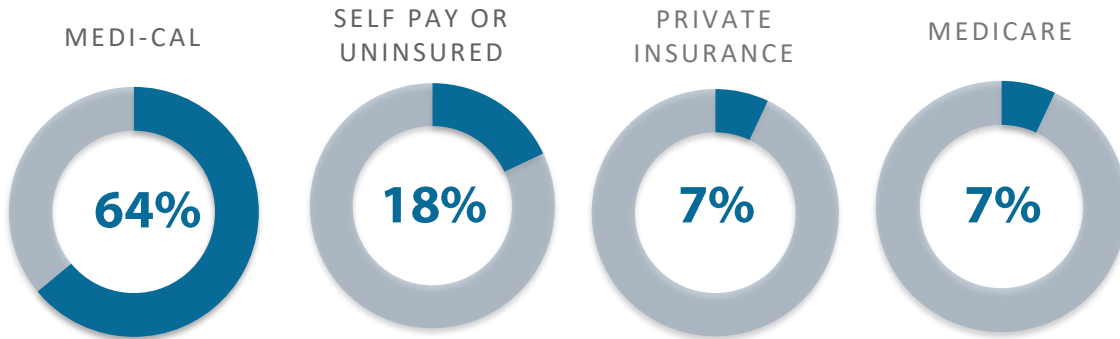
The payer mix for California FQHCs was steady in recent years after experiencing a significant adjustment from 2013 to 2015. The earlier changes were driven primarily by the Affordable Care Act (ACA), the nationwide insurance expansion which boosted enrollment in Medi-Cal, California's Medicaid program, and significantly reduced the number of uninsured patients. As of 2019, 64% of patients at the median California FQHC were covered by Medi-Cal, a substantial increase from 43% in 2013. Inversely, the median California FQHC's percentage of patients who were uninsured declined from 36% in 2013 to 18% in 2019. The primary payers for the remaining patients included private insurance and Medicare; for each of those categories the median FQHC amount was 7% of the patient population in 2019, a level that remained consistent over the review period.

It is also interesting to review the overall number of patients served at California FQHCs by payer source. Medi-Cal patients, at 3.6 million in 2019, were double the 2013 level of 1.8 million. Uninsured patients declined by about 400,000 to just over 1 million in 2019. Private insurance and Medicare patients both increased over the period to 2019 annual levels of 469,000 and 390,000, respectively. While the median FQHC Medi-Cal population was 64% of the total in 2019, it comprised 82% of the health center's total patient revenue collected, highlighting the significant importance of this payer group.

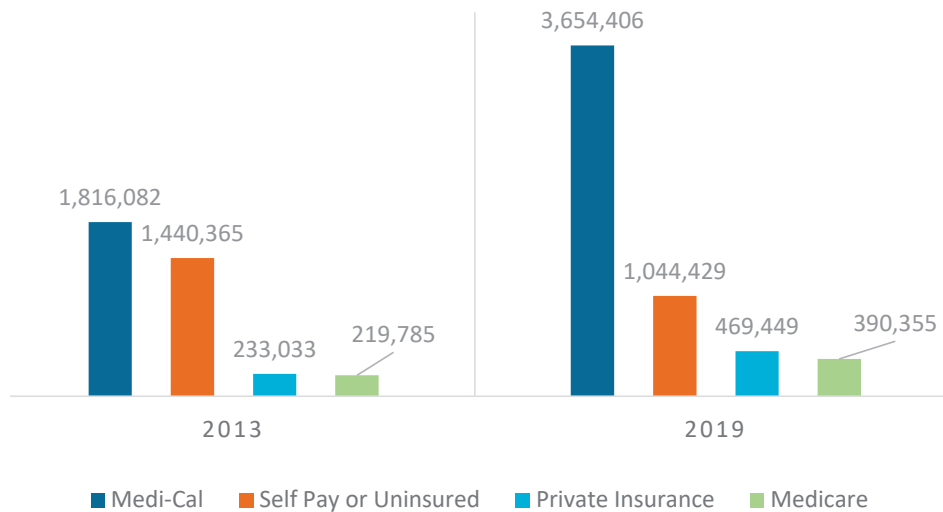


PAYER MIX

CA FQHCS: 2019 MEDIAN PATIENTS BY PAYER SOURCE



PATIENTS BY PAYER SOURCE: 2013 VS. 2019

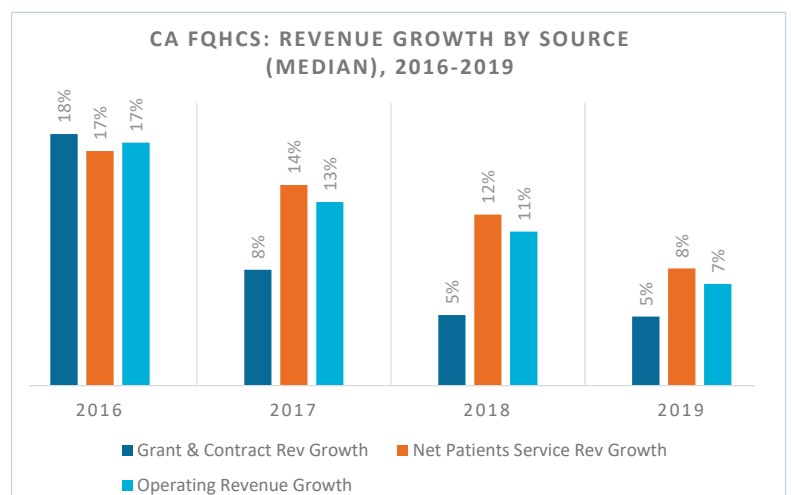
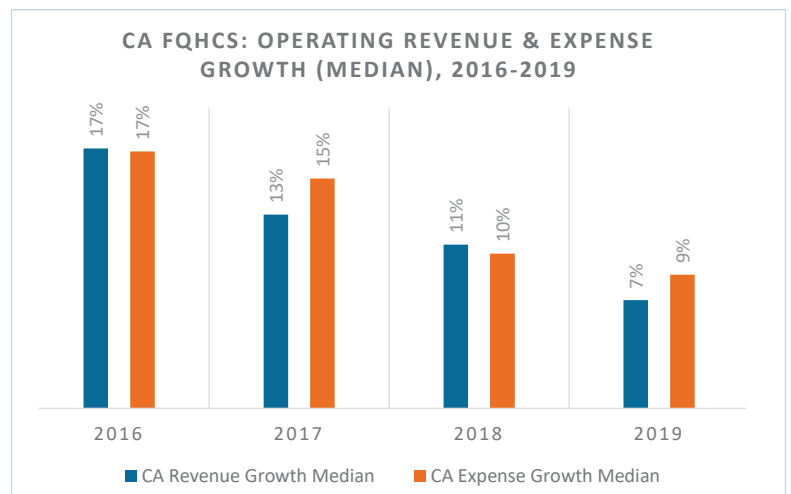
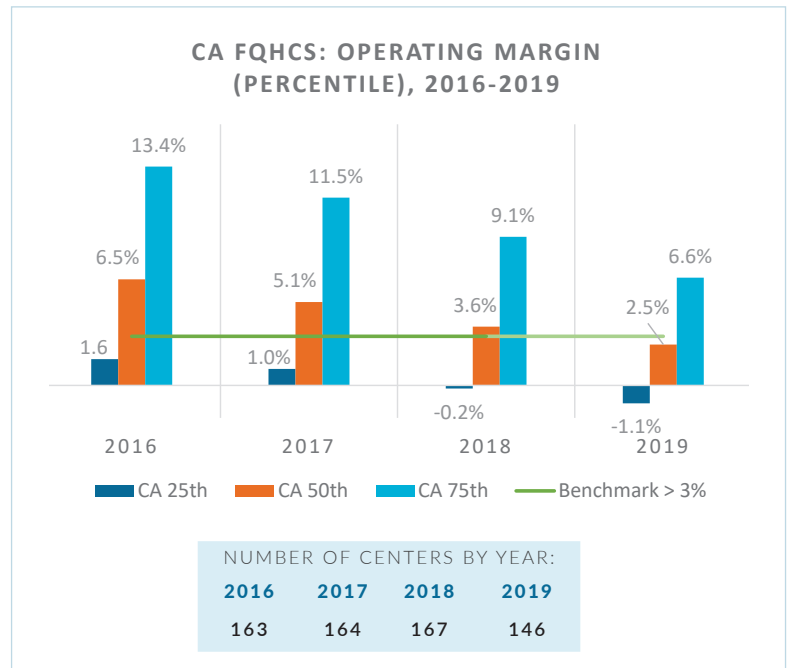


FINANCIAL PERFORMANCE

The median California health center reported a significant decline in operating margin between 2016 and 2019. Expense growth outpaced revenues as both net patient service revenue and grant and contract revenue growth slowed. Health centers operating in the 25th percentile, i.e. the weakest financial performers, operated at a loss in 2019, indicating an ongoing challenge for financial sustainability.

At the median level, California FQHCs consistently generated positive operating margins from 2016 to 2019, but experienced a steady downward trend. The 2019 median operating margin of 2.5% dropped from 3.6% the prior year. The highest performing FQHCs, or the top 75th percentile of California centers studied, generated strong operating margins of 6.6% and above in 2019, more than double the recommended benchmark minimum of 3%. However, those clinics in the 25th percentile, or the 36 weakest performers of the group analyzed, reported weak operating margins of -1.1% or lower in 2019, highlighting the need for performance improvements to safeguard the sustainability of these organizations.

The declining margins resulted from median operating expense growth of 9% outpacing revenue growth of 7% in 2019, which was down from the 11-17% annual growth of recent years. Net patient service revenue growth and grant and contract revenue growth, each of which jumped 17-18% in 2016 with the nationwide insurance expansion initiated by the ACA, slowed over the period with 2019 annual increases of less than half that amount.



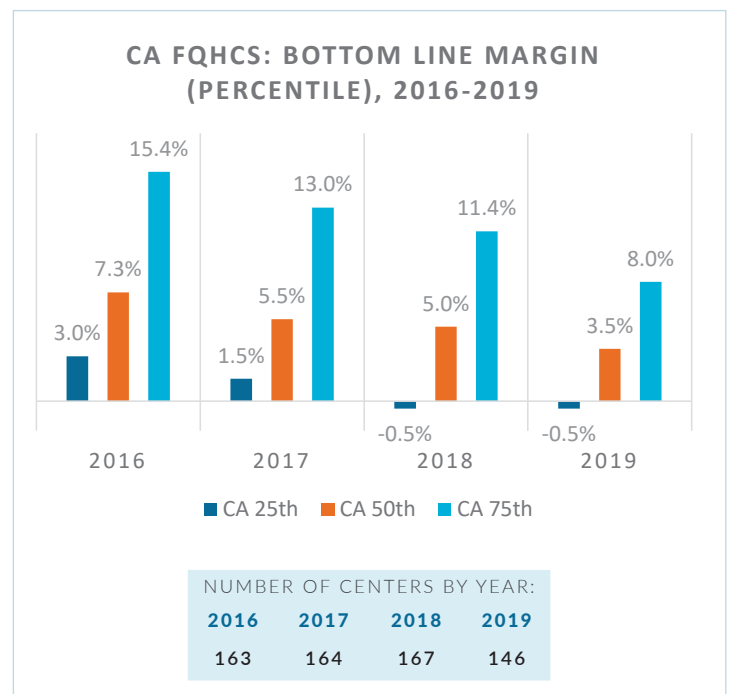
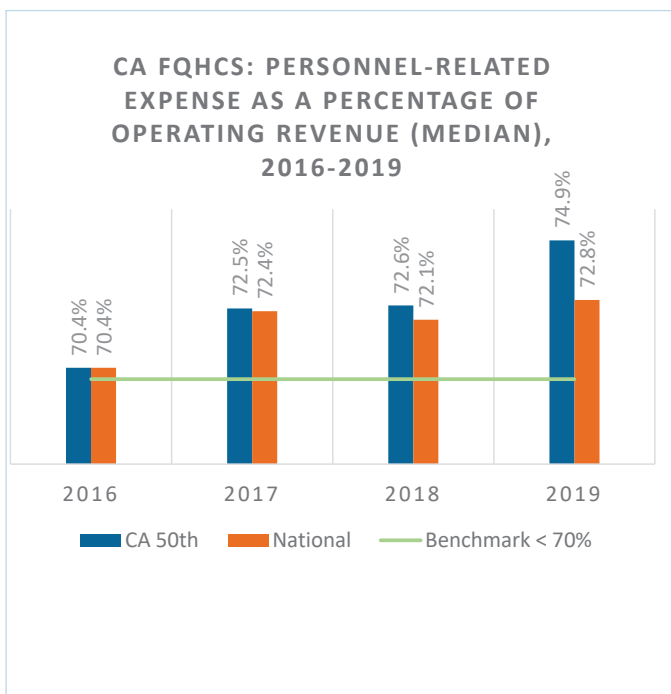
FINANCIAL PERFORMANCE

The downward trend of the median California FQHC operating margin from 2016 to 2019 is related, at least in part, to the increase in the ratio of personnel-related expenses as a percentage of total operating revenue. As service-based organizations, personnel costs represent the majority of operating expenses at health centers. At 74.9%, this ratio increased by nearly five percentage points for the median California health center from 2016 to 2019.

Between 2018 and 2019, the 2.3 percentage points increase in the California FQHC median personnel-related expense ratio was higher than the national median, which increased by less than one percentage point. Over the review period, California and national health centers generally operated with personnel expense ratios within a .5 percentage point of each other, but the recent increase in California put its ratio a full two percentage points ahead of the national level.

The median cost per visit for California FQHCs was right in line with the national level (\$252 vs. \$251 in 2019).

Similar to the operating margin, the median bottom-line margin for California FQHCs showed a declining trend from 7.3% in 2016 to 3.5% in 2019. The bottom-line margin, which incorporates revenue from non-operating sources, was consistently 1 to 2 percentage points higher than the operating margin throughout the review period, generally due to capital grants and/or similar one-time revenue events.

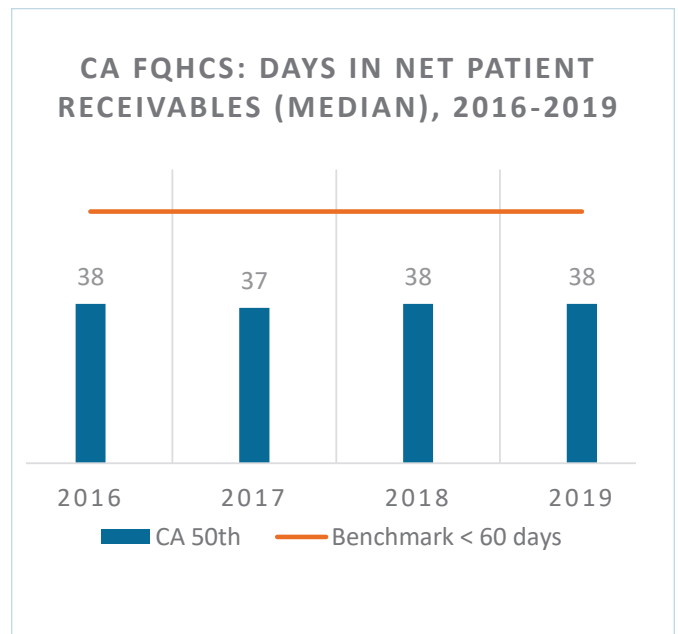
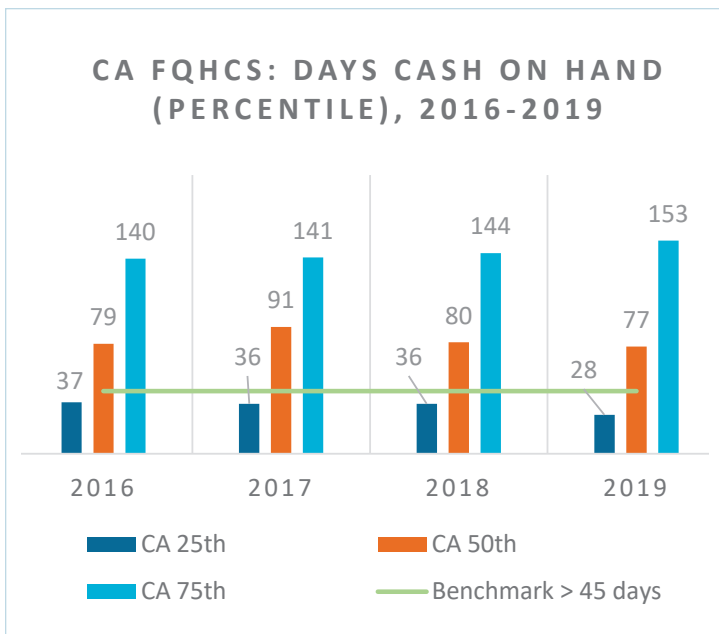


FINANCIAL CONDITION

Most California FQHCs maintained healthy operating liquidity in 2019, supported by resilient cash balances and efficient patient revenue collections processes. Strong cash reserves are essential to support continued growth in patient care capacity.

While California FQHCs experienced a deceleration in revenue growth from 2016 to 2019, the operating liquidity, or ability to turn assets into cash quickly, remained relatively steady. Median days cash on hand decreased by three days from 80 days in 2018 to 77 days in 2019, a level still substantially above the recommended industry minimum of 45 days and the national median of 67. The strong cash reserves provide operational flexibility and stability for the majority of California FQHCs. However, the lowest 25th percentile of centers, 36 FQHCs, struggled with less than one month's worth of cash on hand in 2019, down from 36 days in 2018.

The patient collections cycle, as measured by days in net patient receivables, is a key driver of a health center's cash position. Median days in net patient receivables remained essentially unchanged at California centers from 2016 to 2019. At 38 days in 2019, the result was equivalent to national peers and well under the suggested maximum of 60 days. The continued transition to capitated payments for Medi-Cal managed care patients, as well as ongoing attention to improvements in revenue cycle management systems at health centers, contributed to the strong performance.



PATIENT UTILIZATION

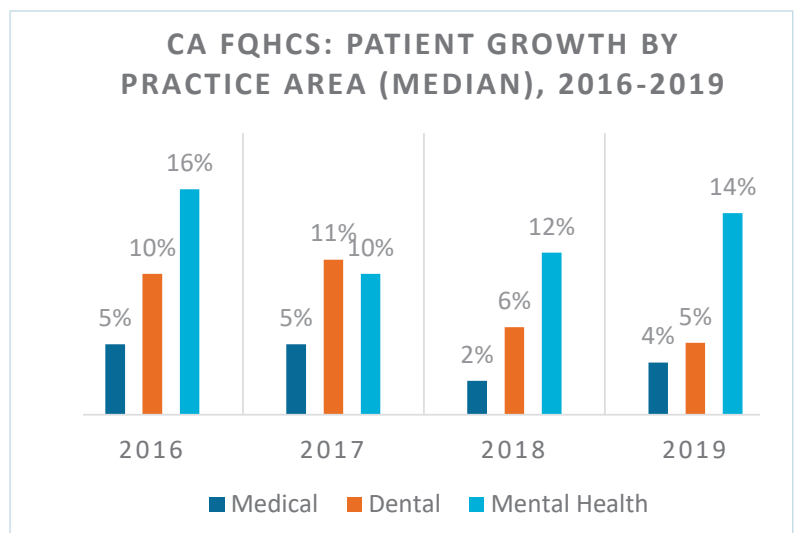
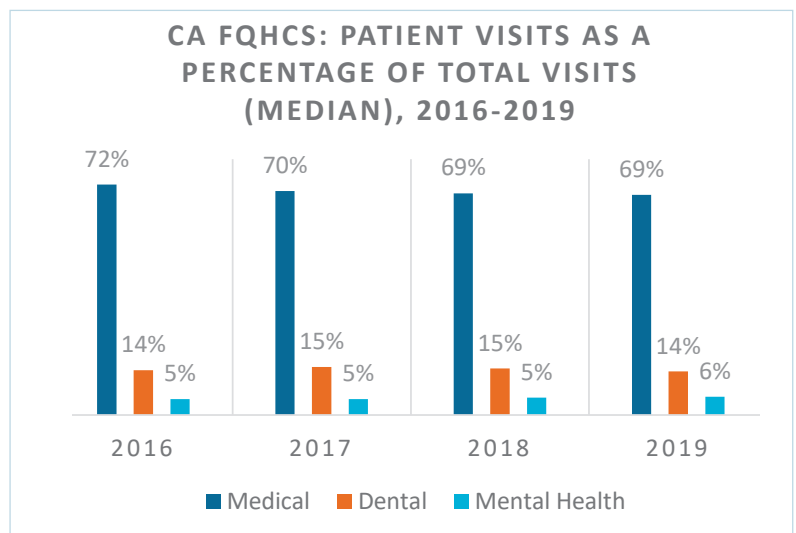
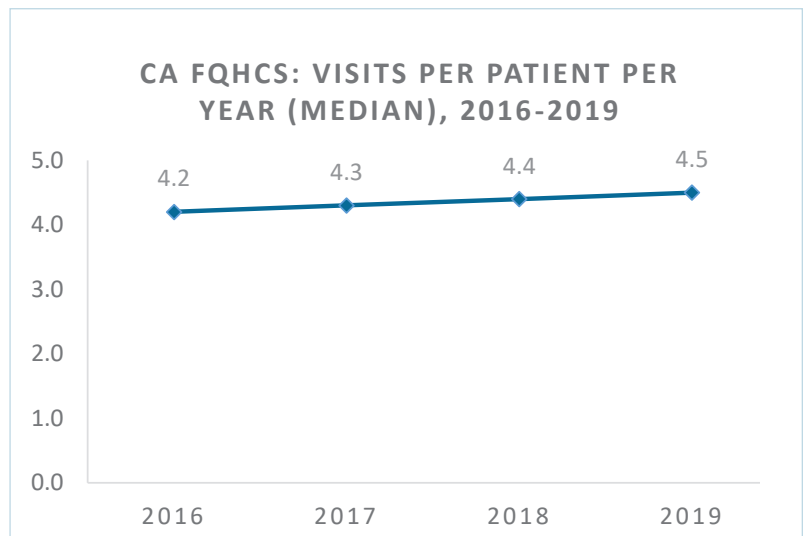
Patient utilization, or the number of annual visits per patient, grew at California FQHCs in 2019 with continued integration of comprehensive services. While medical care has consistently been the leading service type at California FQHCs, dental and mental health patient growth has outpaced the medical services area over the past four years.

California FQHC patients visited health centers 4.5 times per year, at the median, in 2019 compared to the national rate of 4.1 visits annually. California patient visits have increased since 2016 from 4.2 to 4.5 visits, due in part to expanded dental and mental health offerings.

Medical care continued to be the dominant service provided at California FQHCs, with medical visits representing 69% of total patient visits in 2019 for the median health center, although the number of medical patients have only grown between 2-5% annually over the past several years.

In contrast, the number of dental patients grew 10-11% annually in 2016-2017 and 5-6% in 2018-2019. Mental health patients increased 10-16% annually in 2016-2017 and 12-14% in 2018-2019, albeit from a smaller base. Service growth resulted from integrated care implementation, the reinstatement of adult dental eligibility within the Medi-Cal program, and coverage of mental health services under the ACA.

Despite their strong relative growth, dental and mental health visits have remained a small and steady amount of median overall visits, at 14-15% and 5-6%, respectively, from 2016-2019.

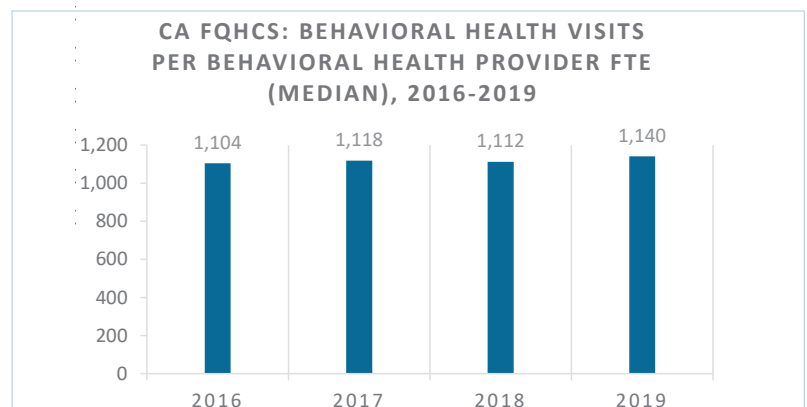
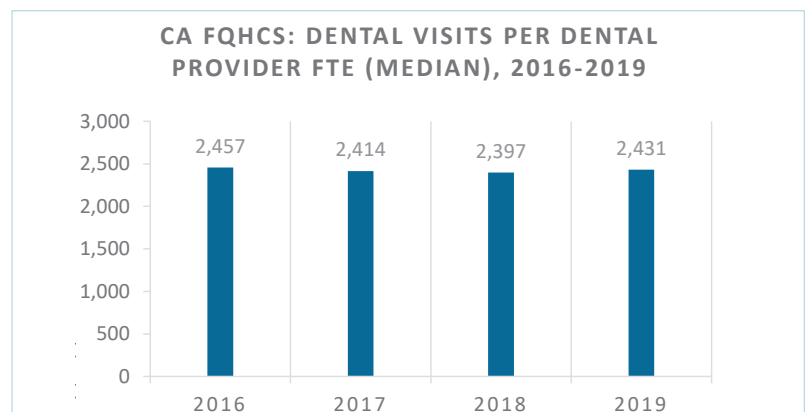
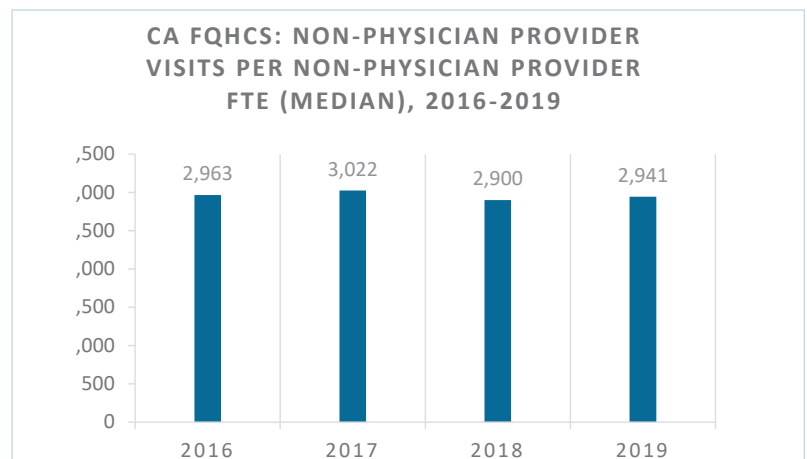
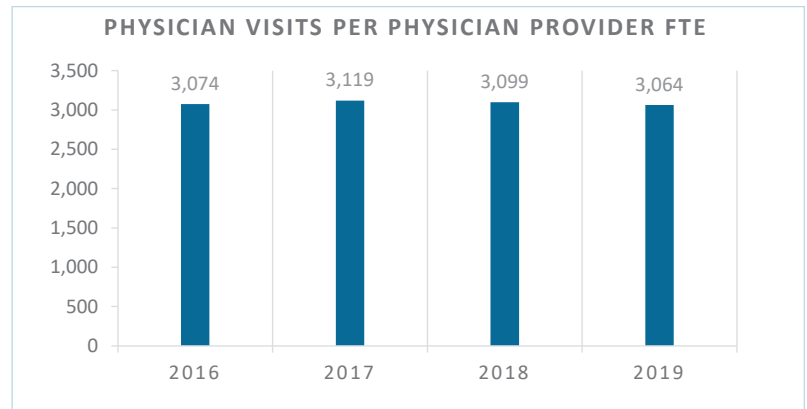


PRODUCTIVITY

Provider productivity at California health centers remained fairly stable in 2019, with fluctuations in prior years likely related to changes in care model-related practices, including the implementation of electronic medical records and team-based care. Physician productivity at the median California FQHC consistently outpaced national metrics, likely due in least in part to differing models of care.

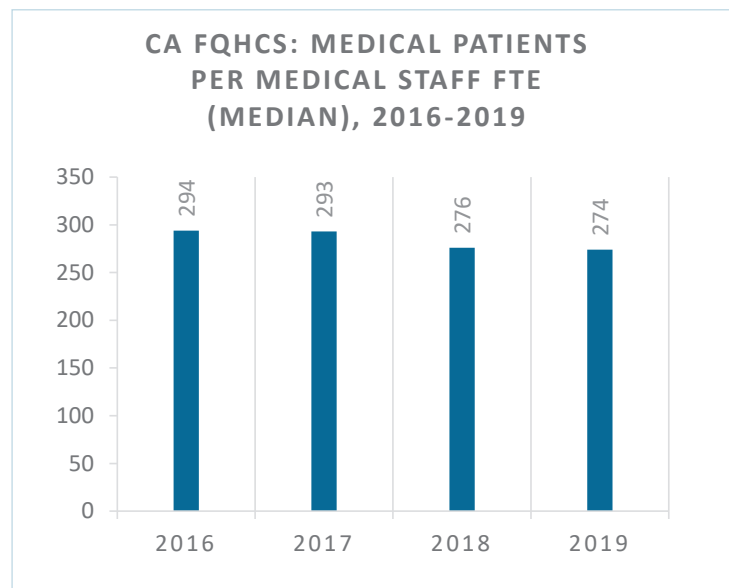
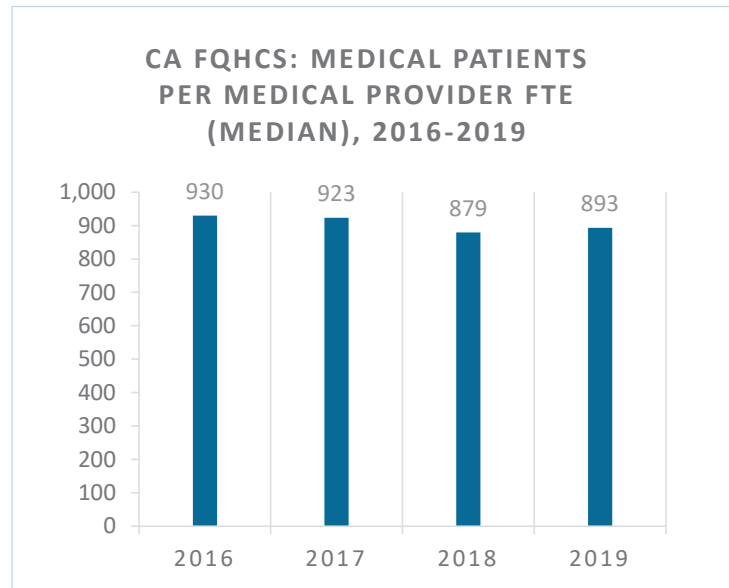
California FQHCs' physician productivity, defined as patient visits generated per provider, was relatively consistent over the review period. In 2019 it decreased by 1% to 3,064 visits per physician. The national median was 2,679 visits per physician in 2019, pointing to the higher relative activity of California FQHC physicians and the more robust medical support staff mix (2.1 for California and 1.9 for national FQHCs) within their team-based models. The minor fluctuations and declines in provider productivity over the past several years in California were consistent with national trends. The implementation of electronic medical records and team-based care driven by the regulatory changes of the ACA along with the adoption of integrated care models are often cited as reasons for the declines.

California FQHCs' median non-physician and dental provider productivity each saw a 1% increase in visits per provider in 2019 from 2018, while mental health visits rose 2.5% per provider. While the 2019 California median health center visit productivity measures outpaced the national performance in each of those three areas by a sizable amount, it is important to note that California's support staff mix and care models may differ from its national peers and affect ratios accordingly.



PRODUCTIVITY

California FQHCs' median panel size experienced a slight uptick in 2019 from the prior year, but a 4% decrease over the 2016-2019 review period. The 2019 figure of 893 patients per medical provider FTE exceeded the national level of 832. The California FQHC median assigned patient level per total medical staff FTE decreased by 7% from 2016-2019 to 274 patients. This measure was slightly below the national median of 287.



QUALITY OF CARE

Based on key quality of care metrics reported to HRSA, California FQHCs on the whole performed slightly better than national FQHCs at the median level in 2019. California FQHCs' relative strengths in quality of care outcomes included the percentage of children receiving appropriate vaccinations, the percentage of patients with body mass index (BMI) documented follow-up, and the percentage of patients with high risk receiving dental sealant on their first permanent molars. The one area where California health centers fell significantly short of their national counterparts at the median was the percent of patients screened for depression with a follow-up plan documented (if positive), which was 68% vs. 74%, respectively.

Quality of Care Measure	Percentile	California FQHCs 2019	National FQHCs 2019
Percentage of children 2 years of age who received age appropriate vaccines by their 2nd birthday	50	38%	33%
Percentage of patients 5 through 64 years of age identified as having persistent asthma and were appropriately ordered medication	50	88%	89%
Percentage of patients 50 through 75 years of age who had appropriate screening for colorectal cancer	50	44%	43%
Percentage of patients 3-17 years of age with a BMI percentile and counseling on nutrition and physical activity documented	50	71%	71%
Percentage of patients 18 years of age and older with (1) BMI documented and (2) follow-up plan documented if BMI is outside normal parameters	50	76%	74%
% Low and Very Low Birth Weight	50	7%	8%
Percentage of patients 12 years of age and older who were (1) screened for depression with a standardized tool and, if screening was positive, (2) had a follow-up plan documented	50	68%	74%
Percentage of children 6 through 9 years of age at moderate to high risk of caries who received a sealant on a first permanent molar	50	58%	56%
Estimated % Patients with Controlled Blood Pressure	50	66%	64%
Estimated % Patients with HbA1c > 9%	50	33%	31%

CONCLUSION

California health centers continued to experience strong growth between 2013 and 2019, serving a growing number of residents with low and moderate income. Access to care increased significantly in 2019 from the prior year through the expansion of integrated and comprehensive services, and with the addition of 147 new sites and 400 FTE employees.

While patient growth was consistently strong over the review period, median health center financial performance weakened. Operating margins declined sharply from 2016 to 2019, as expenses grew more quickly than revenues—resulting from slower growth in both net patient service revenue and grant and contract revenue from very high levels during ACA expansion. At least a quarter of California FQHCs operated at a loss in 2019, a reminder of the critical need for financial improvement at many health centers.

Operating liquidity remained fairly strong, supported by efficient patient revenue collections at both the median and highest-performing 25th percentile of FQHCs, but the weaker performers, the lowest 25th percentile, remain vulnerable to market challenges with cash balances representing less than a month's worth of operating expenses. It is important to monitor the performance of those struggling centers to ensure their ability to cover costs, especially in any period of business disruption.

The median annual number of visits per patient at California FQHCs, trended upward in 2019 with continued growth of comprehensive services. While medical care has consistently been the leading service type at California FQHCs, the growth of dental and mental health services increased significantly over the review period. California FQHCs were relatively efficient in their ability to serve the growing number of patients and visits, with physician productivity metrics that outpaced the national median in most categories.

California FQHCs' ability to provide quality care is illustrated by the notable health measures reported to HRSA that outperformed national FQHCs at the median level in 2019 in almost all categories.

Data Sources

The analysis and data contained inside this report are based on information from three essential sources:

- ▶ Audited financial statements of FQHCs (both Section 330s and Look-Alikes) as reported by fiscal year
- ▶ Uniform Data System (UDS) reports as submitted annually by FQHCs by calendar year to the Health Resources and Services Administration (HRSA)
- ▶ HRSA's Data Warehouse for the number of California FQHC sites

Financial audits were collected directly by Capital Link to create the data set for California health centers. The comparative national health center data set was developed from Capital Link's proprietary database of health center audited financial statements.

Trends assessing health center financial health and performance were calculated for all California FQHCs (excluding public entity FQHCs) for which financial audits were provided to Capital Link. The quantity of audits included in the data set varies each year as Capital Link continues to add audits to its database, as they become accessible. The health center data set examined for the current analysis is outlined as follows:

Number of Audits

California FQHCs: Number of Audits, FY13-FY19							
Fiscal Year	FY13	FY14	FY15	FY16	FY17	FY18	FY19
California FQHCs	135	146	155	163	164	167	146

Number of UDS Reports

California FQHCs: Number of UDS Reports, 2013-2019							
Calendar Year	2013	2014	2015	2016	2017	2018	2019
California FQHCs	164	182	198	200	197	200	202

Statistical measures are used to depict the financial ratios and trends in terms of percentiles including the 50th percentile (median), 75th percentile, and 25th percentile. By definition, half of the values are greater than the median and half are less. The 75th percentile is equal to or greater than 75% of health centers in the data set. The 25th percentile is equal to or greater than 25% of health centers in the data set. Accordingly, the median is not skewed by large or small values outside the common range, as can occur with average figures.

CALIFORNIA FQHC MEDIAN TRENDS, 2013-2019

CALIFORNIA DATA SUMMARY		Capital Link Target	2013 CA Median	2014 CA Median	2015 CA Median	2016 CA Median	2017 CA Median	2018 CA Median	2019 CA Median	2019 National Median
# of Financial Audits (Section 330 FQHCs & LALs)			135	146	155	163	164	167	146	1017
FINANCIAL HEALTH										
1	Operating Margin	>1-3%	2.1%	3.5%	5.6%	6.5%	5.1%	3.6%	2.5%	2.0%
2	Bottom Line Margin	>3%	4.1%	5.5%	6.8%	7.3%	5.5%	5.0%	3.5%	3.4%
3	Days Cash on Hand	>30-45 Days	42	54	71	79	91	80	77	67
4	Days in Net Patient Receivables	<60 Days	46	50	44	38	37	38	38	38
5	Personnel-Related Expense as a % of Operating Revenue	<70-75%	72.4%	72.6%	70.8%	70.4%	72.5%	72.6%	74.9%	72.7%
# of UDS Reports (Section 330 FQHCs & LALs)			164	182	198	200	197	200	202	1,458
PRODUCTIVITY & FINANCIAL OPERATIONS										
6	Physician Visits per Physician FTE		3,452	3,424	3,170	3,074	3,119	3,099	3,064	2,679
7	Non-Physician Visits per Non-Physician FTE		3,017	3,031	2,957	2,963	3,022	2,900	2,941	2,377
8	Dental Visits per Dental Provider FTE		2,696	2,718	2,528	2,457	2,414	2,397	2,431	1,704
9	Mental health Visits per Mental health Provider FTE		1,025	1,047	1,011	1,104	1,118	1,112	1,140	957
10	Medical Patients per Medical Provider FTE		995	987	935	930	923	879	893	832
11	Medical Patients per Medical Staff FTE		330	326	298	294	293	276	274	287
12	Operating Expense per Patient Visit		\$181	\$188	\$201	\$220	\$230	\$242	\$252	\$251
13	Operating Expense per Patient		\$763	\$800	\$887	\$959	\$1,039	\$1,100	\$1,164	\$964
STAFFING & UTILIZATION										
14	Medical Support Staff Ratio		2.0	2.0	2.1	2.2	2.2	2.1	2.1	1.9
15	Administrative & Non-Clinical Staff Percentage		38%	37%	37%	36%	37%	36%	36%	36%
16	Patient Visit Growth Rate		6%	4%	6%	9%	8%	6%	7%	5%

ACKNOWLEDGMENTS

Capital Link was pleased to prepare the California Federally Qualified Health Center, Financial & Operational Performance Analysis, 2016-2019, and gratefully acknowledges the support of the California Health Care Foundation.

The California Health Care Foundation

The California Health Care Foundation is dedicated to advancing meaningful, measurable improvements in the way the health care delivery system provides care to the people of California, particularly those with low incomes and those whose needs are not well served by the status quo. They work to ensure that people have access to the care they need, when they need it, at a price they can afford.

About Capital Link

Capital Link is a non-profit organization that has worked with hundreds of health centers and primary care associations (PCAs) for over 25 years to plan for sustainability and growth, access capital, improve and optimize operations and financial management, and articulate value. We provide an extensive range of services, customized according to need, with the goal of strengthening health centers—financially and operationally—in a rapidly changing marketplace.