Community Health Center Financial Perspectives
Identifying the Risks of Health Center Failure

Capital Link and its lending affiliate, Community Health Center Capital Fund (Capital Fund), completed the third topic in a series of resources sponsored by Citi Foundation. This analysis examines the differences between failed or failing health centers and their more successful counterparts, shedding light on the factors that may lead to financial stress and the potential inability to repay third party loans. The report analyzed the financial and operational performance of 29 health centers over a four-year period leading up to the centers' demise. The good news is that fewer than 7% actually failed or merged with another entity between 2000-2012. While this track record is quite strong as compared to other sectors, health centers and those that invest in them can learn from the experience of troubled health centers—and use this information to improve and strengthen financial and operating performance and investment decisions. Key findings are illustrated below and the complete report is available at www.caplink.org/resources/reports.

Key Findings

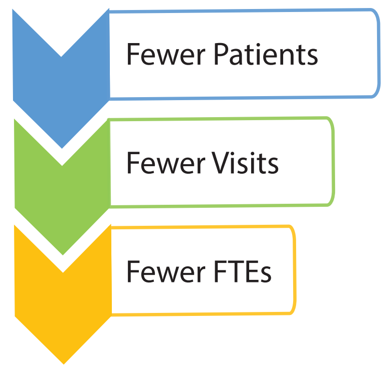
Cumulative Effect of Multiple Risk Factors

- Smaller Organizations
- Declining Operating Margin
- High Accounts Payable Days
- Low Leverage Ratios
- Unbalanced Revenue Composition
- Low Grants and Contract Revenue
- Low Days Cash on Hand
- Low Provider Productivity
- Unbalanced Payer Mix
- High Bad Debt Expense
- Low Accounts Receivable Collections
- High Allowances
- Higher Prevalence of Patients with Chronic Conditions
- Weak Management

FINANCIAL DISTRESS

Many factors contributed to a health center's financial distress and there did not seem to be one universal or definitive cause, suggesting that the management of some back-office functions (i.e., billing and collections) may be just as important as payer mix or provider productivity.

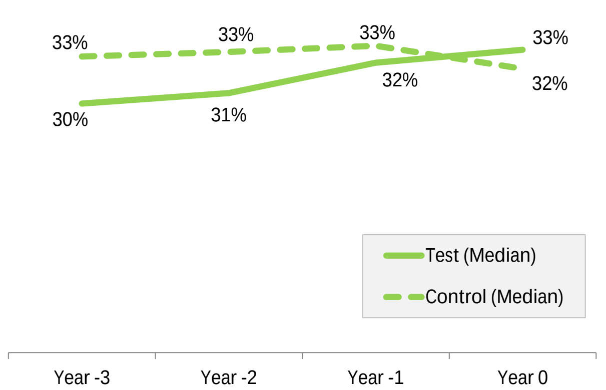
Health Center Size



LESS REVENUE

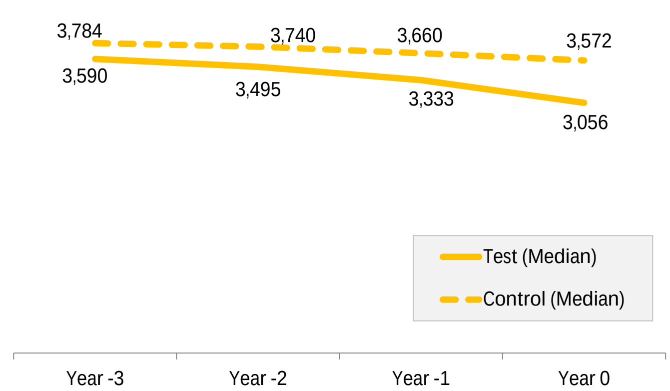
The centers in the test group were uniformly smaller than the control group.

Payer Mix (Medicaid)



Test centers saw proportionally fewer Medicaid patients than their more successful counterparts—perhaps due to fewer Medicaid-eligible patients in their service areas or poor enrollment efforts, or a combination of the two. Test center efforts to improve Medicaid patient mix near the end may have been too little and too late.

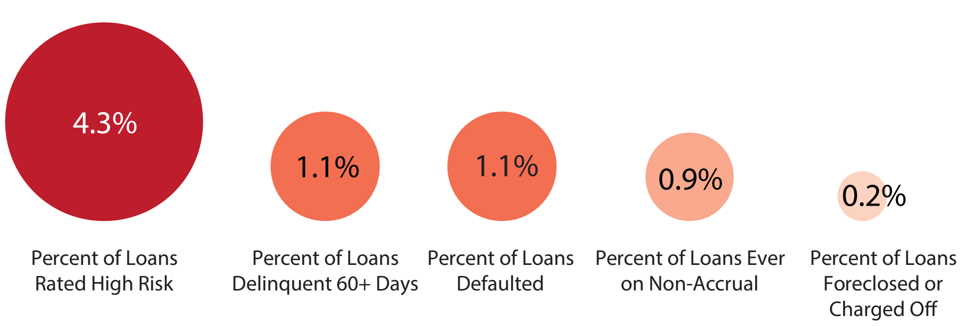
Physician Productivity (Annual Patient Visits)



Lower provider productivity = lower revenue. All test centers reported significantly lower levels of physician and mid-level productivity compared to the control group. Electronic Health Record (EHR) implementation may be one reason, but the factors are many and varied.

Low Default and Loan Loss for the Sector

As a part of this study, a survey of 16 Community Development Financial Institutions (CDFIs) with a history of lending to health centers was conducted. Results showed that health centers present a remarkably low portfolio risk to lenders with only 1.1% of loans at 60 or more days past due and less than half of 1% resulted in any loss to the lender.



Access the full report at:
www.caplink.org/resources/reports

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