



The GemStatement

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President's Message



I am thrilled to wish my HFMA family a happy New Year!! I hope that each of you had the opportunity during the holiday season to spend time with your family and friends and create fond new memories that will linger throughout the coming year.

I have always enjoyed evaluating my life at the start of each year. Like many of you, I like to consider the blessings and challenges that I have in my life at each year's beginning. I then determine areas that I can make meaningful improvements in myself. Several years ago, I received some great advice that has helped me ensure that not all of my New Year's resolutions are forgotten soon after they are made. I would like to share a few of them with you:

1. In the words of Steven Covey "start with the end in mind". All of us want to be remembered by our family, friends, employers, and communities as people who made a difference. Decide what you want to be remembered for and then determine what you need to do to forge these memories with others.
2. Write your goals down and look at them periodically. A written goal is far more likely to be achieved. A study of successful business men and women revealed their greatest common characteristic was they wrote their goals down. We need a written reminder to ensure we are always striving to accomplish our goals and are not getting lost in the thick of thin things when life becomes hectic.
3. Concentrate on a few essential goals and avoid making a list that is too long and difficult. A good set of goals should challenge us, but not break us. I have found that when I attempt to complete too many goals, I end up accomplishing very few of them. I personally try to set no more than five goals for each year.

I hope that some of these ideas will be useful to you and that 2008 brings you joy and success.



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Financing Options for Nonprofit Rural and Community Hospitals

Thomas R. Green, CEO, Lancaster Pollard

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Strong finances and up-to-date facilities and equipment mean better physician attraction and retention, improved community perception and assurance that a hospital will serve its region for the long term. Many smaller hospitals, however, often cannot access the capital to make the investments critical to their survival. Although profitable, many do not meet the high benchmarks required to earn investment-grade ratings and cannot raise the funds on their own.

With the right guidance, however, most rural and community hospitals can efficiently access capital. Many can fund their growth and renovations with conventional revenue bonds, either credit-enhanced or unenhanced. In addition, the federal government recognizes small hospitals' financial challenges and has established programs to enhance community and rural hospital credit so they can borrow at lower interest rates.

This article is abridged from "Financing Options for Nonprofit Rural and Community Hospitals." The full paper and its appendices are available for free download at www.lancasterpollard.com/assets_LPC/WP/HC-I-Financing-Options-CRH.pdf

PART I

Integrating Strategic Plans and Capital Financing

Whether a hospital chooses to build new, renovate or refinance, its plans and its credit strength will determine eligibility for funding options. Hospitals must evaluate their strategic plans and their funding needs in tandem to determine their best financial options. The first steps toward acquiring funding are performing a needs assessment and evaluating credit strength.

Strategic plans outlining long-term missions and anticipated changes to infrastructure and services should be reviewed and updated regularly. A well-crafted financial plan matches a hospital's financial resources to the strategic plan, quantifying and allocating available capital. The capital allocation plan should be integrated into a strategy to manage assets and liabilities so the hospital not only accomplishes its strategic objectives, but improves its capital structure — and hence its credit strength.

When borrowing, hospitals and their advisers must consider their needs and objectives in the context of creating a capital structure that improves or maintains the credit profile. The ultimate goal is a finance strategy that maximizes access to the capital markets and minimizes the cost of capital, without damaging liquidity by contributing too much cash to a project and, conversely, without relying extensively on debt.

Recognizing Strengths and Weaknesses: The Credit Profile

A hospital's credit strength or financial health is the most important factor in determining its cost of capital. Organizations with strong financial health have more ability to repay debt and tend to be more appealing to investors and lenders, who balance their risk with interest rates. The better the credit profile, the lower the interest rate on the financing, and the less capital costs over time. Investors and credit enhancement providers will review both quantitative and qualitative factors to measure an organization's credit strength.

Ratios that demonstrate financial performance are used in quantitative analyses. These ratios can be generally grouped into three categories: capital structure; cash flow; and liquidity, profitability and operations. The following ratios are relied upon most frequently when assessing creditworthiness:

- Debt Service Coverage
- Days Cash on Hand
- Operating Margin
- Debt to Capitalization

Qualitative factors such as management, demographic changes, technological capabilities and medical staff characteristics affect hospital credit profiles. Ignoring these factors can give a hospital and the credit markets an incomplete picture of the hospital's credit profile and its financial options. For example, a hospital with strong financial ratios located far from a major bank may find accessing capital more difficult than its ratios suggest. Conversely, a well-articulated qualitative analysis of a hospital's long-term viability could help it secure bond insurance even if its credit profile is slightly below the usual credit profile required for such enhancement.

After completing the credit profile, a hospital can work with its financial professional to determine the best way to leverage its strengths and/or use strategic enhancements to achieve lower interest rates and less expensive capital.

Part II

Financing Options for Rural and Community Hospitals

More detailed information on financing options is available in the unabridged "Financing Options for Nonprofit Rural and Community Hospitals."

Long-term debt, usually tax-exempt bonds or taxable notes, is a popular choice for hospitals needing capital. Bonds and notes represent a borrower's obligation to pay interest to the investor in return for the lending of money over a given period of time.

Bonds can be rated or unrated. The ratings range from AAA down to C or D, with AAA to BBB considered "investment-grade." Unrated or low-rated bonds are often referred to as "speculative-grade," "junk" or "high-yield." The higher the rating, the lower the interest rate the borrower pays to offset investor risk.

Bonds generally can be sold either (1) without additional enhancement and marketed based on the borrowing hospital's strength or (2) credit-enhanced using vehicles such as bond insurance, mortgage insurance and letters of credit. Credit enhancements make mortgage notes and bonds less risky to the investor and more affordable to the hospital. They can be provided either by commercial institutions, such as banks and bond insurers, or a public entity such as the federal government.

A) Unenhanced Bonds

Hospitals with excellent credit strength may choose to issue bonds without additional credit enhancement. These rated or unrated revenue bonds will tend to trade at a broader range of interest rates depending on the market's perception of risk at the time of the sale. Borrowers who issue bonds and notes on their own merit do not have to pay fees for credit enhancement, but they may find capital more expensive over time or be subject to longer lock-out periods, more restrictive covenants or other investor requirements.

B) Bank Loans and Private Placements

Another source of borrowed funds is traditional commercial bank loans in the form of real estate or equipment term loans. In small communities with smaller local banks, the loan size often is restricted by the bank's lending limits and the types of credit risk a bank is willing to accept.

Tax-exempt bonds also can be privately placed, often with the local bank. This structure can allow a local bank to stay involved with the hospital, and those bonds that cannot be placed locally can be sold outside the community.

C) Commercial Enhancements

Hospitals also have the option of using commercial enhancements to obtain better interest rates on their bonds. These include letters of credit and bond insurance.

A letter of credit issued by a commercial bank is an irrevocable obligation to make bond payments if a borrower cannot. Borrowers pay banks for this option. A hospital with a letter of credit can issue tax-exempt bonds that carry

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the same rating as the letter of credit provider. The primary benefits are lower costs of issuance and somewhat lower annual debt service when compared to some structures. The process for obtaining a letter of credit generally is shorter than that of other enhancement options, and up-front closing costs are relatively low. Hospitals also may have the opportunity to leverage existing local bank relationships and can issue supplemental or additional debt.

Letter of credit structures can provide more flexibility than other options, but banks can be hesitant to extend credit. The project and the obligor's credit profile must fit into the conservative underwriting requirements of a commercial bank.

Bond insurance, like a letter of credit, guarantees that investors will be paid even if the hospital cannot make its scheduled payments. It generally is available to hospitals that independently can achieve a rating of BBB or better. Generally bond insurance is less expensive annually than the letter of credit option. The cost, however, must be paid up front, and bond insurance may not be the most cost-effective option for hospitals expecting to pre-pay their bonds or restructure the debt before the final scheduled maturity. Bond insurers tend to be more receptive to longer amortizations (20 to 30 years) than banks providing letters of credit.

D) Government Enhancements

The Federal Housing Administration (FHA) and the U.S. Department of Agriculture (USDA) have special enhancement programs that feature longer amortizations and lower interest rates. Government enhancements put the full support of federal organizations behind these hospital loans and bonds, making them much more attractive (less risky) to potential investors.

The USDA offers three funding options under its Community Facilities program: guaranteed loans, direct loans and grants. All three are designated for nonprofit rural organizations that serve communities of less than 20,000. The funds can be used to build, enlarge or improve essential facilities including hospitals and clinics and to buy new equipment. Applicants must be unable to obtain funds from commercial sources at reasonable rates and terms.

The guaranteed loan program has several advantages not shared by either traditional bond issuances or other federal programs: The loan can be for up to 100 percent of the cost of the project, and 90 percent of that loan is guaranteed. While the loan is designed for building new and improving existing facilities, it can be used toward refinances under certain conditions.

Federal loans come with federal oversight. Borrowers generally are required to contribute to an escrow account for real estate taxes (if applicable), insurance and replacement reserves. The USDA also requires annual audited financial statements.

The Federal Housing Administration's Sec. 242 program generally is available to fund new facilities, acquisitions or the substantial renovation and modernization of existing projects. Hospitals may refinance debt through the 242 program with certain caveats. The program offers borrowers the opportunity to issue bonds at an "AAA"-equivalent rating. Interest rates are fixed, and no financial guarantees are required by parent or affiliated entities. Subject to certain debt-service coverage and liquidity levels, hospitals utilizing the program may transfer excess cash flow to parent organizations.

Issuing debt through the FHA Sec. 242 program can save hospitals money, but initial costs and the time necessary to apply for the program should be taken into consideration. Hospitals must pay a one-time fee of .8% of the loan amount in addition to an annual premium and must make monthly payments to a mortgage reserve fund.

The government streamlines the FHA Sec. 242 application process for Critical Access Hospitals, offering slightly different underwriting criteria to speed up consideration and make it easier for these small hospitals to qualify. Critical Access Hospitals still, however, must meet operating margin and debt-service coverage ratio requirements. This is where the special provisions make a significant difference: Hospitals that only recently received their Critical Access Hospital designations and cost-based Medicare reimbursement are allowed under the program to calculate their historical pro forma debt service coverage ratio as if they had been receiving the full cost-based reimbursement for the last three years. Not every Critical Access Hospital will qualify; even with the special provisions, careful evaluation of finances is essential when applying.

Continued on page 5

Conclusion

The financing options for nonprofit rural and community hospitals can be complex and confusing. Each financing structure has a unique set of characteristics that will likely be perceived to have both desirable and undesirable qualities. Each option must be evaluated with input from a knowledgeable investment banker/financial adviser and in concert with the unique credit profile of the hospital and its long-term strategic plans.

Thomas R. Green is the CEO of Lancaster Pollard. The investment banking and mortgage banking firm provides financial advice and a full range of financing options so healthcare providers can expand and improve services. Contact them at (614) 224-8800 or find the nearest office at www.lancasterpollard.com.

Health Care Is Top Domestic Issue the Public Wants Presidential Candidates to Address, Though It Trails Iraq by Wide Margin

Used with permission from HFMA News; for more news, visit www.hfma.org/hfmanews

Health care remains the top domestic issue that the public wants presidential candidates to address, trailing only Iraq on the public's overall priority list, according to the latest Kaiser Family Foundation Health Tracking Poll: Election 2008.

The June poll finds that 43% of adults cite Iraq as one of the most important issues for presidential candidates to talk about, followed by health care (21%). Iraq ranks first among Democrats, Republicans, and independents alike. Health care ranks second among Democrats and independents, while Republicans rank immigration slightly ahead of health (20% versus 18%).

When asked what concerns them about rising healthcare costs, the poll found people are twice as likely to cite having to pay higher premiums and increased out-of-pocket costs (38%) as they are to say increases in spending on government health insurance programs like Medicare and Medicaid (18%) or increases in what the nation as a whole spends on health (18%). A smaller share (13%) cite increases in the health insurance premiums that employers pay to cover their workers. These views vary little based on party identification.

"Health is not yet back at the level it was in the early '90s as a national issue, but it is rising," said Foundation president and CEO Drew E. Altman, PhD. "The decisive factor that will determine whether we again have a big national debate will be the degree to which the presidential candidates really take on the issue in the campaign."

Number of Uninsured Rose to 47 Million in 2006: Census Bureau

Used with permission from HFMA News; for more news, visit www.hfma.org/hfmanews

The number of people in the United States without health insurance coverage rose from 44.8 million (15.3 percent) in 2005 to 47 million (15.8 percent) in 2006, according to the new report *Income, Poverty, and Health Insurance Coverage in the United States: 2006 Report*. The data were compiled from information collected in the U.S. Census Bureau's 2007 Current Population Survey Annual Social and Economic Supplement.

Particularly disturbing was the increase in the number of uninsured children--up from 8 million (10.9 percent) in 2005 to 8.7 million (11.7 percent) in 2006. Although the number of uninsured, as well as the rate without health insurance, remained statistically unchanged in 2006 for non-Hispanic whites (at 21.2 million or 10.8 percent), the number and percentage of uninsured blacks increased, from 7 million in 2005 to 7.6 million and from 19 percent in 2005 to 20.5 percent. The number and percentage of uninsured Hispanics also increased, from 14 million (32.3 percent) in 2005 to 15.3 million (34.1 percent).

Help Wanted

Position:	Budget Analyst-St. Alphonsus Physician Services, Inc.
Clinic:	MSB Network Administration – Boise
Hours:	F/T position – Exempt, Mon-Fri
Duties:	Primarily responsible for the annual budget for the physician's network (PCPN) and the individual clinics with linkages to the Hospital's budgeting process. This position assists and provides support to the Accounting Manager as well as other members of the management team in the Finance / Accounting Department. Performs analytical analysis duties. Provides training and support for the PCPN Network on Budget Advisor and variance analysis reporting, under the direction of the Accounting Manager of Finance / Accounting. Additional duties to include payroll preparation, account reconciliation, ad hoc reporting to Trinity, SARMC, and SAPSI departments.
Requirements:	Bachelor's degree in Business, Finance or Accounting, preferably Accounting. 3 years minimum working with budgeting and accounting systems in either a hospital or physician office setting. Intermediate computer skills with an emphasis on Excel, MS Word & PeopleSoft. Advanced skills preferred using budgeting software products such as Budget Advisor or equivalent. Ability to develop applications within software packages and support, implement, and train others in the use of software packages. Ability to handle multiple tasks and high volume of work including payroll, account analysis and reconciliation, ad hoc reporting, decision making and decision support materials. Demonstrated ability to efficiently organize work and maintain a high level of accuracy. Ability to deal with a broad range of people within SAPSI, the Clinics and the Hospital and Trinity Health.
How to apply;	
1.	Visit www.saintalphonsus.org
2.	Select employment
3.	From the dropdown menu select Saint Alphonsus openings
4.	Select SAPSI Clinic positions
5.	Select the position of interest and apply

What You Need to Know About Automated Patient Financing

By Mitch Patridge

As a busy Patient Accounts Director or Business Office Manager, you've probably asked this question many times: Should my healthcare facility implement an automated patient financing program or outsource this function to a vendor?

The knowledge base required to implement an effective program can be overwhelming and includes experience with consumer finance laws, credit reporting, and system requirements. But here's the good news: You can implement a plan that is designed to meet the specific goals of your management team and needs of your patients without building the system in-house.

Instead of acting as a bank and collections agency, most hospitals are turning to the experts in automated patient financing. With the right "partner," you'll improve cash flow and reduce administrative costs related to billing and collections. You will also improve patient relations by being able to provide loans to patients that otherwise would have been sent to collections -- provided, of course, that the vendor uses a patient-centered approach and adheres to compassionate collection practices.

What are your options?

Once you've made the decision to utilize the services of a vendor, the next step is to evaluate various options that are available from different providers to determine which combination of offerings is best for your hospital.

- **Type of programs** - Evaluate the types of plans you want to offer, including zero interest financing, easy qualification, lines of credit sufficient to meet the patient's obligation to the hospital, and extended payment plans with low monthly payments. Also determine whether your management team would like to be able to provide this financing at various points in the revenue cycle.
- **Application or non-application based loans** - Do you want to spend your staff's time and energy obtaining applications or would you rather implement a non-application program?
- **Terms of use** - Terms of use can be restrictive (the loan program can be used only for hospital charges) or flexible (charges from both the hospital and hospital-owned physician practices can be placed on the line of credit).
- **Payment options and rates/fees charged to patients** - Make sure you know what the vendor's policies are relating to down payment, minimum monthly payment, interest rate increases due to patient delinquency, overlimit fees, returned payment fees and other charges.
- **Banking partner** - Evaluate the reputation of the vendor's banking partner as well as their flexibility of contractual terms. It is preferable for the vendor to have more than one banking partner so that you do not run the risk of the bank exiting the market.
- **Servicer of account** - Know who is interfacing with your patients and make sure that they are experienced in healthcare account servicing. Companies that service your patient accounts can range from a generic credit card servicer/collection agency to industry-rated servicers that only handle healthcare accounts.
- **Recourse rates, what can you really expect?** - In choosing a vendor spend time understanding their ability to manage recourse and understand risk. Make sure to know how recourse is calculated and what the terms and conditions are.
- **Tools to help hospitals promote the program** - Collateral materials, such as patient brochures, Question & Answer sheets, posters, ID cards, press releases and other tools, can be generic or customized to your hospital. Know what your needs are in this area before you make a decision.
- **Service fee** - Service fees and baselines also vary. Some vendors charge a fixed rate; others base the fee on the interest charged to the patient and the type of program chosen by the hospital.

Anticipate drawbacks

Understandably, some hospitals shy away from patient financing because of potential or perceived drawbacks. Community acceptance, patient relations, cost and reputation are all areas of concern that can be anticipated in advance and properly addressed become non issues.

Community Acceptance

Hospitals can anticipate concerns and counter them with proactive public relations plans. Press releases and brochures that clearly outline the many benefits to both the patient and to the hospital are tactics that boost community acceptance. Vendors that help you to implement these strategies provide a “hidden” service that adds significant value to the program.

Patient Relations

A patient-centered approach is important to successful patient relations. The application process, APR, fees, credit reporting policies and Call Center are all factors that directly impact the patient’s perception of the hospital’s patient financing program.

Cost to the Hospital

The service fee isn’t the only cost to the hospital. In some cases, software integration services may be required. Vendors that can offer online credit decisions and 24x7 Internet-based patient financing tracking systems boost efficiency and help offset costs. Make sure that you fully understand the requirements that will be placed on your staff and seek a vendor that offers reasonable solutions and support.

Reputation of the Hospital

The best way to avoid this drawback is to ask for several references from hospitals that are located in your state, as they will face the same types of issues that you do. Also, ask for proof that the vendor is complying with all federal and state laws and regulations relating both to the origination of the loans as well as the servicing of the debt.

About the author: Mitch Patridge is CEO of the San Diego based Varisol and CSI Financial Services which provides patient financing for a number of Florida hospitals. He can be reached at (858)200-9201 or at mpatridge@csifinancial.com.

IRS Announces 2008 Standard Mileage Rates; Rate for Business Miles Set at 50.5 Cents per Mile

Press Release

IR-2007-192, Nov. 27, 2007

WASHINGTON — The Internal Revenue Service today issued the 2008 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning Jan. 1, 2008, the standard mileage rates for the use of a car (including vans, pickups or panel trucks) will be:

- 50.5 cents per mile for business miles driven;
- 19 cents per mile driven for medical or moving purposes; and
- 14 cents per mile driven in service of charitable organizations.

The new rate for business miles compares to a rate of 48.5 cents per mile for 2007. The new rate for medical and moving purposes compares to 20 cents in 2007. The rate for miles driven in service of charitable organizations has remained the same.

[Revenue Procedure 2007-70](#) contains additional information on these standard mileage rates.

[Subscribe to IRS Newswire](#)

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2007 – 2008

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