

Financial Impact of ARRA on Critical Access Hospitals Recommended Talking Points

- The American Recovery and Reinvestment Act of 2009 (ARRA), the “stimulus package,” does not provide adequate funding for rural providers to implement electronic health record(EHR) and obtain “meaningful-user status”— **the key to receiving full Medicare and Medicaid enhanced reimbursement and future federal funding.**
- Critical Access Hospitals (CAHs) do not receive the proposed upfront funding until after they become a “meaningful EHR user”. Therefore hospitals and physicians need to act swiftly to adopt EHR to realize the maximum benefits, because the incentives begin 2011.
- Based on a sample analysis by Eide Bailly, federal incentives will still leave CAHs with a 10%–20% shortfall, \$100,000–\$200,000 shortfall per facility.
- The current financial position of ND hospitals, funding shortfalls, and a lack of adequate upfront funding will make it difficult if not impossible for providers to obtain financing for HIT implementation. *Note: Twenty-seven CAHs participated in an analysis of their 2007 financial statements; 22 of the 27 showed a negative operating margin, average -3.45% or \$263,470 loss in one year.*
- If CAHs do not become a “meaningful EHR user” by 2015, they will lose the ability to access incentive funds. Based on the Eide Bailly analysis, CAHs will also lose an average of \$16,000 in annual Medicare reimbursement due to the elimination of the 1% add-on.
- In order to improve the quality, safety and efficiency of health care for ND rural residents through the electronic exchange of health information that larger facilities have additional appropriated funds are critically needed to allow ND CAHs to implement EHR.

Analysis details:

The following analysis is based on the potential impact the American Recovery and Reinvestment Act (ARRA) of 2009 could have on a sample of three ND Critical Access Hospitals (CAHs).

The CAHs used for this analysis have co-located nursing homes and includes the following assumptions:

- \$1,000,000 capital investment in health IT.
- Medicare will require the nursing home to absorb its portion of the HIT costs before calculating its share of payment.
- The information technology (IT) cost to the nursing home will be treated as a property cost and reimbursed only as depreciated.
- The facility will become a “meaningful EHR user” in the second year and receive the lump-sum payment with incentive during that year.

Note: In ND there are 39 rural hospitals (two IHS); 35 have CAH designation; 26 are integrated health systems; three have LTC; 11 have one or more clinics and 12 have both LTC and clinic(s).

Example of financial investment in EHR, reimbursement and potential shortfall

	Average	High	Low
Investment	1,000,000	1,000,000	1,000,000
6 year reimbursement	895,491	924,469	839,640
Shortfall	(104,509)	(75,531)	(160,360)
Cashflow			
Year 1	(949,392)	(954,805)	(946,167)
Year 2	490,458	449,602	509,763
Year 3	88,606	107,418	69,011
Year 4	88,606	107,418	69,011
Year 5	88,606	107,418	69,011
Year 6	88,607	107,418	69,011
Shortfall	(104,509)	(75,531)	(160,360)

While many news stories have given an impression that ARRA will provide adequate funds to invest in health information technology, the above analysis reveals the average facility will experience an overall cost shortfall of \$105,000 over the reimbursement life of the investment. The actual variation could vary significantly based on the Medicare utilization and other issues specific to a provider. This level of shortfall is going to create challenges for CAHs as they attempt to obtain financing to make this investment.

The CBO has indicated they estimate 50% of hospitals will fail to become meaningful adopters of health information technology by 2019. Without significant additional upfront funding, North Dakota Critical Access Hospitals are destined to be in the 50% of hospitals not meeting the definition of meaningful adopter in 2019.

Failure to make this investment will have additional long-term implications for CAH reimbursement. Providers that fail to become a meaningful user prior to 2015 will not be able to access the incentive payments at any time in the future. In addition, they will be subject to a reduction in the 1% add-on to cost. This reduction will occur over a three-year period and will result in the elimination of the full 1% add-on. For the average facility in this analysis that would result in lost reimbursement of \$16,000 per year. This reduction would remain until they become a meaningful user. The following table identifies the potential financial impact to the North Dakota Critical Access Hospitals if the hospitals fail to become meaningful adopters.

	Per CAH Annual	Per CAH 20 Years	ND CAHS 20 Years
Impact	16,000	320,000	11,200,000

Due to the anticipated shortfalls in payment, it is urgent that providers identify sources to provide upfront funds in order to offset the shortfall and reduce the need on borrowed funds.

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