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April/2009

President's Message

The Value of Membership in Tough Economic Times - Part II



In our last chapter newsletter, I attempted to make the case that your membership in the New Mexico chapter of HFMA is a solid value, even (especially) in these tough economic times. In that discussion, I focused on the value of networking and on the top-quality education provided by your local chapter. In this part, I want to shift gears a little and mention a few of the other benefits that are provided to our members, both from our local chapter and from HFMA National, many at no additional cost to you.

First, let's focus on some of the resources that HFMA National provides to our members. These include top-quality educational seminars, webcasts, and regional and national conferences. Within the past few months, I have participated in two webcasts presented by the national office that focused on how the economic downturn is affecting healthcare organizations around the country and what the experts are anticipating for the near and longer-term future. These one and one-half hour informative webcasts were provided free of charge to members. I hope many of you were able to take advantage of them. As they say "Knowledge is Power" and I certainly gained a lot of knowledge from these experts.

Have you been to the HFMA website recently? If not, I encourage you to spend some time poking around at www.HFMA.org. Within the past two years, HFMA has performed an incredibly successful make-over of their website and the amount of valuable content and the ease in getting around are very impressive. The website has a well-stocked Resource Library with content for every aspect of healthcare finance. It also includes a newly-revised career section that includes compensation surveys, career advice, and a robust job-search engine that now allows you to post your resume online. This is only a small fraction of the assets available on the website. You'll have to go online and take a better look to find out how much more is available.

Finally, from the national perspective, I should mention the premier healthcare finance conference in our industry, the Annual National Institute, or ANI. I receive reports each year from attendees who are amazed at the quality of presenters and presentations that HFMA is able to bring in on a consistent basis to this event. This year, former Vice-President, Al Gore,

Chapter Events

[Register](#)

Spring Healthcare Conference

April 16-17

in conjunction with the State Bar of New Mexico

NM HFMA Now Offers Free Job Postings to its Members

"I want to thank you for this service. It allowed me to hire a very qualified individual for

a high level position at no cost."

Thanks again,

*Roberta Lee
Chief Financial Officer
Presbyterian Medical
Services*

[Classified Ads](#)

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will be joining the list of top-notch key-note speakers. Also, to echo on last issue again, ANI provides the best opportunity for national networking in the healthcare finance field. There will be hundreds of your colleagues in attendance from all around the country. Find out more at <http://www.hfma.org/events/ani/>.

Getting back closer to home, I would like to mention a few of the free or low-cost services that your local chapter provides to our members. One example is our classified advertising service, where we will post healthcare finance job opportunities on our website for members, free of charge (<http://www.nmhfma.org/>). Also, if you are interested in gaining certification as a Certified Healthcare Finance Professional, we will help you get there. The chapter can provide or assist you in getting the study guides necessary to prepare for testing and we are also glad to provide a proctor and test site when you are ready to tackle those exams.

I will close this column with a mention of one thing you do have to pay for. That is our upcoming two-day Spring Healthcare Conference, co-sponsored for the first time with the State Bar of New Mexico. Jeff Dye, of the New Mexico Hospital and Health Systems Association will be providing his insightful annual summary of the recent New Mexico legislative session and how the outcomes will affect healthcare around New Mexico. Of course, we will continue to offer free webcasts and other great educational events in the coming year.

In summary, I hope you will agree that the value you are receiving for your membership far exceeds the cost and is a smart use of your resources in these tough times. Maybe that is why the New Mexico chapter is currently experiencing record membership growth, even during this time of strict budget tightening? If you don't feel like you are getting your money's worth, please give me, or any other officer or board member a call and let us know what we can do better. See you April 16th at the StateBarCenter!

Kevin P. Nowell FHFMA, CPA

Stepping Back: How has Access to Capital Changed?

Day to day, minute to minute focus on the capital markets can make it harder to see where we are compared to where we were a few months ago at the height of (one hopes) the market fallout. The markets have obviously not stabilized. Yet there has been some improvement since a low point in October, when investors were playing hot potato with variable-rate bonds, and some banks turned away depositors and borrowers and closed their doors - permanently.

Borrowers with outstanding debt or who plan to issue bonds or notes in the near future are in slightly improved positions in February 2009 compared to fall 2008 (though they may look wistfully back at 2007). The overall landscape of both variable-rate bonds/notes and fixed-rate debt changed considerably in the past few months. Much of this can be understood through changes in the banking world over this short period of time.

Banking on Change

Many banks had quite a wake-up call last fall when variable-rate bonds failed to find buyers, and banks had to extend cash and credit in connection with draws on letters of credit that were enhancing billions of dollars in

floating-rate debt. Never in the history of this financing structure had there been such widespread draws on letters of credit. Already reeling from the fallout and negative impact to their financial positions from sub-prime mortgages, many banks realized too late how vulnerable they had left themselves by lending more than they could safely support in both capital and liquidity. Many banks have since had their credit ratings downgraded by rating agencies as a result of declining financial performance.

This situation is part of a spiraling chain reaction. As part of this complex spiral, a bank's strength impacts the decisions of investors (primarily money market funds) that purchase bonds/notes backed by letters of credit. Many of these funds are legally forbidden from holding more than a certain amount of bonds from lower-rated banks. If a bank is, or might be, downgraded, investors may be less likely to buy debt backed by that bank, or they may require a higher interest rate to offset perceived risk.

Therefore some banks, often mid-size regional banks, are trying to reestablish their capital and liquidity positions and attempting to shore up the market's perception of their credit risk by removing what they see as riskier assets from their balance sheets. In some cases, this has resulted in banks asking borrowers to pay loans back, sometimes on technical violations of debt agreements that normally would prompt a warning rather than loan termination.

Current Impact on Letters of Credit and Variable-Rate Debt

In February, variable-rate bonds are again finding buyers. The letter of credit (LOC) structure functioned exactly as intended as a stopgap for borrowers, but the fall 2008 invocation of banks' responsibility to take on these bonds has left banks looking at borrowers through a new lens. Increased scrutiny of borrowers has tightened the credit markets and limited access to necessary capital for renovation and improvement projects.

Reflective of this, the borrowers getting their deals done with bank LOCs are typically very strong or may have stand-alone investment-grade ratings. Investors who buy these bonds and notes are also looking not just at the rating of the bank involved in the transaction, but also at the borrower's liquidity and credit strength in relation to the transaction size. Bigger and stronger, right now, is not just better, it is almost all that is getting done. Big banks are doing big deals with highly-rated borrowers.

Local community banks should not be forgotten, however. Many of these escaped the fallout of the subprime mortgage crisis and were not as leveraged as their regional bank counterparts. They are often still strong and willing to participate in financings.

Borrowers with existing LOCs and variable-rate debt are overall in decent shape. In the fall, variable rates spiked to at least 8% at the height of the liquidity crisis. Now, variable-rate, tax-exempt bonds are generally being remarketed at less than 3% depending on the LOC bank and region of the country. The difference between the high and the low ends of the remarketing range, however, is dramatic. Large national banks' bonds are resetting at 0.25 to 0.50%, while regional banks are resetting in the 2 to 3% range. An individual bank's LOC interest rates can vary widely depending on different investors' perceptions of that bank's credit risk.

Stronger borrowers paying higher-than-market interest rates may have opportunities to replace their LOCs with ones from a higher-rated bank, potentially lowering interest cost. However, many borrowers will be better off staying with their current LOC provider and working with the bank to

ensure the LOC stays in place and is renewed, even if it means paying a higher annual bank fee. Rates on existing LOC-enhanced, variable-rate debt are low compared to fixed-rate transactions, but few new deals are getting done due to banks' judicious allocation of capital and liquidity. Some banks are charging more for the risk they are taking, setting higher covenants and requiring the movement of substantial banking business to them in return for use of their capital.

A borrower should seek advice from its financial adviser or investment banker if the borrower's LOC will expire within two years, or if the bank's willingness to work with the borrower has changed. Most LOC borrowers, however, should be in a good place, with rates as low as they are.

Current Impact on Fixed-Rate Debt

Many borrowers that issued fixed-rate debt in recent years should have locked in very low rates and be in a good position to weather this market.

Few new fixed-rate health care and housing deals have closed since the fall, and fixed-rate debt issuance has not heated up to the levels anticipated at the close of 2008. Long-term investors in tax-exempt bonds and taxable loans have experienced reduced liquidity and hence a limited ability to purchase new debt issues. Willing investors are demanding a higher rate of return (interest rate) for perceived higher-risk borrowers, like health care and housing entities, in comparison to governmental borrowers who can rely on tax revenue for debt repayment and are perceived as lower risks.

Borrowers looking to use fixed-rate debt for a current project often have a 10-year prepayment penalty period. In the current environment, they may have the ability and desire to negotiate a shorter prepayment penalty period in return for paying a higher interest rate to investors. This serves to attract potentially more investors to the transaction and also provides future financing flexibility to refinance when the markets have settled down.

What Now, and What Next?

Several financing strategies are still viable for new debt issuances, or for refinancing troubled debt. The Federal Home Loan Bank can wrap LOCs for its member banks, many of which are small and lack their own credit ratings. This lets borrowers turn to their local banks for a cost of capital similar to that usually available only to larger, rated organizations.

Government enhancement programs, such as the FHA Sections 242, 232 and 221 mortgage insurance programs, also remain strong options for hospitals, senior living, and affordable housing projects. Health care and housing providers also may consider doing a straight term loan with a bank, building in plans to refinance later down the road. Finally, organizations that are strong within their sector could consider paying to get an independent credit rating from a rating agency, possibly enticing investors by setting their transaction apart from a non-rated deal.

Many borrowers who issued debt recently are in a good position. Those who need to issue debt in the near future will have to look to new, alternative and creative ways to access capital. Working with an investment bank or financial adviser who understands and monitors how banks and enhancement options are viewed by investors, and what new options are coming available, will provide the borrower the best access to capital.

Tanya K. Hahn
Lancaster Pollard

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Welcome New Members

We would like to welcome the following new members to our Chapter

- **Michelle A. Bacon**, Student
- **Laura A. Bartoli**, Manager
Triage Consulting Group
- **Pamela J. Carstensen**
Lovelace Women's Hospital
- **Thomas P. Hayes**, Assistant Controller
Cibola General Hospital
- **Brace Herrboldt**, Director, Cash Applications
Lovelace Health Systems
- **Shanna D. Jetton**, Decision Support Analyst
St. Vincent Medical Center
- **Karin K. Osander**
Menicucci Insurance Agency
- **Annette Saiz**
Lovelace Health Systems, Inc.
- **Deanna C. Sandoval**, Charge Master Coordinator
Christus St. Vincent Regional
- **Martin Siordia**, Managing Partner
Global Recruiters of Albuquerque
- **Sharon S. Todd**, Chief Financial Officer
Heart Hospital of New Mexico

- **Valri J. Ward**, Controller, Executive Director
University of New Mexico Hospita

Using a Frontline Offense to Mitigate Your Financial Risk in Today's Sick Economy

It is a usual day at a hospital. A new patient enters an Emergency Room needing care for a broken arm. The treatment process begins... the registrar admits the patient, a nurse preps the receiving room, an X-ray technician readies the equipment, and the financial director sighs as he sees the hospital's finances plunge. Why? In today's economy, every patient entering their facility is more and more likely to be discharged feeling better, but leave the hospital in a weaker financial state than when they entered.

An ever growing number of today's patients are responsible to pay for a portion of their care. Many need financial assistance, charity, or a payment plan, or they may simply default on their financial obligation. The number of underinsured patients is rising rapidly to an estimated 25 million adults in the United States, an increase of 60 percent since 2003 according to a recent study by PriceWaterhouseCoopers. The result is a rise in self-pay patient population, who have become a significant piece of a hospital's revenue cycle. These individuals are often unable or unwilling to pay the high deductibles associated with their plans, leaving the hospital with increasing bad debt. Coupled with decreased financial giving and elective surgeries, the outlook is grim.

However, even in the worst of times the hospital's mission remains the same -- to care for those in need of medical treatment within their communities. Despite its financial woes, hospitals must remain viable to serve its mission.

The economy of today has resulted in capital resources vaporizing and investment income turning negative. This means budgets are stretched and many hospitals are looking to their front-end staff and systems to buffer their organization from today's financial crisis. The following are a few steps that financial executives can take to better financial health that apply to any economy, without significant cash outlay:

Step One: Diagnose or Prequalify the Patient

With today's frequent changes in insurance coverage (due in part to rising unemployment) and medical identity theft, hospitals need to be vigilant in attaining the most recent and accurate information on every patient.

First, hospitals need to be sure the patient is who they claim to be, and the provided coverage (if any) is valid. Then, they must understand the patient's ability to pay their bill. It may be a question not of if they can pay, but when or how they can pay. Knowing this information at registration establishes a mutually agreed upon relationship and can protect the hospital from undue risk.

Non-emergent medical treatment now requires the hospital knowing its financial risk in serving this individual and then mitigating this risk as much as possible

Step Two: Deliver a Personalized Financial Treatment

The hospital's frontend should have a suite of payment options available that protect the hospital from accumulating bad debt. These may include

pre-payment at registration (cash, credit card, or a medical care credit card plan issued by a third party), hospital approved payment plans, charity programs, and government assistance programs, among others. Especially for self-pay patients, appropriate options should be made available to ensure payment using one or multiple options.

Teaming with medical staff, frontend personnel should be able to offer patients approximate costs of proposed treatments, especially those that can be delayed or are elective. This information can change the necessary financial relationship and options available. It also empowers the patient to make educated choices on elective or optional components of their care.

Step Three: Act Quickly

Aging of accounts will worsen in recessions. Collection policies and procedures should be directed at carefully segmented patient populations defined according to a patient's ability to pay their bill and its balance. In addition to frontend collections, some suggestions have included offering incentives for pre-paying or early payment of medical bills to maximize cash balances in the short term. Often the first medical bill to reach a patient may be the first one paid, hospitals should see this as a race and beat other providers to the finish line.

There is no magic to surviving in today's economy, avoiding layoffs and the other cost cutting measures. However the hospitals frontline can minimize risk and improve cash balances if used properly. It is time to equip frontend staff with the technology and processes to identify patients quickly, assess their financial capabilities, and trigger a financial plan made to fit each unique patient.

If a hospital falls into poor financial health, its mission cannot be fulfilled. It is important to the community it serves to be diligent in protecting its financial health.

Bruce Nelson
Vice President
SearchAmerica, a part of Experian

New Mexico HFMA/MGMA Income Statement for November 2008 Conference

As of February 28, 2009

	2008 Actual	2008 Budget	Variance	2007 for comparison
REVENUE				
Sponsor & Exhibitor	25,710	33,500	(7,790)	27,985
Registration	23,131	21,000	2,131	15,144
Total Revenue	48,841	54,500	(5,659)	43,129
EXPENSES				
Speakers	16,109	12,500	(3,609)	10,045
Hotel	18,154	15,000	(3,154)	17,092
Refunds			0	99
Printing/supplies/misc	130	2,000	1,870	2,127
Administration	10,203	6,000	(4,203)	6,229
Total Expense	44,596	35,500	(9,096)	35,592

NET INCOME	4,245	19,000	(14,755)	7,537
Profit share to MGMA	2,123	9,500	(7,378)	3,769

New Mexico HFMA Income Statement

6/1/08 through 2/28/09

	YTD Actual	Budget	Variance
REVENUE			
Total Program	\$ 52,466.00	\$ 50,200.00	\$ 2,266.00
Total Other	3,653.00	20,000.00	(\$ 16,579.00)
TOTAL REVENUE	\$ 56,119.00	\$ 70,200.00	(\$ 14,313.00)
EXPENSES			
Total Program	\$ 56,192.00	\$ 45,000.00	(\$ 11,192.00)
Total Leadership Conf	6,707.00	15,400.00	8,693.00
Total Newsletter	0.00	2,000.00	2,000.00
Total Other	4,734.00	7,800.00	3,066.00
TOTAL EXPENSES	\$ 67,633.00	\$ 70,200.00	\$ 2,567.00
NET INCOME (LESS)	(\$ 11,514.00)	\$ 0.00	(\$ 11,514.00)

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