Draft Report to Consumers for Affordable Health Care
Nancy M. Kane
October 22, 2023

Report on Maine Health Financial Condition and Trends in Charity Care and Bad Debt

Overview of the MaineHealth System

As of September 30, 2022, The MaineHealth System included a parent organization, nine acute care hospitals in Maine and one in New Hampshire[1], as well as subsidiaries providing home care, behavioral health, a diagnostic reference lab, an accountable care organization and other services. It has joint ventures, one withAnthem Blue Cross providing a Medicare Advantage plan to Maine residents, and another with HealthSouth corporation to provide rehabilitation services.

MaineHealth has a 75% market share of inpatient discharges from Maine hospitals in its primary service area (York, Cumberland, and Sagadahoc Counties), a 74% market share in its secondary service area (Lincoln, Knox and Waldo Counties), and a 24% share in its regional service area (Androscoggin, Oxford, Franklin, Kennebec, Somerset, and Carrol NH counties). The three service areas included over 1 million people in 2018, most of the 2018 statewide population of 1.3 million. It is the largest private employer in Maine.

MaineHealth's dominant market position and strong patient volume trends contributed to its A+ rating from S&P in 2018 and reaffirmed in 2020[2].

Detailed Financial Condition

Despite pandemic-related challenges affecting profitability in 2020 and 2022, MaineHealth maintained adequate cash and debt capacity to absorb losses in those years while continuing to invest in capital projects totaling over $900 million over the period 2019 – 2022, indicating strong financial resilience. It regained positive operating profits in the first 9 months of 2023, and had strong operating profits in 2019 and 2021. T

In the following sections, MaineHealth financial performance is broken down into key metrics of profitability, liquidity solvency, and adequacy of capital spending. These metrics are compared to the Fitch overall medians for Nonprofit Hospitals and Healthcare Systems over the period 2019 – 2022. Fitch's rated systems include 215 - 220 hospitals/health systems, among the financially strongest hospitals/systems in the U.S.

[1] Maine Medical Center, Southern Maine (Henrietta Goodall and Southern Maine Med Center), Coastal Healthcare Alliance (Waldo and Penobscot Bay), Mid Coast-Parkview, Franklin Community Health Network, Lincoln Health Group (St Andrews and Miles Hospitals), Western Maine Health care Corp (Stephens Memorial) . and The Memorial Hospital at North Conway (NH)
[2] https://www.beckershospitalreview.com/finance/s-p-assigns-a-rating-to-mainehealth-s-bonds.html

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Profitability:

MaineHealth performed favorably in most years relative to the median for Fitch-rated health systems for operating and total profitability despite losses experienced in 2020 and 2022. They had stronger than median operating margins in 2019 and 2021, and roughly at median total and Ebitda margins in 2019 through 2021. In the first 9 months of 2023, they were on the road to recovery from operating losses in 2022.

Year	2023 (9 mos)	2022	2021	2020	2019
Operating Margin	.001	(.012)	.050	(.007)	.030
Fitch Median		.002	.030	.015	.023
Total Margin*	.04	(.01)	.06	.05	.04
Fitch Median		.019	.066	.033	.045
Ebitda Margin	.08	.04	.11	.10	.09
Fitch Median		.073	.124	.093	.106

*Excludes unrealized gains and losses on investment portfolio, which represent temporary fluctuations in the value of marketable securities owned by the health system.

MaineHealth's payer mix was roughly 50% commercial insurance, and only 12 – 14% Medicaid, which is a relatively healthy mix financially.[3]

		2022	2021	2020	2019
Medicare		35%	35%	35%	33%
Medicaid		13%	14%	14%	12%
Blue Cross and Commercial		50%	48%	50%	54%
Patients		2%	3%	2%	1%

Liquidity:

Maine Health was slightly lower than median days cash on hand from all unrestricted sources (this includes cash and marketable securities), which is still strong liquidity considering the high level of capital spending over these years (see capital spending adequacy). MaineHealth collected patient receivables faster than the rated systems' medians.

Year	2023 (9 mos)	2022	2021	2020	2019
Days Cash on Hand	132	145	207	204	163
Fitch Median		216	260	241	220
Days in Accts Receivable		41	44	42	38
Fitch Median		47	47	45	47

[3] See article on the effect of payer mix on operating margins and cash /securities https://jamanetwork.com/journals/jama-health-forum/fullarticle/2801226

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Solvency:

In 2019 and 2020, MaineHealth had an elevated level of longterm debt, but by 2021 its metric (longterm debt/total capitalization) was at the median for Fitch-rated systems. Its ability to repay the debt on schedule (deb service coverage) was strong and well above Fitch medians most years. Its ratio of cash and investments/longterm debt was favorable to median, meaning that they had a strong cushion of financial reserves to draw on in the event of a particularly unprofitable year or two.

Year	2023 (9 mos)	2022	2021	2020	2019
Longterm Debt* /capitalization		.32	.32	.41	.37
Fitch Median		.34	.32	.34	.33
Debt Service Coverage		2.61	6.12	5.78	5.48
Fitch Median		3.2	5.7	4.0	4.1
Cash and Investments/Longterm debt	1.94	1.99	2.34	1.93	1.97
Fitch Median		1.47	1.86	1.63	1.59

*Longterm debt included pension and operating leases as well as longterm debt

Adequacy of Capital Spending

While the average plant age is slightly unfavorable to the Fitch median, the capital expenditure relative to depreciation expense was highly favorable to the medians,and indicating hat MaineHealth significantly enhanced its capital assets over the period 2019 – 2022.

MaineHealth spent over $900 million over the period 2019 – 2022 on property, plant and equipment expenditures, a cumulative ratio of 1.48 times depreciation expense over the period, including most recently the construction of a new seven story inpatient tower for Maine Medical Center in Portland and renovation of a behavioral health unit at Southern Maine Medical Center.

Year	2022	2021	2020	2019
Average Age of Plant	13	12.3	11.98	12.18
Fitch Median	12.1	11.9	11.7	11.6
Capital Expenditure/Depreciation Expense	1.31	1.3	1.47	1.94
Fitch Median	1.10	1.00	1.09	1.18

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Trends in Charity Care and Bad Debts

The audited financial statements for MaineHealth provided charity care values that differed slightly from those reported in the IRS Form 990, but both showed charity (at cost) at roughy 1% - 1.5% of operating costs over the period.

	2022	2021	2020	2019
Charity Care at Cost AFS	40246	28533	43757	34375
% Operating Expense AFS	1.07%	0.87%	1.51%	1.30%
Charity care on 990	33315	29327	36141	
% Operating Cost 990	1.00%	1.03%	1.51%	

Bad Debt at cost was not provided in the Audited Financial Statements in a meaningful way since a change in accounting requirements affecting years beginning in 2019. However it was reported in the IRS Form 990 at cost:

	2022	2021	2020
Bad Debt % 990 Op Exp	**1.60%**	**2.18%**	**1.78%**

There is no clear relationship between the bad debt % and the charity care % in any one year; the combination hovered between 2.6 and 3.3% of operating expense over the period. The percentage of Bad debt is slightly higher than that of charity. This is not an unusually low level of charity and bad debt for nonprofit hospitals in the US., especially in a state with expanded Medicaid[4].

That said, there is an opportunity to advocate for expanding the eligibility criteria for charity care at MaineHealth, as it does not extend federal poverty level (FPL) ceilings above 200% for discounted care (see Schedule H, Part 1, Question 3b). In an analysis of the 2018 hospital eligibility policies of 800 hospitals in Medicaid expansion states, over 80% offered discounted care to patients with incomes over 200% of FPL, and 39% offered discounted care to patients with incomes up to 400% of FPL[5] .

There is also an opportunity to advocate to reduce the amount charged to patients eligible for financial assistance. Currently, MaineHealth bases the amount charged on both Medicare fee for service and all private health insurance claims paid; it could instead use a method based only on Medicare or even Medicaid claims (see Schedule H, Part V, Question 2). Especially if MaineHealth is not able to collect a

[4] See for instance:
https://www.wsj.com/articles/nonprofit-hospitals-vs-for-profit-charity-care-spending-11657936777
and
https://www.kff.org/health-costs/press-release/half-of-all-hospitals-have-charity-care-costs-that-represent-1-4-or-less-of-their-operating-expenses/

[5] Bai et al, Comparison of trends in nonprofit hospitals' charity care eligibility policies between Medicaid expansion states and Medicaid nonexpansion states. Medical Care Research and Review 2022. Vol 79 (3): 458-468

significant percentage of amounts billed, it would relieve the medical debt burden without a large financial impact to Maine Health while also reducing the incentive for patients to not seek needed care if the billed amounts were closer to what might be affordable.

Another issue to consider:

Commercial prices relative to Medicare prices for Maine Medical Center were in the 9th decile (out of 10, where 10 is the highest relative prices), at 292% for inpatient services and 302% for outpatient services. [6] Prices system-wide were slightly lower than Maine Med for inpatient (254%) but still 302% for outpatient services. Considering that Maine' s average per capita income is lower than the national average, there is an argument to be made that commercial charges need to be capped at something less than where they are.

[6] https://www.rand.org/pubs/research_reports/RRA1144-1.html