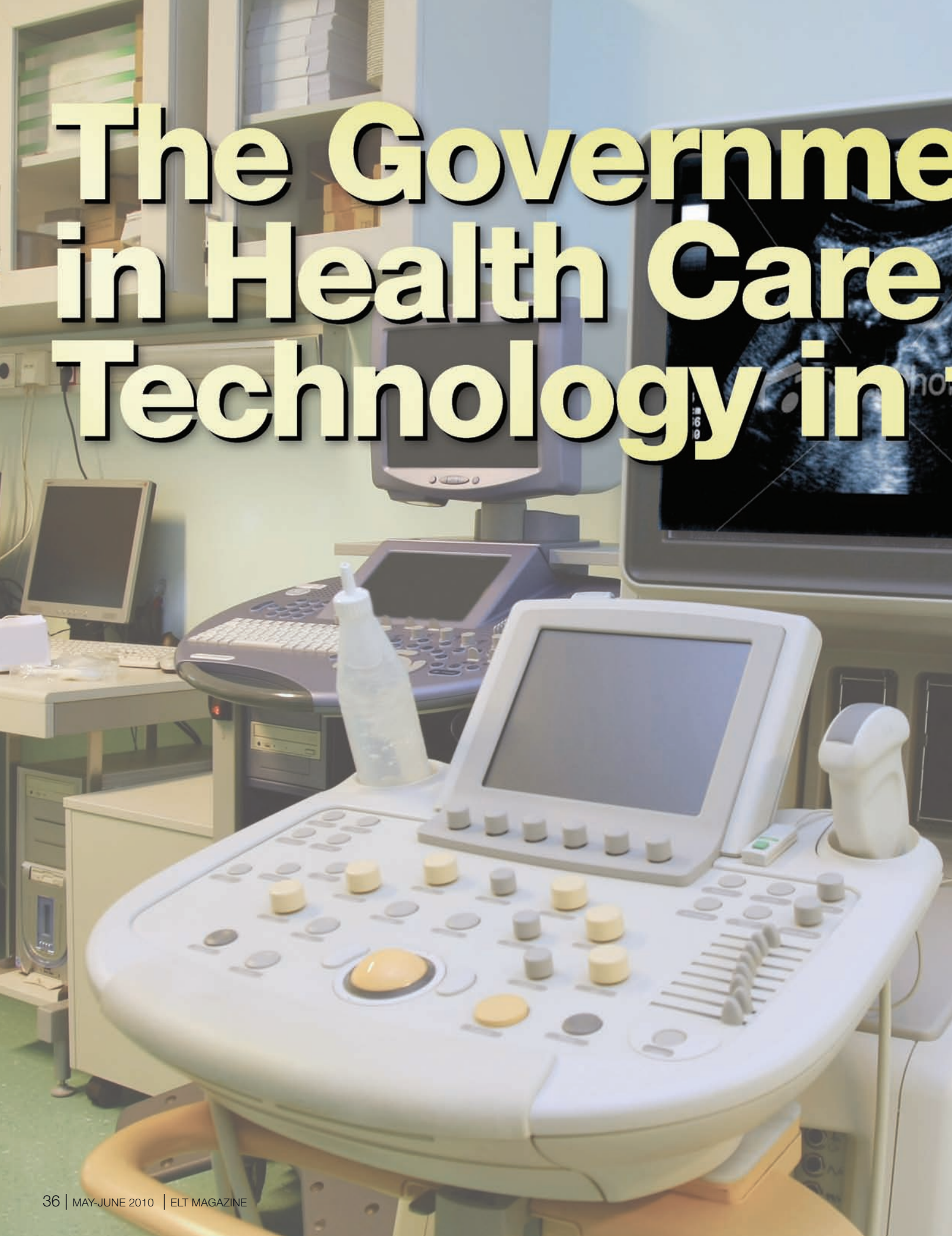


The Government in Health Care Technology in





Investment Information the U.S.

Opportunities and Risks for Equipment Leasing and Finance

By Cindy Eddins Collier, MHA, MSA, CPA/ABV/CFF, CVA, CMPE, CPHIT.

U.S. health care providers, such as hospitals and physician practices, are facing unprecedented challenges and opportunities in terms of health care information technology (IT) today. Health care IT is developing at an unprecedented pace. At the same time, providers, consumers and payers are demanding more cost-effective, higher-quality and more productive health care. Regulators, as well as providers and consumers, are demanding transparency and access to meaningful health care information. Developments in clinical applications and capabilities are allowing us to improve patient care and to measure and communicate those improvements. All of these developments, as well as a national focus on health care reform and government incentives for the meaningful use and management of health care information, qualify the next few years as the most exciting yet in terms of health care IT in the United States.

Unprecedented opportunities exist to offer finance and leasing products and services to the rapidly emerging sector known as health care technology. Opportunities to provide greatly needed financing resources and expertise to an

extremely large and underserved market abound, while at the same time, challenges are driven by complex regulation, a difficult economy and lack of understanding by all parties to these complicated transactions. The health care private sector and government investment in health care IT in the U.S. offer exciting opportunities for leasing and finance companies in 2010 and beyond. However, these services will be complex and will require a significant understanding of the health care industry, recent legislation, regulations and health care technology, as well as of equipment leasing and finance. Developments in health care technology will transform the delivery of health care in the U.S. and globally. It will not be easy, but the benefits are well worth the effort.

A Very Large Market

The health care provider market needing services is huge, challenging, complex and potentially extremely rewarding for health care leasing and finance organizations. The long-term projection for health care spending in the U.S. is for continued growth in real and absolute terms. However, in 2008, U.S. health care spending growth slowed to 4.4 percent, the slowest rate of growth over the past 48 years (Micah



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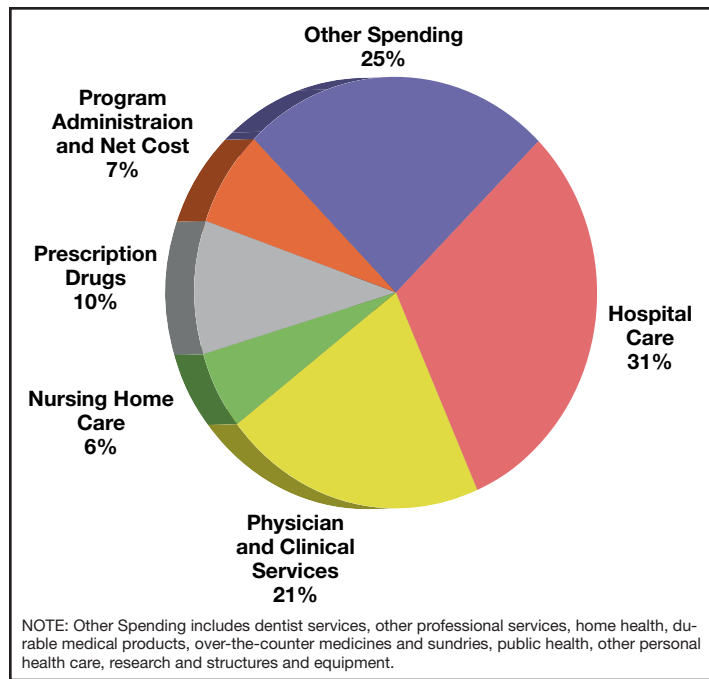


Figure 1: The Nation's Health Dollar, Calendar Year 2008: Where It Went.

Hartman, 2010, 147–155). The deceleration was broadly based for almost all payers and health care goods and services. Total spending on health care has doubled over the past 30 years from less than 8 percent to approximately 16 percent of U.S. gross domestic product (GDP). In January 2010, the Centers for Medicare and Medicaid Services (CMS) reported that health care spending rose to \$2.3 trillion in 2008 (CMS, 2010). The Congressional Budget Office (CBO) estimates that this percentage will double again over the next 25 years to more than 31 percent of GDP (CBO, June 17, 2008). This growth reflects a long-term historical trend, as health care expenditure growth is expected to outpace GDP growth.

In February 2008, the director of the National Health Statistics Group in the Office of the Actuary of the CMS, along with several of his associates, estimated that health care expenditures in the U.S. will grow from \$ 2.1 trillion in 2006 to \$ 4.3 trillion in 2017 (CMS, Office of the Actuary [[2008?]]). Over the period 2008–2018, average annual health spending growth (6.2 percent) is expected to outpace average annual growth in the overall economy (4.1 percent). By 2018, national health spending is expected to comprise 20.3 percent of GDP (CMS, Office of the Actuary, 2010). The charts below show the change in health care expenditures as a percentage of GDP and the relative growth of health care expenditures compared to overall GDP growth.

An Underserved Market

For decades, health care has underinvested in IT. The difficult economy has further delayed capital expenditures for health care IT by providers such as physicians and hospitals. Investment in technology is essential to providing quality health care in an efficient and effective manner in today's environment. Macrotrends in the

health care industry indicate growth in real terms as more people are treated. There is a growing emphasis on productivity to contain both real growth cost pressures and inflationary pressures from labor shortages. The critical element in improving the productivity of the health care industry and restraining its cost growth is capital investment in productivity-improving technology that will substitute capital for labor. Both macrotrends indicate a substantial increase in capital expenditures by health care organizations.

The biggest area for health care productivity improvement in the future will be IT. Currently, the health care industry has one of the lowest levels of IT utilization of any major industry group. However, although health care has underinvested in IT, its IT expenditures are still very large because the sector is so large. This already very large market will get much larger as its underinvestment in IT is remedied in the years ahead.

One example of the potential of technology to promote efficiency and effectiveness in the health care system is the area of medical records. A major component of the cost of health care is record keeping of all types. Most of this record keeping is done on paper or on antiquated legacy computer systems. IT has a wide variety of applications in health care, such as electronic health records (EHR), personal health records (PHR), practice management systems, hospital management systems, clinical management systems, telemedicine, pharmacy systems, remote patient monitoring, and other existing and emerging applications. An EHR consists of a specific set of applications that provide support for direct patient care. Information management systems specialists provide technical expertise and support. The Health Care Information and Management Systems Society (HIMSS) is the health care industry's membership organization focused exclusively on providing global leadership for the betterment of health care (<http://www.himss.org/ASP/index.asp>). The 2009 "Annual Report of the U.S. Hospital IT Market" (HIMSS Analytics, 2009) describes how many people in the U.S. health care industry, government and the media use the terms electronic medical record (EMR) and electronic health record (EHR) interchangeably.

Many large private companies operate in the health care industry, but small, private firms, such as medical practices, are the most significant business form in health care, followed by not-for-profit organizations,

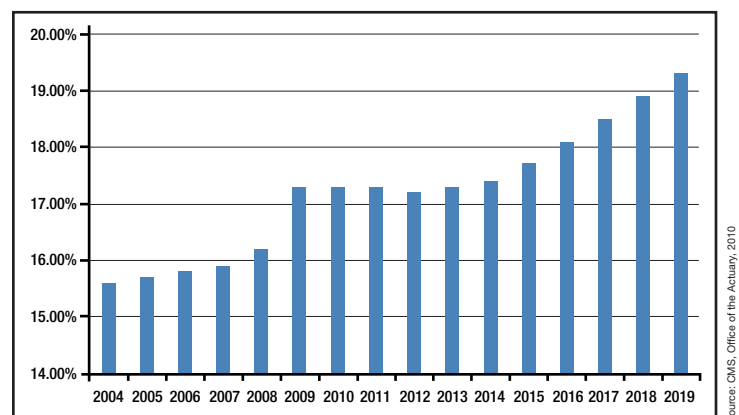


Figure 2: Historical and Forecasted U.S. Health Expenditures as Share of Gross Domestic Product (GDP)

The Government Investment in Health Care IT

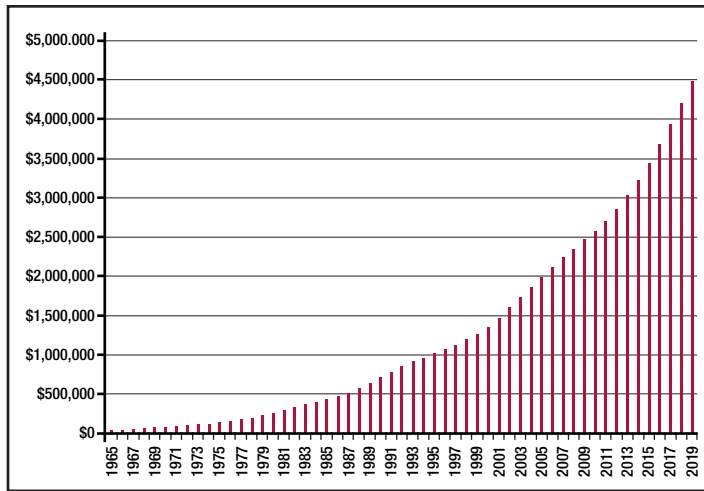


Figure 3: Historical and Forecasted U.S. Health Expenditures as Share of Gross Domestic Product (GDP)

such as nonprofit hospitals. In July 2008, the *New England Journal of Medicine* reported that costs associated with the implementation of EMR are the primary reasons why many doctors have yet to adopt them, according to a study based on RTI International data (Catherine M. DesRoches, July 3, 2008). RTI surveyed 2,758 physicians between September 2007 and March 2008. Two-thirds of the respondents not yet using EMR systems said cost was a barrier. Other reasons cited for not using EMR included failing to find a system that met a doctor's needs, return on investment and concerns about obsolescence.

Among doctors who have EMR, only 4 percent said the systems were "fully functional" (DesRoches, 2008) with key patient safety features such as prompts when a medication may react badly with another drug the patient is already taking. Thirteen percent reported having a basic system without key patient features. In multivariate analyses, primary care physicians, physicians practicing in large groups, hospitals or medical centers, and the western region of the United States were more likely to use EMR. Physicians reported positive effects of the systems on several dimensions of quality of care and high levels of satisfaction.

The survey pointed out a major divide between large and small practices: 51 percent of practices with 50 or more doctors use EMR, but only 9 percent of practices with one to three doctors (where almost half of U.S. doctors practice) do so (June 2008; DesRoches, 2008). For small practices, the key constraint on implementing EMR is cost, with the total cost of adopting EMR estimated at about \$60,000 per doctor, for a cost in the hundreds of billions of dollars for all doctors nationally (DesRoches, 2008). Fortunately, in 2010 the costs of this technology have decreased significantly for small physician practices thanks to improvements in technology and increased competition.

Recent evidence supports the efficacy of investment in health care technology. Leaders at many medical group practices reported that they rely on IT to help provide cost-effective care, according to the Medical Group Management Association's (MGMA) "Performance and Practices of Successful Medical Groups: 2009 Report Based on 2008 Data" (MGMA, December 2009).

HIMSS has proposed that the health care industry could achieve remarkable improvements in access to medical information and reduce costs overall by investing \$25 billion to improve acute and ambulatory health care IT environments (HIMSS, 2010). A substantial investment in health care technology is essential today for many reasons.

Included in the \$787 billion budgeted in the American Recovery and Reinvestment Act is approximately \$20 billion in funding for health care IT, including incentive payments to physicians who implement and use eligible EMR systems under the conditions laid out in the law.

In addition, HIMSS reports that the majority of U.S. hospitals are in the early stages of electronic data management. However, most of the more than 5,000 hospitals and health systems that HIMSS Analytics surveys each year have plans for or have begun implementation of EMR environments. U.S. hospitals are continuing to advance their EMR capabilities to meet new market demands and requirements, even in the difficult economic environment of the past two years (HIMSS Analytics, 2009).

The 2009 "Annual Report of the U.S. Hospital IT Market" describes various market drivers and factors influencing the EMR environment through 2010. They include lack of access to capital, which is impacting the acquisition and installation of EMR products through 2010 and beyond (HIMSS Analytics, 2009).

In December 2009, MGMA reported that better-performing multispecialty practices, primary care practices, orthopedic surgery practices and cardiology practices all spent slightly more than their peers on health care IT as a percentage of total medical revenue. In addition, better-performing organizations were more likely to have fully integrated EMR/EHR than others: 39.7 percent vs. 31.6 percent. The same is true of partially integrated systems: 15.6 percent of better performers vs. about 14 percent of others, according to the MGMA's "Performance and Practices of Successful Medical Groups: 2009 Report Based on 2008 Data." While little difference existed in the number of organizations that planned to implement an EMR/EHR system in the next 12 months, significantly more top-performing practices had plans for implementation within 13 to 24 months: 19 percent vs. 14.1 percent (MGMA, December 2009).

Opportunities and Challenges for Health Care Finance and Leasing

This area of opportunity is rapidly evolving and has many moving parts. A collaborative team approach can be effective in addressing the health care technology challenges today. The collaborative team can be formal or informal, or simply a social network of professionals who communicate as needed. The collaborative team should include well-informed and knowledgeable finance and leasing professionals with appropriate health care finance experience and a good understanding of the timing and amount of financing needed, vendors with excellent products and support designed to meet the health care technology requirements, an engaged customer base that remains active and contributes to improvements and success of the health care technology products and services, a regulatory compliance team that works effectively with CMS to ensure that all requirements for the stimulus money and reimbursement for services are maintained at all times and an effective health law team. Experience with specific medical

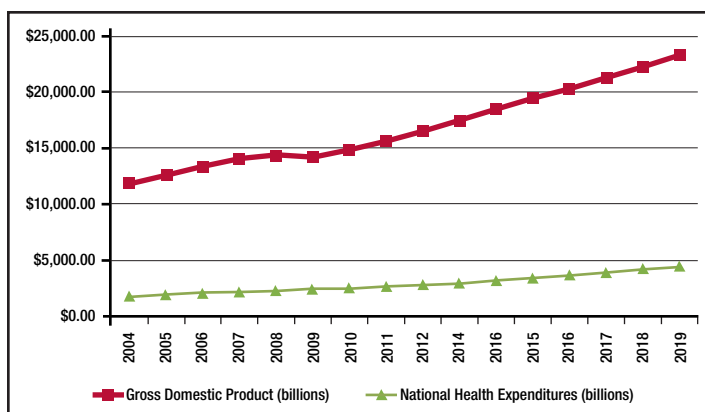


Figure 4: Historical and Forecasted U.S. Health Expenditures as Share of Gross Domestic Product (GDP)

specialties, academic medical centers, community hospitals and other types of health care organizations can also be helpful when working with specific organizations. The finance and leasing professional must earn respect as a knowledgeable and trusted adviser who knows whom to call when specific expertise is needed.

A number of ELFA member companies have taken a proactive approach to the health care IT market by designing programs to help hospitals and physician offices accelerate EMR adoption. These programs include assistance with EMR certification, which is the precursor to federal stimulus reimbursement eligibility, and interest-free and step-up loans and deferred payments to address uncertainty about future standards and provide interim funding. Such financing programs enable health care providers to accelerate adoption of EMRs and further their efforts to reduce cost and improve patient care through greater access to valuable information at the point of care.

The federal stimulus funds will not be available for EMR until 2011 under the Health Information Technology for Economic and Clinical Health (HITECH) Act. In addition, the federal government has not yet set specific guidelines for determining what constitutes a qualified system under the regulations. To overcome these barriers to immediate adoption of EMR, GE has implemented a program that commits to support its customers' ability to meet the "meaningful use" standards once they are defined ("GE Launches Program to Doctors, Hospitals to Accelerate EMR Adoption; First \$100 Million of healthymagination Commitment," 2009).

A very different example of an opportunity for equipment finance and leasing involves the 2009 partnership of Wal-Mart's Sam's Club with EMR vendor eClinicalWorks and Dell, Inc., to sell medical records systems to physicians. Sam's Club began offering the package in spring 2009 starting at less than \$25,000 for the first physician in the practice and \$10,000 for each additional physician. Ongoing costs were estimated at \$4,000 to \$6,500 per year (Kathryn Mackenzie, 2009). The package includes Dell hardware (a desktop and tablet PC) installed by Dell technicians and software-as-a-service applications from eClinicalWorks. The price also includes five days on-site training by eClinicalWorks technicians.) (http://www.samsclub.com/shopping/navigate.do?catg=13350&pid=050909_CreativeKeywordeClinic&landing=eclinicalworks).

The EMR bundles are sold online at <http://www.samsclub.com>, and the order process takes 10 to 12 weeks and includes a series of steps to analyze the practice and determine specific needs (Mackenzie, 2009). The pricing transparency for this product has been a breakthrough for the market, and financing for this product may be an opportunity for independent finance and leasing professionals.

ELFA has experienced and knowledgeable members who are developing effective new approaches on a daily basis to meet the needs of this volatile market. Equipment finance and leasing professionals interviewed for the Equipment Leasing and Finance Foundation-sponsored report "Health Care Information Technology: Equipment Financing Opportunities" serve a variety of health care markets, ranging from small professional practices to very large professional practices, hospitals and very large integrated health care delivery systems. Deal sizes range from \$7,000 to \$7 million, depending on the market served and services provided. Professionals interviewed included health care financial groups from very large financial corporations and banks, manufacturers, vendor leasing companies, middle-market lenders, as well as small independent leasing company professionals. Underwriters and collectors were also interviewed. Global as well as domestic finance and leasing professionals were included.

Equipment finance and leasing services provided in the health care IT area and discussed in the interviews include:

- Vendor financing
- Fair market value leases (operating leases)
- Finance leases (capital leases)
- Tax-exempt financing
- Tax-exempt bonds issuance
- Revolving lines of credit
- Term loans
- Other innovative approaches to meet specific vendor and health care client needs

Interviewees report that in the current environment, vendors are taking more risk to sell products because traditional financing vehicles are able to take less risk.

Health care IT groups that can provide expertise, and research can be found at the American Health Lawyers Association, the Health care Information and Management Systems Society, Health care Financial Management Association, the Medical Group Management Association and the American Hospital Association, as well as specific specialty groups for each area of health care.

This article provides a brief summary of the Equipment Leasing and Finance Foundation's most recent study, "Health care Information Technology: Equipment Financing Opportunities." The study is available through the Foundation's online library at <http://www.store.leasefoundation.org/>. \$300 nondonor rate; free to donors. ELT

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