

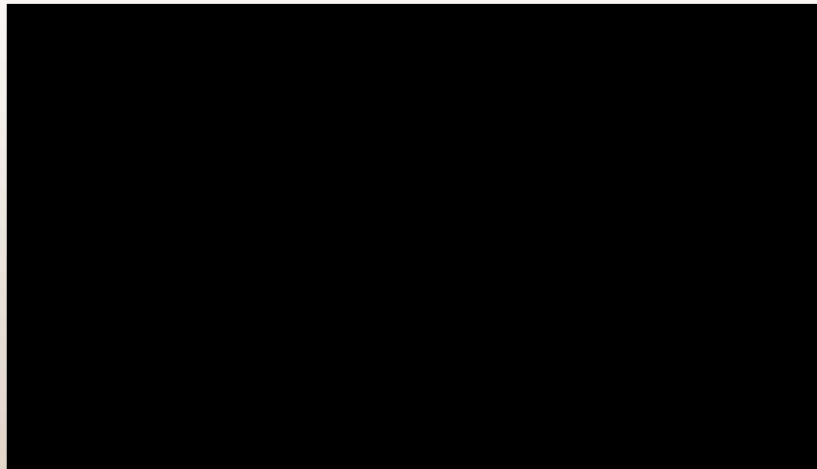


## Strategic Partner – Financial Strategies

Presented by Steve Febus, MBA  
Pullman Regional Hospital



Wisdom for today!



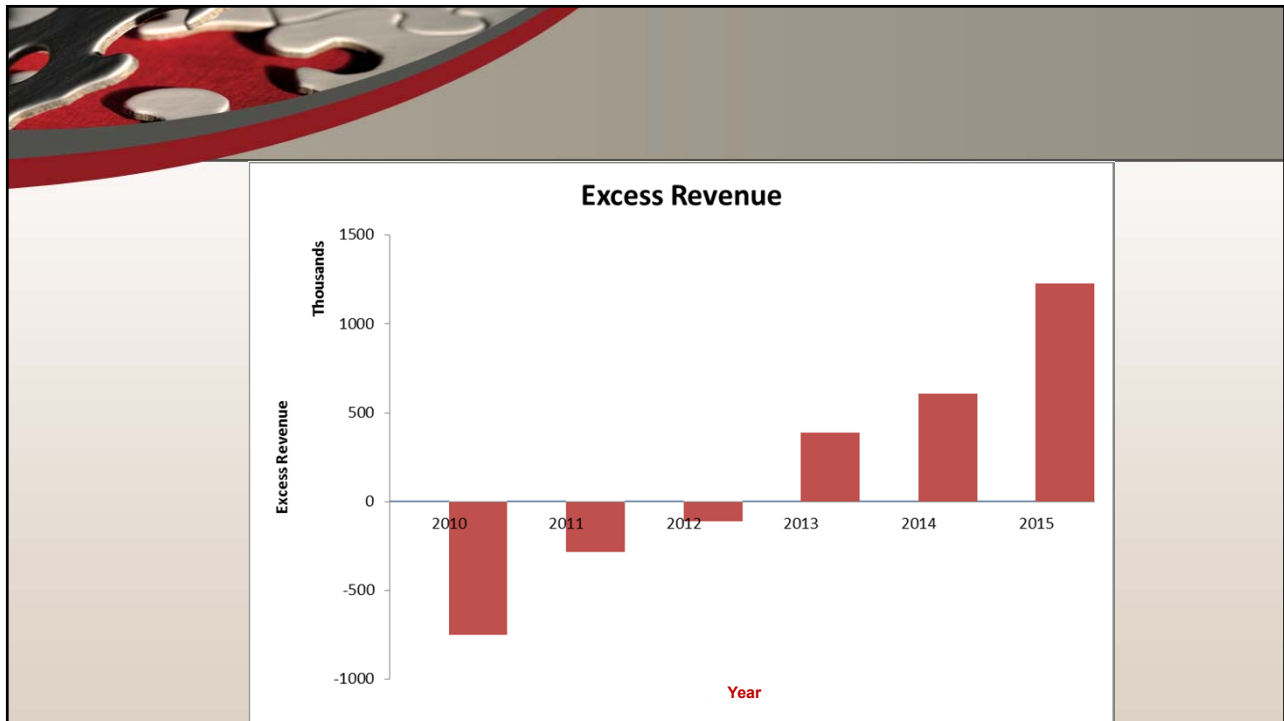
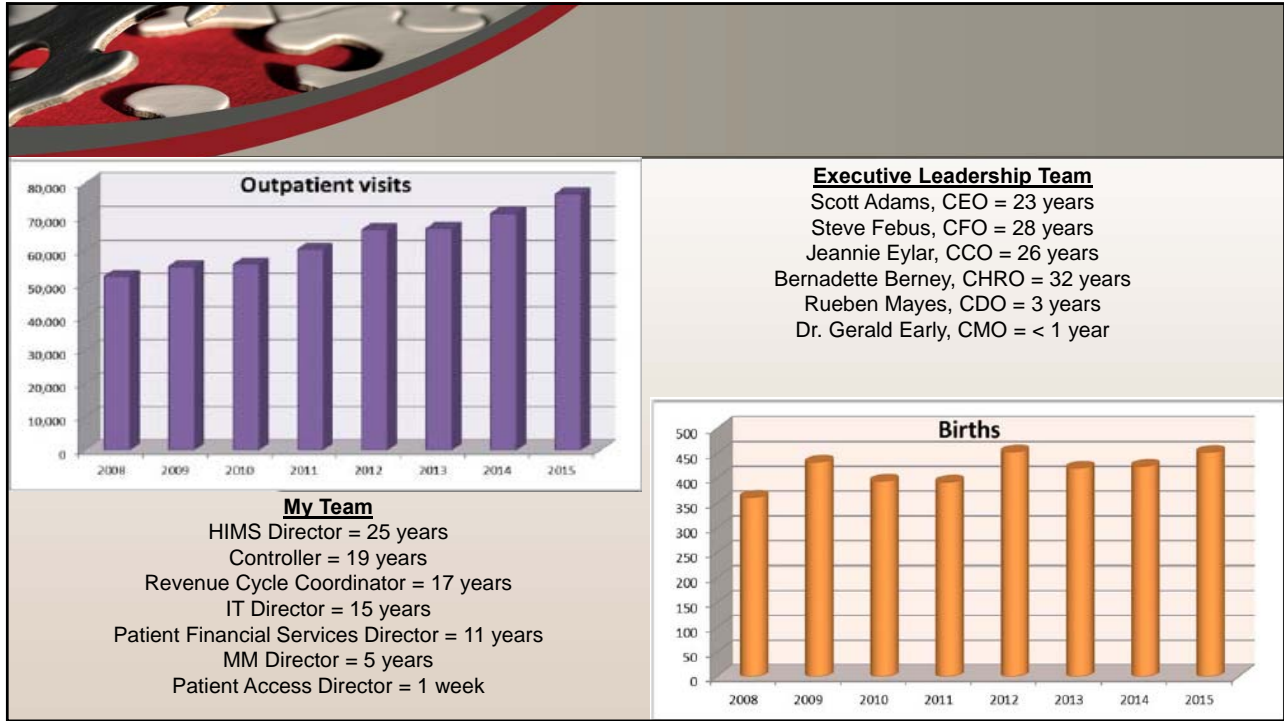
## Introduction/Background

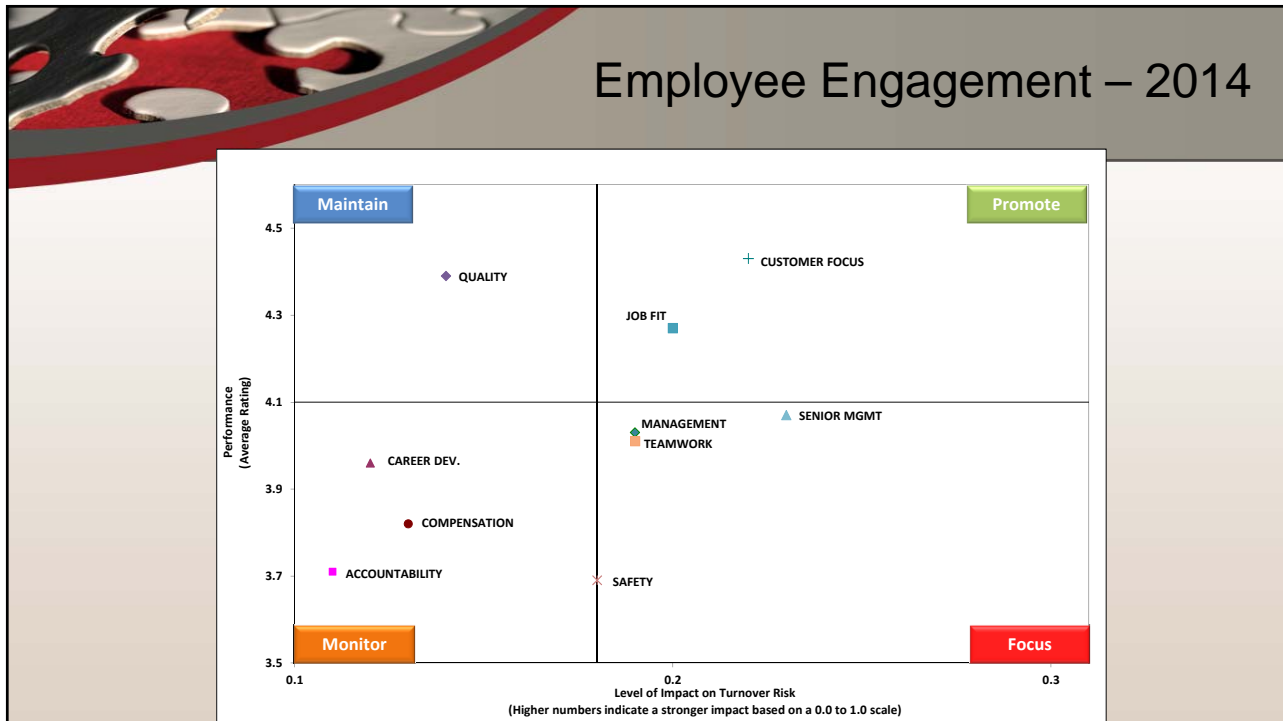
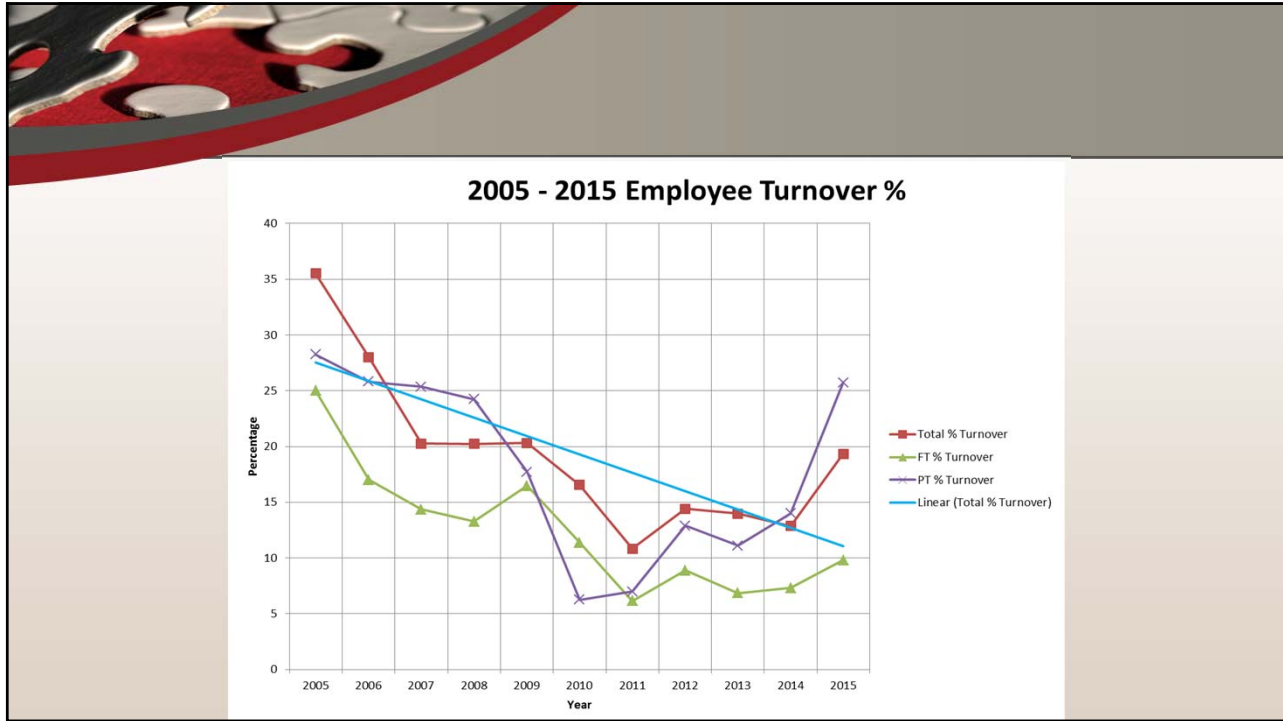
- Introduction
- Session Topics
  - State of the Union
  - Where does the buck stop
    - Understand your environment – CULTURE
    - Report or Analyze
  - What is the various roles the fiscal team plays as a strategic partner
  - Finding the golden goose
  - Examples
    - Successes vs failures “we learn from both”

## **PULLMAN REGIONAL HOSPITAL**

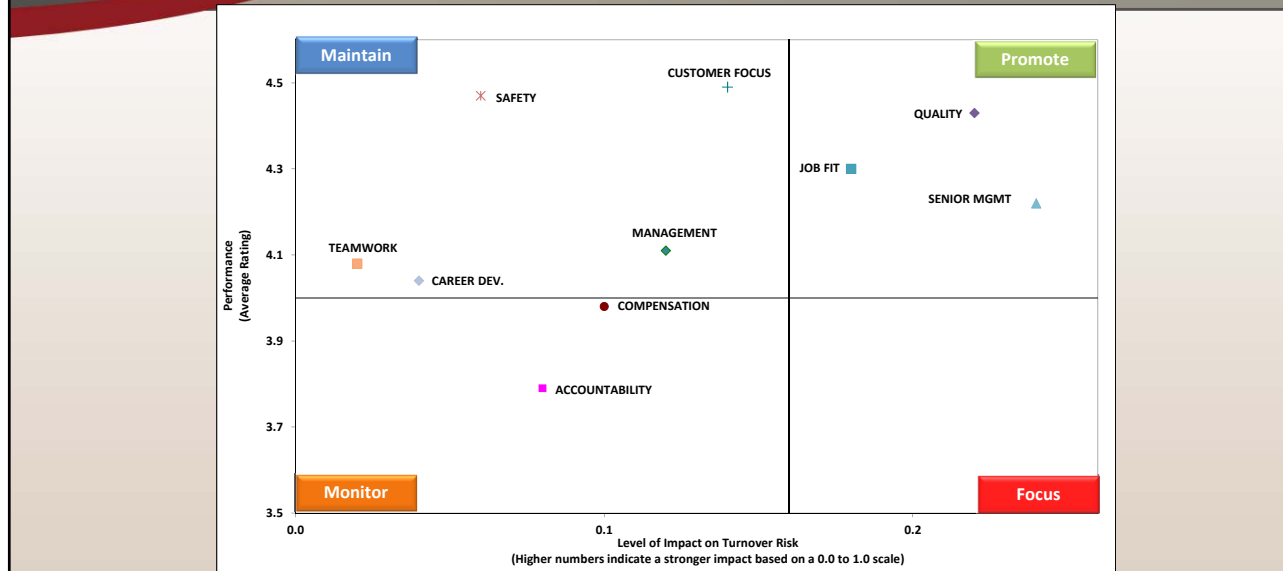


**RECEIVES 5 STAR RATING!**






## Employee Engagement – 2015



## Identifying Your Role within the Organization

One columnist observed that:

“gentlemanly behavior [for example, once] protected women from coarse behavior. Today, we expect sexual harassment laws to restrain coarse behavior. . . . Policemen and laws can never replace customs, traditions and moral values as a means for regulating human behavior. At best, the police and criminal justice system are the last desperate line of defense for a civilized society. Our increased reliance on laws to regulate behavior is a measure of how uncivilized we’ve become.”



## What Traits “own” you & your team?

### Desirable

- Inclusive
- Serving others
- Personal accountability
- Choice
- Personal growth
- Consistency
- Progressive
- Truth-seeking
- Transparent
- Tolerant
- Flexibility

### Undesirable


- Exclusive
- Self-serving
- Victim
- Mandatory
- Stagnation
- Variation
- Status quo
- Gossip
- Closed
- Judgmental
- Rigidity



## Leadership

“We owe people a new covenant of what caring, purposeful people can be in the workplace. What we can do is merely a consequence of what we can be.”

- Max DePree



## Leadership

“The money is the easy stuff”

- ??????



## Organizational Commitments

- Customer Service
- Accountability
- Generosity
- Employment
- **Sound Financial Standing**
- Leadership
- Patient Safety
- Employee Engagement

# What is your culture?

# Today's Environment

What is the pulse of your organization?

- Bond covenants
- Medical insurance
- Capital access / cost & the need to fund growth strategies
- Payer mix deterioration / rising bad debt & charity
- Equipment replacement / New technology
- Information technology needs
- Remodel / Infrastructure
- Increasing competitive market
- Physician shortages/recruitment / retention
- Reimbursement pressures and RAC/short stay issues



## The Shifting Role

- Hard to imagine a role that has changed more
- Due Diligence Team
- Risk Analysis
  - Examples within the framework of culture
    - Financial Modeling
    - Physician Partnering
    - Pricing
    - Productivity
    - CAPEX
    - Revenue Cycle






## Into the Weeds – CFO as a Strategic Partner

		Assumptions		Baseline		Baseline		New Proj		New Proj			
		ACTUAL		FORECAST									
		2012	2013	2014	2015	2016	2017	2018	2019	2016	2017	2018	2019
Operating Margin		3.3%	4.2%	4.1%	4.9%	5.6%	5.5%	5.3%	5.1%				
Total Margin		-0.2%	0.8%	0.7%	1.0%	1.6%	1.6%	1.5%	1.4%				
EBITDA													
Debt Service		1.75	2.15	2.07	2.67	3.71	3.74	3.67	3.98				
Days Patient Receivables													
Days of Cash			70	69	68	65	65	66	64				
Occupancy Rate		42.6%	38.8%	42.7%	42.3%	42.1%	42.7%	42.7%	43.1%				
FTE per AOB		9.16	9.31	8.86	8.65	8.53	8.19	7.94	7.61				
		CASHFLOW				NET CONTRIBUTION							
<b>SUMMARY</b>		2016	2017	2018	2019	2016	2017	2018	2019				
Baseline						1,070,704	1,227,409	1,207,871	1,192,545				
New Program		(1,765,000)	-	-	-	(84,476)	(190,487)	(225,068)	(260,184)				
TOTAL		(1,765,000)	-	-	-	986,228	1,036,922	982,803	932,362				
<b>New Programs &amp; Contingency Forecast</b>		CASHFLOW				NET CONTRIBUTION							
		2016	2017	2018	2019	2016	2017	2018	2019				
LAND	SELECT												
MOB III	Exclude												
OR#4	Exclude												
CRNA/PHYS SUPPORT	Include	(1,765,000)	-	-	-	501,858	(30,456)	(48,435)	(66,950)				
ORTHO COE	Include	-	-	-	-	(220,800)	(220,800)	(220,800)	(220,800)				
PEDS PAY	Include	-	-	-	-	(381,854)	47,156	33,262	19,369				
SATELLITE OFFICES/CLINIC	Include	-	-	-	-	16,320	13,613	10,905	8,198				
New Project	Exclude												
TOTAL		(1,765,000)	-	-	-	(84,476)	(190,487)	(225,068)	(260,184)				

New Programs & Debt Financing

- [LAND](#)
- [MOB III](#)
- [OR#4](#)
- [CRNA/PHYS SUPPORT](#)
- [ORTHO COE](#)
- [PEDS PAY](#)
- [SATELLITE OFFICES/CLINIC](#)
- [New Project](#)


# Physician Alignment/Buy-in

PALOUSE PED	  				1st Scenario	2nd Scenario	3rd Scenario	Preferred
	2013 Actual	2014 Actual	2015 Goal	2015 Expected	2016	2016	2016	Scenario
Inpatient Revenue								
Outpatient Revenue	3,118,285	3,108,162	3,634,540	3,404,948	4,038,698	3,737,448	3,404,948	5,308,285
Total Patient Revenue	3,118,285	3,108,162	3,634,540	3,404,948	4,038,698	3,737,448	3,404,948	5,308,285
Other Revenue	23							
Total Gross Revenue	3,118,308	3,108,162	3,634,540	3,404,948	4,038,698	3,737,448	3,404,948	5,308,285
Revenue Deductions:								
Contractual - current year	1,373,353	1,187,917	1,491,161	1,377,433	1,621,713	1,511,942	1,377,433	2,111,077
Total Revenue Deductions	1,373,353	1,187,917	1,491,161	1,377,433	1,621,713	1,511,942	1,377,433	2,111,077
<b>Total Net Revenue</b>	<b>1,744,955</b>	<b>1,920,245</b>	<b>2,143,379</b>	<b>2,027,515</b>	<b>2,416,986</b>	<b>2,225,506</b>	<b>2,027,515</b>	<b>3,197,208</b>
Operating Expenses:								
Salaries & Wages	1,218,076	1,215,420	1,298,632	1,316,413	1,786,413	1,796,413	1,843,913	1,832,663
Benefits	239,396	234,683	274,100	302,408	349,405	350,405	355,155	354,030
Fees - Professional	77,492	63,396	160,500	216,309	216,309	216,309	216,309	216,309
Supplies	52,940	53,362	51,750	62,420	78,670	71,170	62,420	111,223
Utilities	34,102	35,522	35,550	38,167	38,167	38,167	38,167	38,167
Fees Other	36,060	34,745	36,900	36,799	36,799	36,799	36,799	36,799
Lease & rentals	114,915	122,576	120,700	123,348	123,348	123,348	123,348	123,348
Insurance	24,823	21,216	23,000	22,566	22,566	22,566	22,566	22,566
Interest expense								
Other expenses	57,745	66,481	65,950	60,731	60,731	60,731	60,731	60,731
Total Operating Expenses	1,855,549	1,847,401	2,067,082	2,177,157	2,710,407	2,713,907	2,757,407	2,793,835
Depreciation & Amortization	40,943	40,992	41,000	41,102	41,102	41,102	41,102	41,102
<b>Total Operating Expenses</b>	<b>1,896,492</b>	<b>1,888,393</b>	<b>2,108,082</b>	<b>2,218,259</b>	<b>2,751,509</b>	<b>2,755,009</b>	<b>2,798,509</b>	<b>2,834,937</b>
<b>Net Operating Income</b>	<b>(151,537)</b>	<b>31,852</b>	<b>35,297</b>	<b>(190,743)</b>	<b>(334,523)</b>	<b>(529,502)</b>	<b>(770,993)</b>	<b>362,271</b>
CBO Costs								
Other Expense	342,237	418,776	376,362	392,769	392,769	392,769	392,769	392,769
Total CBO Costs	342,237	418,776	376,362	392,769	392,769	392,769	392,769	392,769
<b>Excess of Revenues over Expenses</b>	<b>(493,774)</b>	<b>(386,924)</b>	<b>(341,065)</b>	<b>(583,512)</b>	<b>(272,292)</b>	<b>(222,271)</b>	<b>(1,163,762)</b>	<b>(30,498)</b>
Hospital Revenue					162,800	66,750		
<b>Overall Excess of Revenue over Expenses</b>	<b>\$ (493,774)</b>	<b>\$ (386,924)</b>	<b>\$ (341,065)</b>	<b>\$ (583,512)</b>	<b>\$ (164,392)</b>	<b>\$ (85,521)</b>	<b>\$ (1,163,762)</b>	<b>\$ (30,498)</b>
<b>OVERALL IMPACT FROM:</b>								
Variance from Goal 2015					(223,327)	(514,456)	(822,697)	310,567
Variance from Expected 2015					19,128	(272,009)	(688,250)	553,014



## 1<sup>st</sup> Possible Scenario

- Assumptions:
  - Total providers increase from 4.5 FTE to 6.5 FTE
  - Clinic volume grows nearly 20% above current.
  - Pediatric visits/admissions to PRH increase by 30 cases yr.
  - Pediatric referrals to local ENT/Urology increase by 35 cases yr.
- Net Result: Increased annual **impact/cost \$0**, with a net **improvement** of less than **\$20K**



## 2<sup>nd</sup> Possible Scenario

- Assumptions:
  - Total providers increase from 4.5 FTE to 6.5 FTE
  - Clinic volume grows by approximately 10% above current.
  - Pediatric visits/admissions to PRH increase by 15 cases yr.
  - Pediatric referrals to local ENT/Urology increase by 20 cases yr.
- Net Result: Increased annual impact/cost approx. **\$272K**



## ⚠ 3<sup>rd</sup> Possible Scenario

- Assumptions:
  - Total providers increase from 4.50 FTE to 6.75 FTE
    - Dr. Boyer @ ¼ FTE/Pay
  - Clinic volume grows remains flat.
  - Pediatric visits/admissions to PRH increase by 0 cases yr.
  - Pediatric referrals to local ENT/Urology doesn't change from current referral pattern
- Net Result: Increased annual impact/cost approx. **\$580K**



## Preferred Scenario

- Assumptions:
  - Total providers increase from 4.50 FTE to 6.75 FTE
  - Clinic volume & pay correlate to MGMA median.
  - No change in Pediatric visits/admissions to PRH.
  - Pediatric referrals to local ENT/Urology doesn't change from current referral pattern
- Net Result: Increased annual **impact/cost \$0**, with a net **improvement** of approx. than **\$550K**

## Pricing Models - example

**3**

### Hospital pricing is impacted by three factors:

1. The **COSTS** of providing care
2. The **REQUIRED PROFIT** needed by the hospital  
*Debt service, working capital, and funded depreciation requirements will impact this target.*
3. The **PAYER MIX AND PAYER TERMS** at the hospital  
*As examples, higher levels of Medicaid and indigent patients will necessitate higher prices. Conversely, favorable commercial contract payment terms will permit lower prices.*

## 2 Ways to defend pricing

### Relate your pricing to Return On Investment (ROI)

We will examine a model used in setting rates for public utilities.

### Relate your pricing to those of peer hospitals

Our assessment will include comparisons at the:

- 1) Facility level
- 2) Department level
- 3) Inpatient case level
- 4) Outpatient case level
- 5) CPT®/procedure level

## Price defense

### Relating pricing to ROI: the public-utility approach

Public utilities have used a Return on Investment (ROI) model to **justify** price increases to rate regulatory boards. The approach isolates the price variable from the ROI formula (below) and “tests” the remaining elements. If it can be proved that ROI, Cost, and Investment are not excessive, then price must also not be excessive. In the following pages, we present these tests.

#### ROI Formula

ROI =

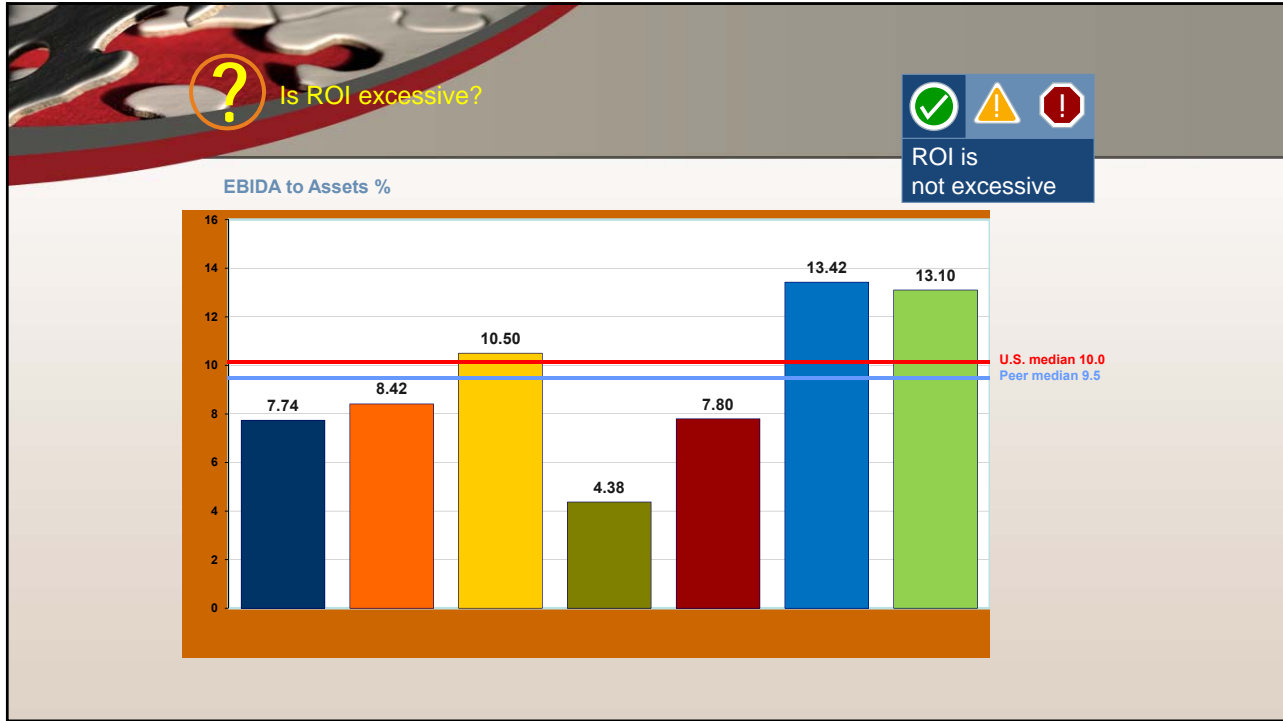
$$\frac{(\text{volume} \times \text{price}) - (\text{volume} \times \text{cost})}{\text{investment}}$$

investment

#### Tests

1. Is ROI excessive?
2. Is cost excessive?
3. Is investment excessive?

✓ If “no” to all three, price is not excessive.



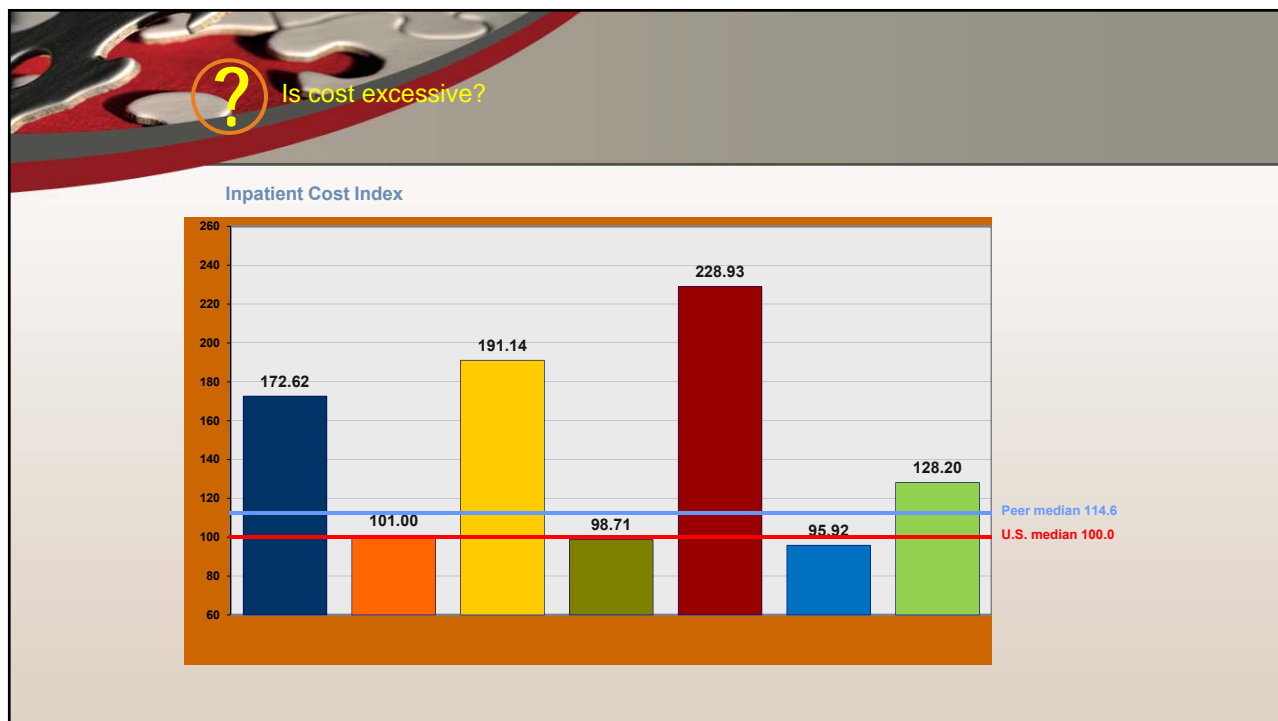
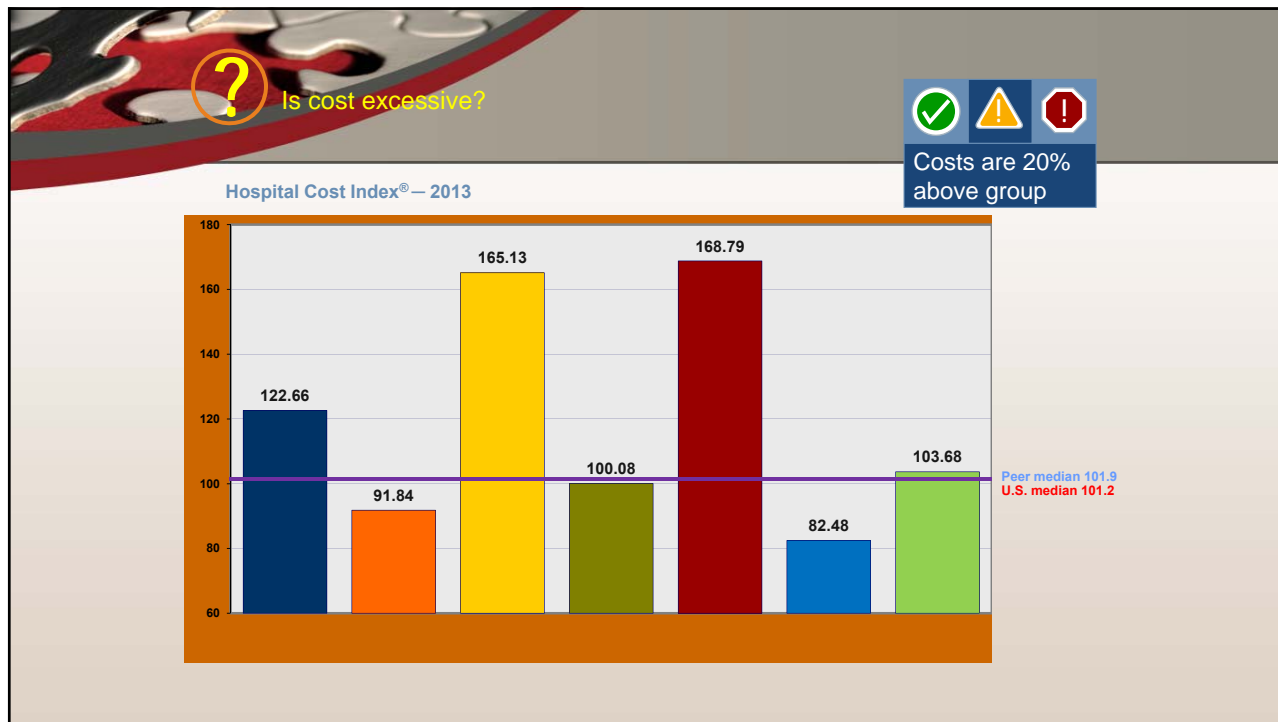
**?** Is cost excessive?

**Facility-level cost measure: Hospital Cost Index®**

**Inpatient Costs**  
Inpatient Cost Index  
**Formula:**  
Your Medicare Cost per Discharge (CMI/WI adj)  
US Median Medicare Cost per Discharge (CMI/WI adj)

**Outpatient Costs**  
Outpatient Cost Index  
**Formula:**  
Your Medicare Cost per Visit (RW/WI adj)  
US Median Medicare Cost per Visit (RW/WI adj)

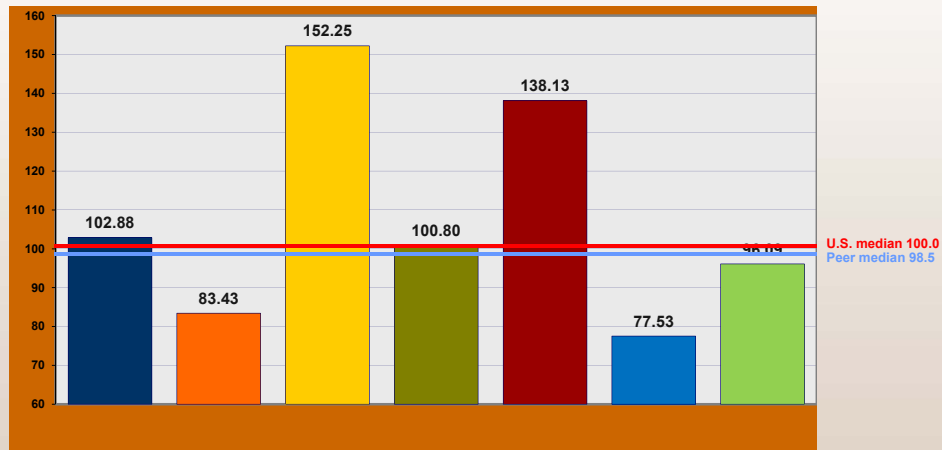
The Hospital Cost Index®, developed by Cleverley + Associates, compares the Medicare cost per discharge and Medicare cost per visit at the hospital (both adjusted for case complexity and wage index differences) to the US median value for each measure. The result is the most objective overall cost comparison available. A high index score indicates a higher relative cost position.





Is cost excessive?

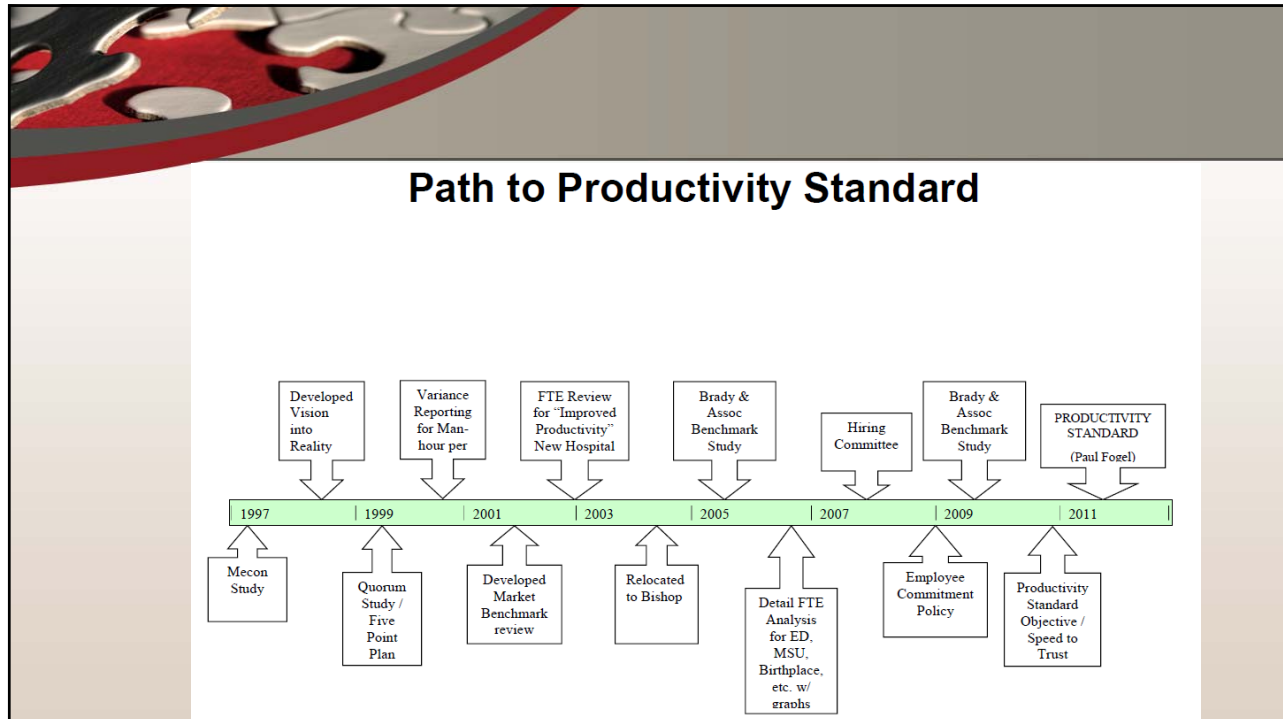
Outpatient Cost Index



## Productivity Standard

- Hospital path:
  - Former standards and benchmark efforts ineffective
  - Development of an “Employment Commitment” policy
    - manage the affairs of Pullman Regional Hospital to assure that no employee loses employment due to layoffs.
  - Practice of supporting each department and administrative leader in the hiring decisions that each person feels are necessary to support the work
    - No approval from any administrative leader is required
    - Continue work with each leader to identify and establish productivity guidelines





### What is the hospital's goal in this effort

- Develop a standard for each area that describes its mission, patients, or purpose
- Provide stability for financial future
- Ground rules & principles that everyone understands and accepts
- Provide accountability at the right level
- Serve as a guide for staff hire, replacement, etc.





**PULLMAN  
REGIONAL  
HOSPITAL**

## 2011 Labor Standards



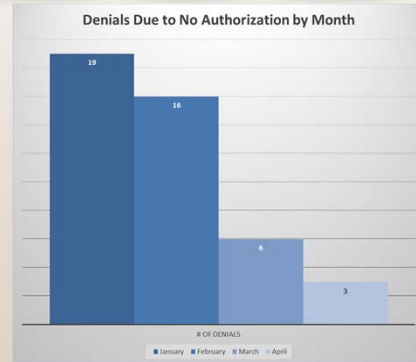
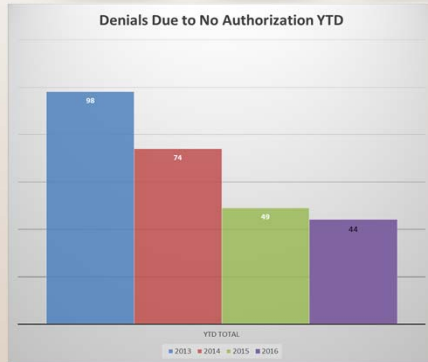
# Revenue Cycle Management





Patient Access	Case Management	HIM	Revenue Integrity	Patient Accounting	Fiscal
<ul style="list-style-type: none"> <li>• Patient Experience</li> <li>• Scheduling &amp; Pre-Arrival</li> <li>• Registration</li> <li>• Eligibility</li> <li>• Insurance Verification</li> <li>• Patient Placement</li> <li>• POS</li> <li>• Collection</li> <li>• Denial Avoidance</li> </ul>	<ul style="list-style-type: none"> <li>• Discharge Planning</li> <li>• Utilization Management</li> <li>• LOS Management</li> <li>• Care Coordination</li> <li>• Clinical Denial Management</li> <li>• Transition Planning</li> </ul>	<ul style="list-style-type: none"> <li>• ICD-10</li> <li>• Physician Education</li> <li>• Clinical Doc Improvement</li> <li>• Coding Review</li> <li>• Post ICD-10 Monitoring</li> </ul>	<ul style="list-style-type: none"> <li>• Charge Capture</li> <li>• Denial Management</li> <li>• Charge Reconciliation</li> <li>• CDM Review</li> <li>• Net Revenue Improvement</li> </ul>	<ul style="list-style-type: none"> <li>• EDI Editing &amp; Billing</li> <li>• Patient Friendly Billing</li> <li>• Cash Acceleration</li> <li>• Self-Pay Collections Management</li> <li>• Account Resolution</li> <li>• Appeals Process</li> </ul>	<ul style="list-style-type: none"> <li>• Cash flow Management</li> <li>• Contract Management</li> <li>• Physician Alignment</li> <li>• Finance Oversight</li> </ul>

## Results RCC



## CFO as a Strategic Partner



### Strategic Partner Checklist

1. Develop your monthly reporting to reflect easy decision making
2. Tool to estimate Cost Report Impact
3. Create a RCC team
4. Strengthen your Strategic Intelligence
5. Big "C" versus little "c"



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THANK YOU!

