Urgent Care Budgeting Presentation

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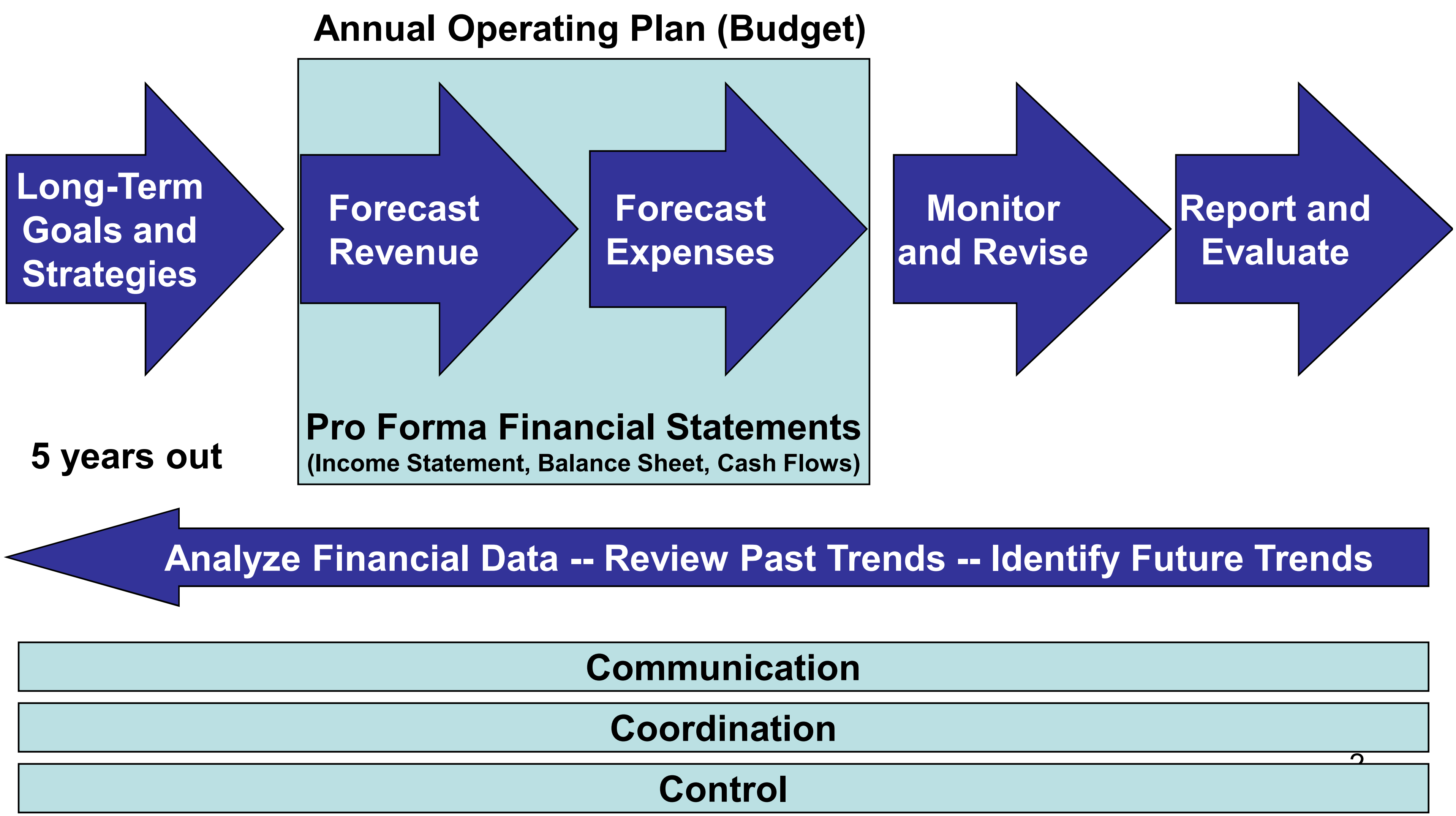
A budget is a written plan for an organization, for a set period of time, expressed in dollars.



One thing about a budget is certain—*it will be wrong.*

•Nobody can accurately predict the future.

•Consider all drivers of business performance, not just bottom line profit.

•Create several different “assumptions” for each driver.

•Test each assumption under a variety of scenarios.

•Evaluate performance and create forecasts during the budget period to test previous assumptions and update expected results.

Understanding the short- and long-term financial impact of every decision can help you avoid common mistakes.

•Spending too much money on the facility buildout, furnishings, or equipment.

•Staffing too heavily for initial volume.

•Underestimating time to become credentialed with health plans.

•Underestimating reimbursement and collections rates.

•Overestimating initial volume.

•Defining product offerings or customer segments too narrowly.

•Setting aside insufficient funds to sustain operating losses during the "ramp up" period.

Start your budget with revenues first, and then build a cost model that is supported by cash flows.

Revenues (Cash In) - **Expenses (Cash Out)** = **Operating Income**

Urgent care operators have less control over revenue than expenses:

•Revenue must be sufficient to cover overhead and provide the desired return.

•Demand is often beyond clinic operator’s control (i.e. strong flu season).

•Pricing is often set by competitors and third party payers.

•Revenue depends on the independent actions of medical professionals.

Calculation of Net Revenues

Urgent Care Fees
(Number of Patients Times Average Charge)

Minus: Patient Refunds
(Percent of Urgent Care Fees)

Minus: Contractual Allowance
(Percent of Urgent Care Fees)

Minus: Bad Debt Expense
(Percent of Urgent Care Fees)

Equals: Urgent Care Revenues

Plus: Other Income
(Not Related to Core Urgent Care Business)

Equals: Net Revenues

Revenue Forecasting

Using the income statement as a template:

•Evaluate site volume trends and project site volume growth.

•Evaluate historical averages for patient charges, refunds, contractual allowances, and write-offs.

•Include any “known” variables including new contract terms and changes to collections policies.

•Adjust model for changes in payer and patient mix.

•Add incremental revenue from new initiatives.

Revenue Drivers

•Site Location and Capacity

•Products and Services Offered

•Fee Schedule

•Number of Physicians/Providers

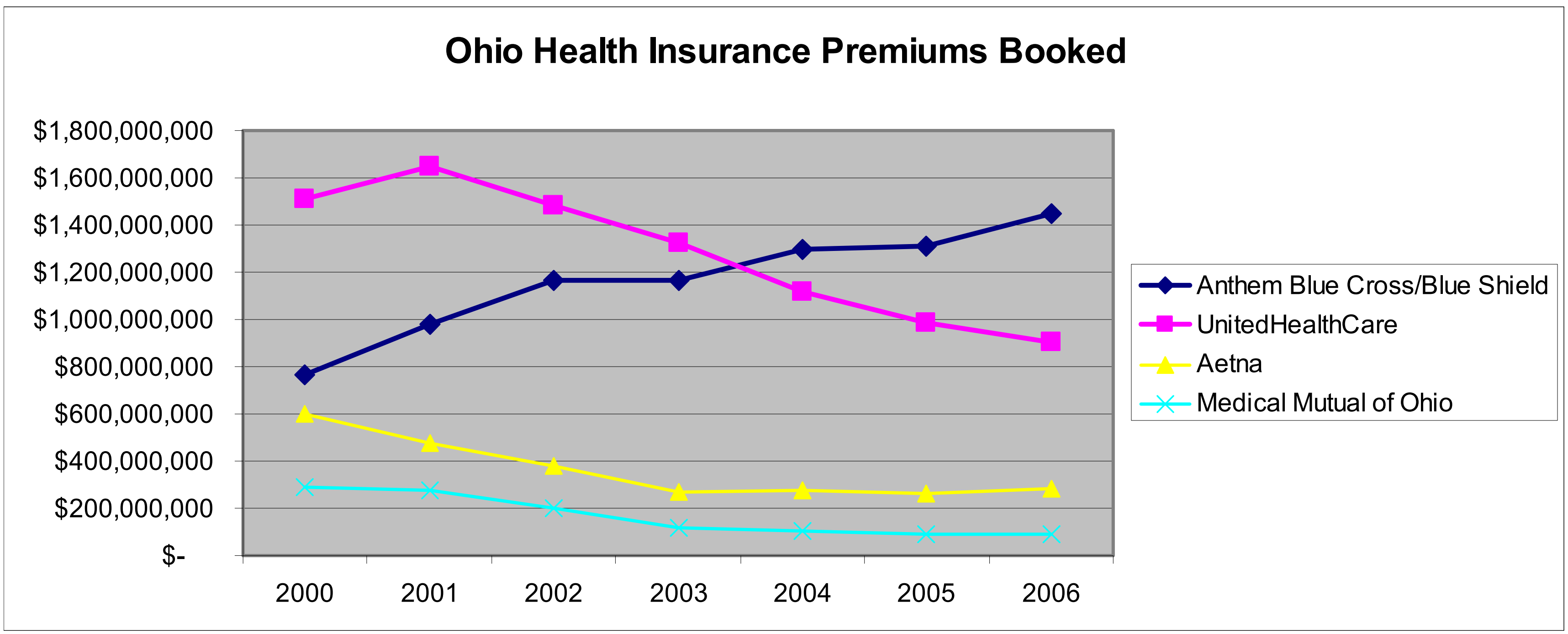
•Hours/Days of Operation

•Payer Mix

•Patient Mix

Payer mix refers to the contribution of each insurance contract to total volume.

- Some insurance contracts pay at higher levels (and more quickly) than others.
- Most private payers base reimbursement on a percentage of Medicare.
- Payer mix may vary by community, service line, and time of year.
- Insurance reimbursement and contract terms change over time.
- Payer mix changes over time.



Source: State of Ohio, Department of Insurance

Setting the Fee Schedule and Evaluating Contracts

- Fees generally set at 150 to 200% of Medicare
  - Reimbursement is lesser of contract or billed charges
  - Set fees no less than highest paying contract for each CPT code

- Evaluate each payer's reimbursement by CPT code
  - 80/20 rule drives most commonly used codes in the practice
  - *A contract that pays an <u>average</u> 20% premium to Medicare may be unfavorable if reimbursement on the top two or three codes is low.*

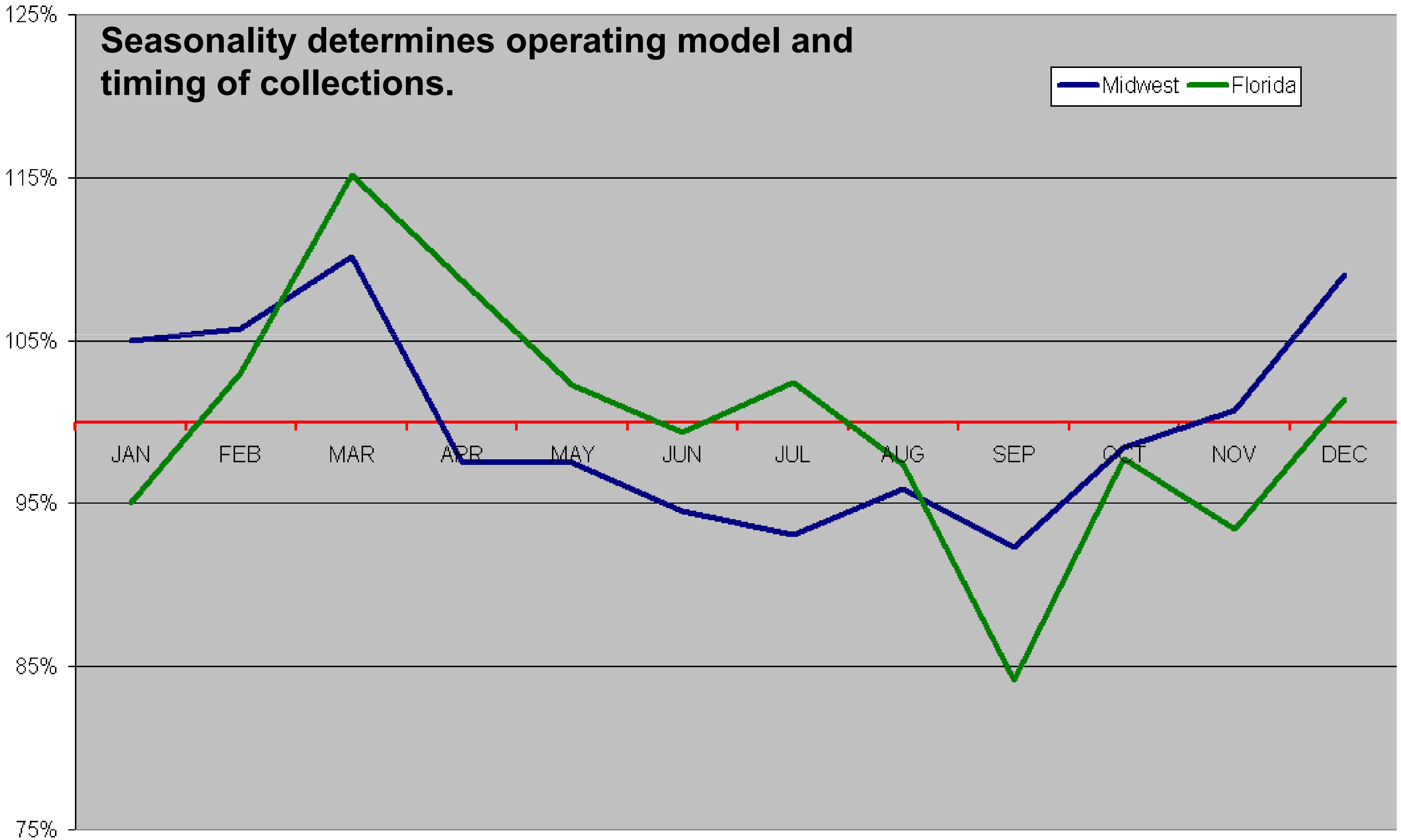
- Assure pricing is fair for self-pay patients
  - Patients in some markets will pay full-price
  - Cash discounts bring pricing parity
  - Cash price should be in-line with competitors
  - Patients care about total cost, not value of discount

- Evaluation and management coding audit
  - Coding is always according to the documentation
  - Coding is independent of billing
  - Under-coding leaves money on the table

Not only do the ways patients pay change, but personal characteristics and use patterns of patients also change.

- New vs. Established
- Employment/Benefit Trends
- Aging Population
- Acuity of Visit
- Services Rendered
- Physician Coding
- Seasonal Trends

Urgent Care Seasonality



Calculation of Net Income

Net Operating Revenues

Minus: Operating Expenses

- Salaries, Wages, and Benefits
- Billing and Management Fees
- Rent and Maintenance
- Medical and Office Supplies
- Administrative Overhead
- Professional Services
- Depreciation

Equals: Operating Income

Plus/Minus: Non-Operating Income and Expenses

Equals: Net Income

Expense Forecasting

Using the income statement as a template:

•Break costs down into the finest level of detail for meaningful decision making (different than the financial statement—administrative costs may include telephone, postage, coffee, and other controllable expenses).

•Determine whether costs are best estimated as a percentage of charges, on a per patient basis, or as a function of operations and then adjust expenses according to assumptions in revenue model.

•Percentage of Charges:	Billing Fees
•Per Patient Basis:	Medical Supplies
•Function of Operations:	Hourly Staffing Costs
•Other Basis:	Payroll Taxes as Percent of Salary

Expense Forecasting, cont'd.

- Evaluate historical averages for inflation, keeping in mind that some expenses (employee benefits) tend to increase at a much faster rate than others (office supplies).

- Five year projected inflation for:

Salaries and Wages	5.0%
Employee Benefits	9.0%
Medical Supplies	5.0%
Purchased Services	4.0%
Marketing	4.0%
Rent	3.0%
Insurance	7.0%
Utilities	3.0%

Expense Forecasting, cont'd.

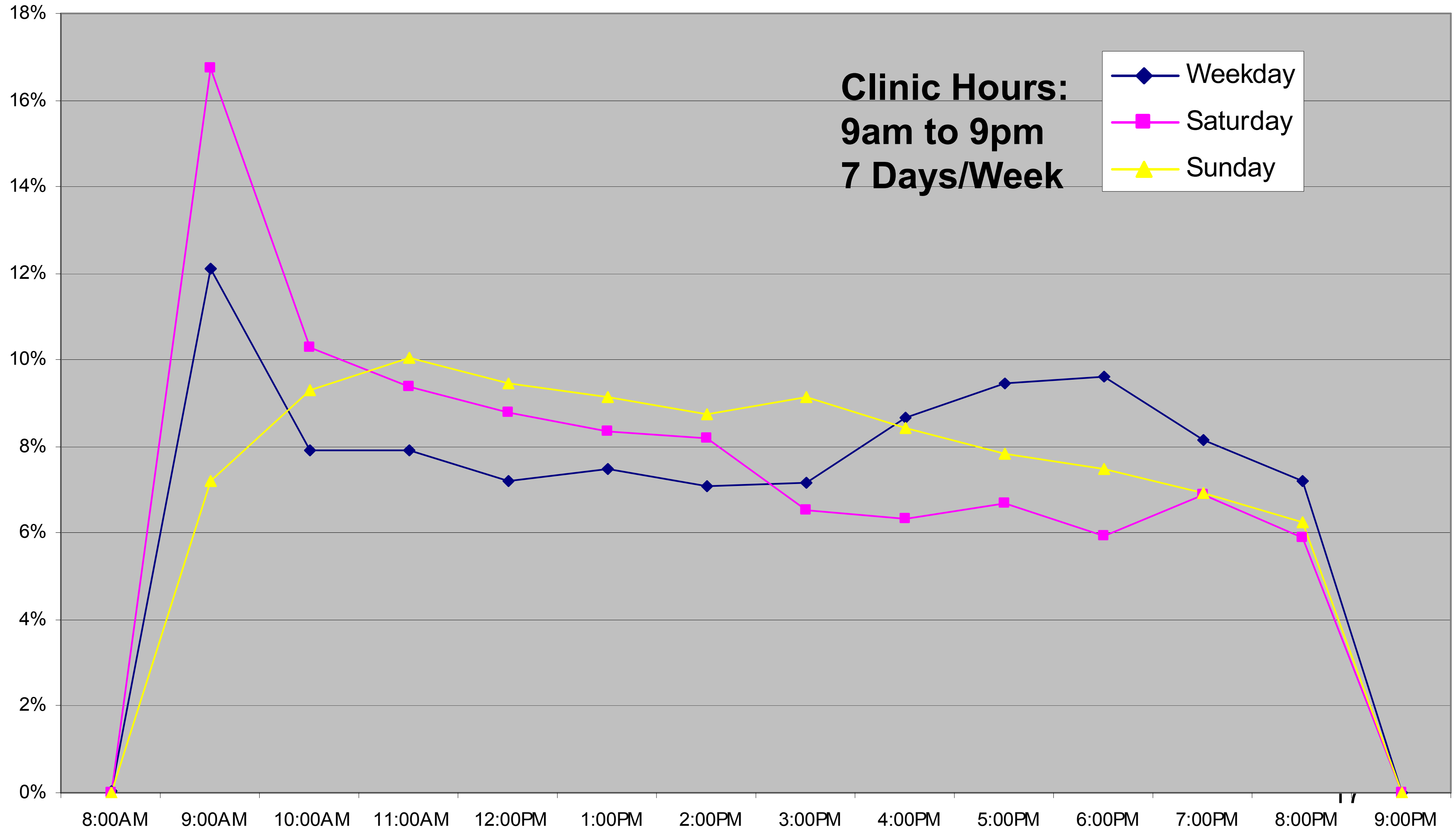
•Include any "known or committed" changes including scheduled rent increases, new supply contracts, or promised pay raises.

•Add capital purchases and staffing model changes.

•Add incremental costs of new initiatives.

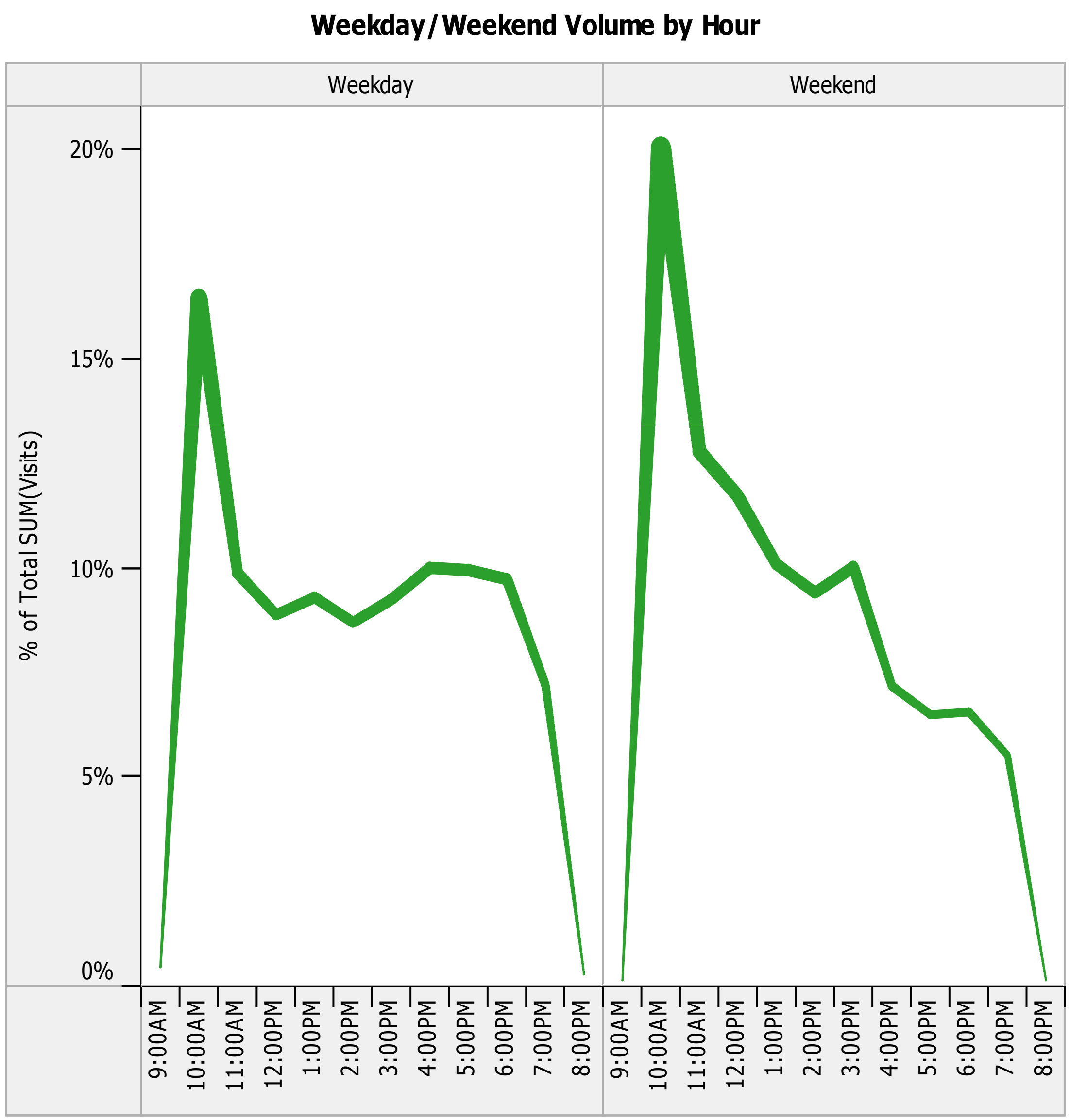
•Identify opportunities to reduce or eliminate costs.

To minimize costs, operating hours should be aligned with time-of-day and seasonal traffic patterns.



Understanding time-of-day traffic variance can also help align the staffing model to patient demand and provide justification for scheduling appointments during off-peak times.

Clinic Hours:
10 am to 8pm
7 Days/Week



Budget as a Management Tool

Comparing actual to budgeted results (variance analysis) can help managers pinpoint specific performance issues while evaluating common ratios (ratio analysis) identifies changes in:

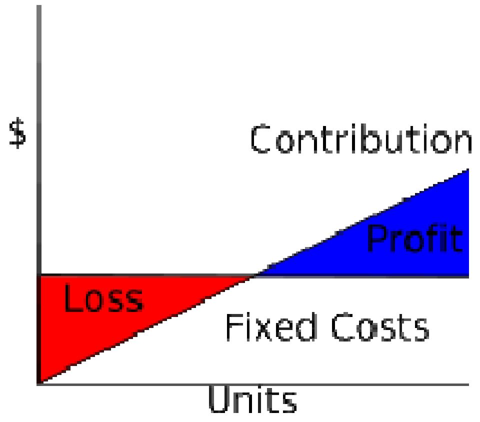
- Productivity of fixed assets and other investments (such as marketing).
- Productivity of providers and staff.
- Effectiveness of billing and collections.
- Management control over costs.
- Obligations to third parties (such as bank loan covenants).

Budget as a Management Tool

Be careful in relying on ratio analysis alone in decision making…

For example, a low-paying contract may reduce net revenue per patient but still contribute incremental revenue and cover a portion of fixed costs—a potentially good business decision if the site is operating at less than capacity.

Visit	Incremental Revenue	Cumulative Revenue	Net Revenue Per Patient
1	$135.00	$135.00	$135.00
2	$110.00	$245.00	$122.50
3	$90.00	$335.00	$111.67



By demonstrating the impact of decisions on the bottom line, pro forma financial statements provide a "holistic" view of the future.

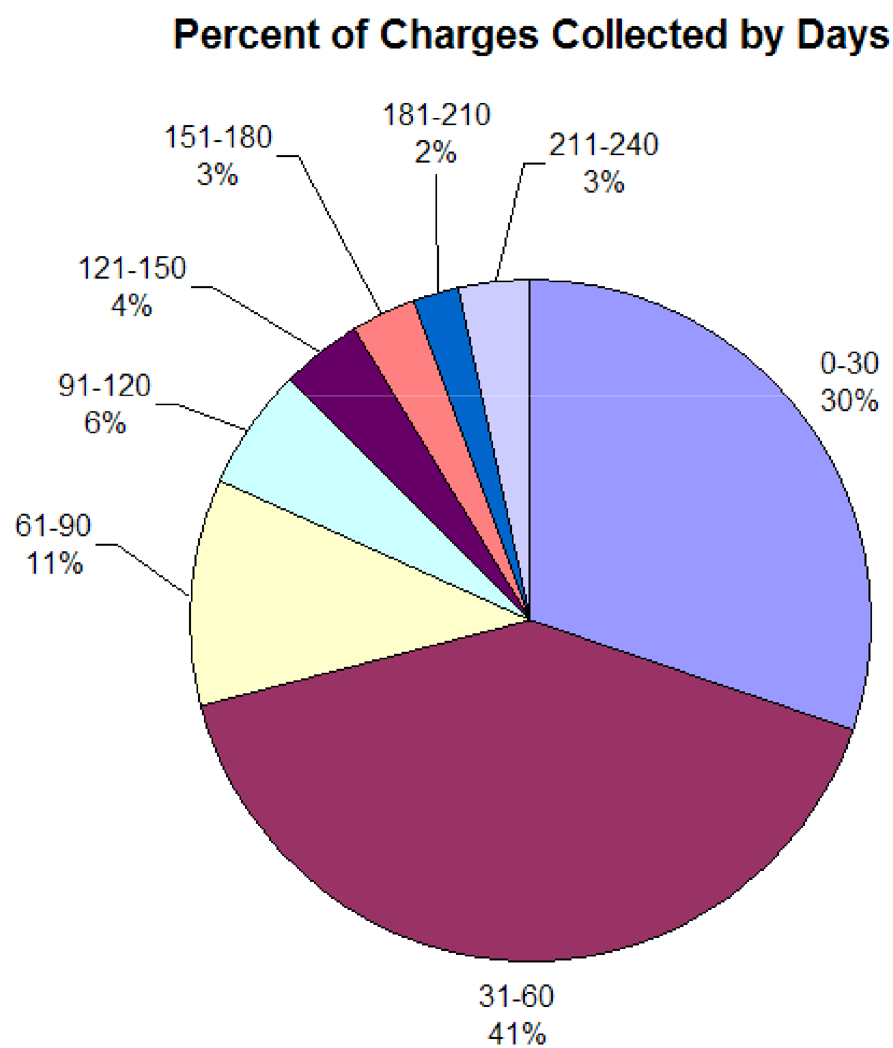
Cash is King: You can’t pay bills with IOU’s.

Consider the timing of cash flows:
- Fixed costs paid in advance (or financed).
- Operating expenses paid as incurred.
- Cash flow subject to collections cycle.

Planning steps:
- Understand accounts receivable cycle by payer.
- Project timing of cash flows based on payer and patient mix.
- Assess impact of collection policies on cash flow.

Non-expense cash outlays:
- Loan principal payments
- Capital purchases
- Tax payments
- Owner distributions

Analysis of Collections



Timing of Cash Receipts

Month	Revenue	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Collected
January	**$ 100,000**	$ 30,270	$ 40,620	$ 10,840	$ 5,680	$ 3,960	$ 2,970	$ 2,350	$ 3,310					**$ 100,000**
February	**$ 100,000**		$ 30,270	$ 40,620	$ 10,840	$ 5,680	$ 3,960	$ 2,970	$ 2,350	$ 3,310				**$ 100,000**
March	**$ 100,000**			$ 30,270	$ 40,620	$ 10,840	$ 5,680	$ 3,960	$ 2,970	$ 2,350	$ 3,310			**$ 100,000**
April	**$ 100,000**				$ 30,270	$ 40,620	$ 10,840	$ 5,680	$ 3,960	$ 2,970	$ 2,350	$ 3,310		**$ 100,000**
May	**$ 100,000**					$ 30,270	$ 40,620	$ 10,840	$ 5,680	$ 3,960	$ 2,970	$ 2,350	$ 3,310	**$ 100,000**
June	**$ 100,000**						$ 30,270	$ 40,620	$ 10,840	$ 5,680	$ 3,960	$ 2,970	$ 2,350	**$ 96,690**
July	**$ 100,000**							$ 30,270	$ 40,620	$ 10,840	$ 5,680	$ 3,960	$ 2,970	**$ 94,340**
August	**$ 100,000**								$ 30,270	$ 40,620	$ 10,840	$ 5,680	$ 3,960	**$ 91,370**
September	**$ 100,000**									$ 30,270	$ 40,620	$ 10,840	$ 5,680	**$ 87,410**
October	**$ 100,000**										$ 30,270	$ 40,620	$ 10,840	**$ 81,730**
November	**$ 100,000**											$ 30,270	$ 40,620	**$ 70,890**
December	**$ 100,000**												$ 30,270	**$ 30,270**
Total	**$ 1,200,000**	$ 30,270	$ 70,890	$ 81,730	$ 87,410	$ 91,370	$ 94,340	$ 96,690	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 100,000	**$ 1,052,700**

Hidden Sources of Cash

- Accounts receivable:
    - >45 days and >20% patient balances indicate problems
        - Front desk understanding of medical billing terminology
        - Verifying and collecting co-pay, deductibles, and prior balances
        - Correctly entering demographics including guarantor and co-insurance
        - Charge entry timeliness and accuracy including use of modifiers

- Supply inventory levels:
    - Excess inventory ties up cash and increases risk of expired product
    - Supplies should be appropriate to center volume and acuity
    - 1-2 day turn-around from major suppliers

- Treasury management:
    - Use lockbox and sweep accounts to accelerate collections
    - Use online bill pay to assure prompt pay discounts and stretch payments to maximum allowed by terms
    - Relationship banking earnings credit offsets bank service charges including credit card processing

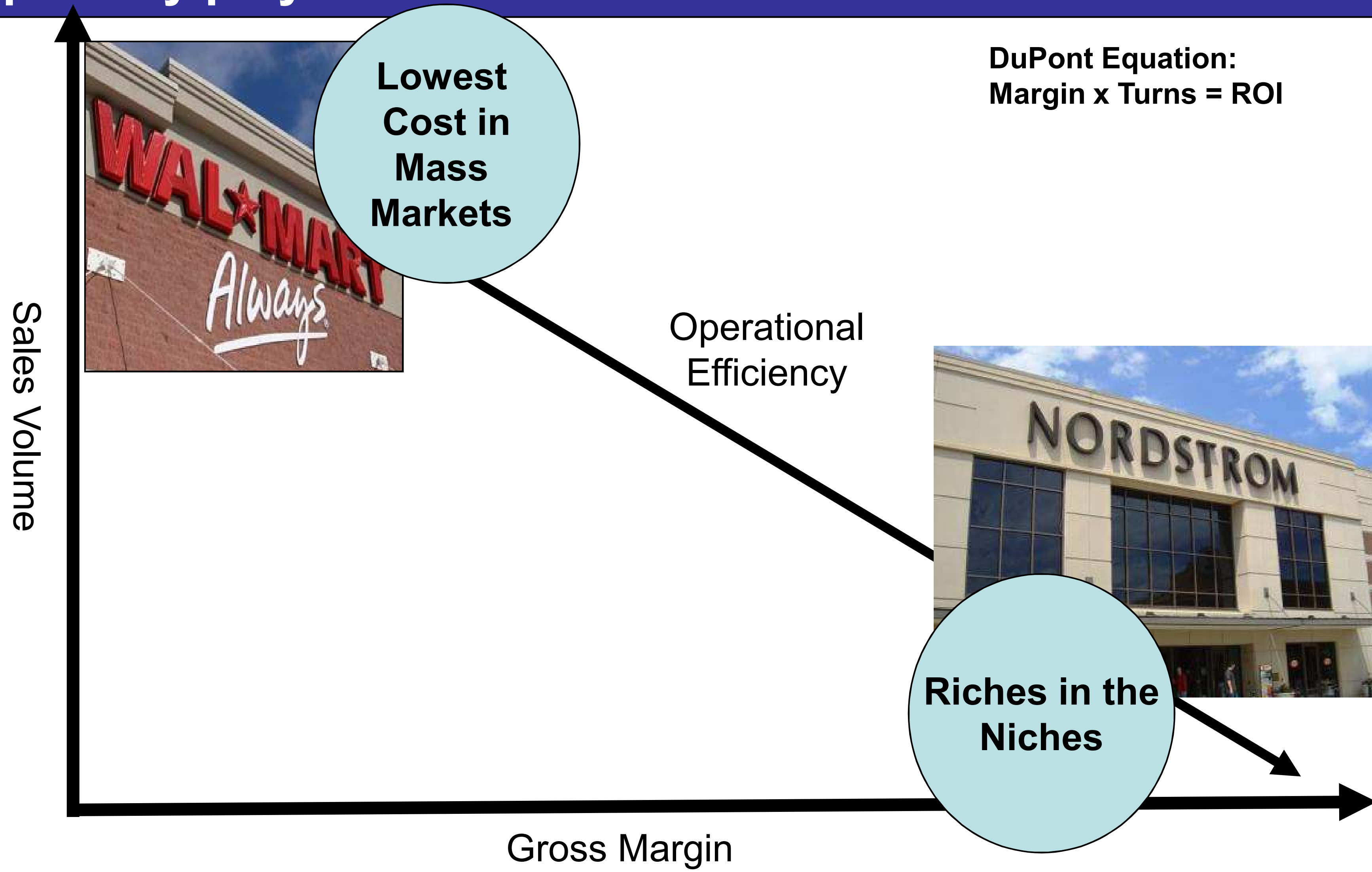
DuPont Equation

Profit = Margin x Turns

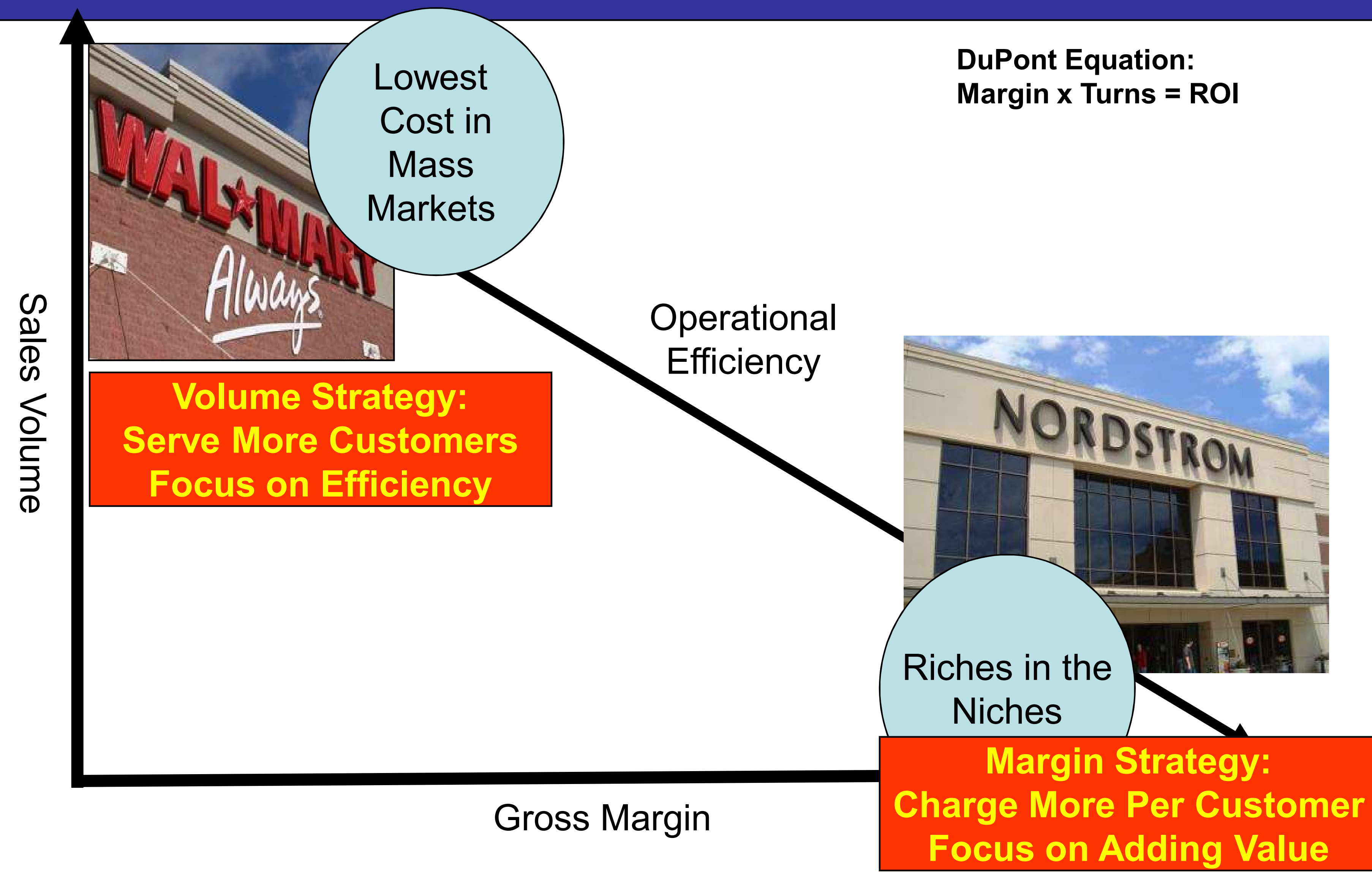
Margin = How much you make on each patient.
Turns = How many patients you see.

In retail markets, firms attain success as either high volume, low margin mass merchants, or as low volume, high margin specialty players.

DuPont Equation:
Margin x Turns = ROI



With high fixed costs and prices set by third party payers, urgent care can be forced into a mass business model.



Urgent care struggles with margin compression due to declining insurance reimbursement and rising operating costs.

To increase profits, an urgent care operator can:

•Increase volume and reduce costs.

•Diversify the revenue stream with higher margin ancillary services.

•Reduce billing costs and increase average reimbursement by contracting directly with employers or consumers.

•Utilize physician extenders (NP's/PA's) and staff according to demand.

•Add value to basic medical visits to justify price premium over lower cost providers.

Diversifying the product and service offering not only enhances revenue and margin, but it also flattens seasonality, smoothes traffic flow, and reduces risk.

Examples of Ancillary Service Offerings

•Primary Care
•Imaging Services
•Laboratory Services
•Physical Therapy and Rehabilitation
•Occupational Medicine Services
•Sports Medicine Services
•Diabetes and Weight Management
•Wellness Centers
•Retail Product Sales
•Anti-aging Services
•Aesthetic Laser and Medical Spa Services
•Anti-addiction and Psychotherapy Services
•Immigration Medical Services
•Medical Review and Expert Testimony
•Travel Medicine Services
•Pain Management Services
•Medical Discount Card Programs

UCAOA Member Resources

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