



Bridging the Divide Between



Hospital & Physician Finance

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WA-AK HFMA Spring Conference, March 17, 2022

Learning Objectives

- Learn how service line strategy can drive financial planning
- Learn approaches to hospital and professional integrated financial planning and budgeting
- Share experiences, industry expertise and best practices related to hospital and physician finance



Discussion Outline



About EvergreenHealth



Service Line Approach to Strategic and Financial Planning



Integrated Annual Budgeting Process



Capital Planning and Capital Budgeting

What Defines EvergreenHealth?

Purpose

- Working together to enrich the health and well-being of every life we touch.

Mission

- EvergreenHealth will advance the health of the community it serves through dedication to high-quality, safe, compassionate and cost-effective health care.

Vision

- EvergreenHealth will create an inclusive community health system that is the most trusted source for health care solutions.

Values

Compassion | Respect | Excellence | Collaboration | Accountability

EvergreenHealth as a System of Care



EvergreenHealth by the Numbers

- Opened in 1972
- Approximately 275,000 outpatient visits
- 2 Emergency Departments: approximately 60,000 visits
- Over 17,000 surgeries
- Over 15,000 admissions
- Over 4,700 deliveries
- 350+ provider Medical Group in nearly 30 specialties
- 12 Primary Care Locations with approximately 200,000 visits
- 7 Urgent Care Locations
- Home Care and Home Hospice
- EvergreenHealth Foundation
- EvergreenHealth Research
- Over 100,000 Community Calls through Nurse Navigator & Healthline
- Over 4,700 Employees + 1,100 Medical Staff
- \$815 Million Net Operating Revenue



This year, marks EvergreenHealth's 50 years of service to our community. We also celebrate the honor of being named one of America's Top 50 Hospitals for clinical excellence for the second consecutive year by Healthgrades.



EvergreenHealth – the Epicenter of COVID-19



COVID-19 Response

- On Feb. 29, 2020, EvergreenHealth became the first hospital in the U.S. to test for and treat an initial wave of COVID-19 patients.
- [EvergreenHealth CEO discusses coronavirus outbreak in Kirkland - Bing video](#)
- Initial Response as “epicenter” of COVID-19 in the United States:
 - Immediate activation of command center operations
 - First in nation drive-thru testing clinic established to respond to immediate community testing needs
 - Rapid deployment of negative airflow patient rooms
 - Rapid deployment of telehealth services
 - Development and implementation of re-opening strategy in collaboration with medical staff

Service Line Approach to Strategic and Financial Planning

Best Practice Planning Cycle

- ***Market Assessment***
- ***Strategic Planning***
- ***Financial Planning***
- Capital Allocation
- Operations & Capital Funding
- Board Approval

Nov-Dec

Jan-Apr

Apr-Sept

June-Sept

July-Sept

mid-Nov



What is Driving a Change Toward Service Line Orientation?

In the evolving healthcare landscape, a number of imperatives are driving health systems to fundamentally change the way they deliver care and organize around disease-focused service lines.



Increased **competition** is causing systems to align their priorities for key offerings that create **differentiated services** and **growth opportunities**.



Systems are **investing significantly** in **providers** and are looking for ways to **organize and optimize their networks** to maximize their investments.



Increasing out-of-pocket costs have led more patients to shop for care and take an increasingly **active role as consumers** in healthcare decision-making. They seek a **consistent and convenient experience** across their healthcare team.



The rise of complicated, **chronic diseases** increases the need for **comprehensive care across patient's lifespans**.



Rapid **changes in science, technology and innovation** at the disease level are requiring providers to focus on and **efficiently allocate resources** to remain competitive.



Value-based payment models and **bundled care** require better integration, care coordination, and **performance transparency**.

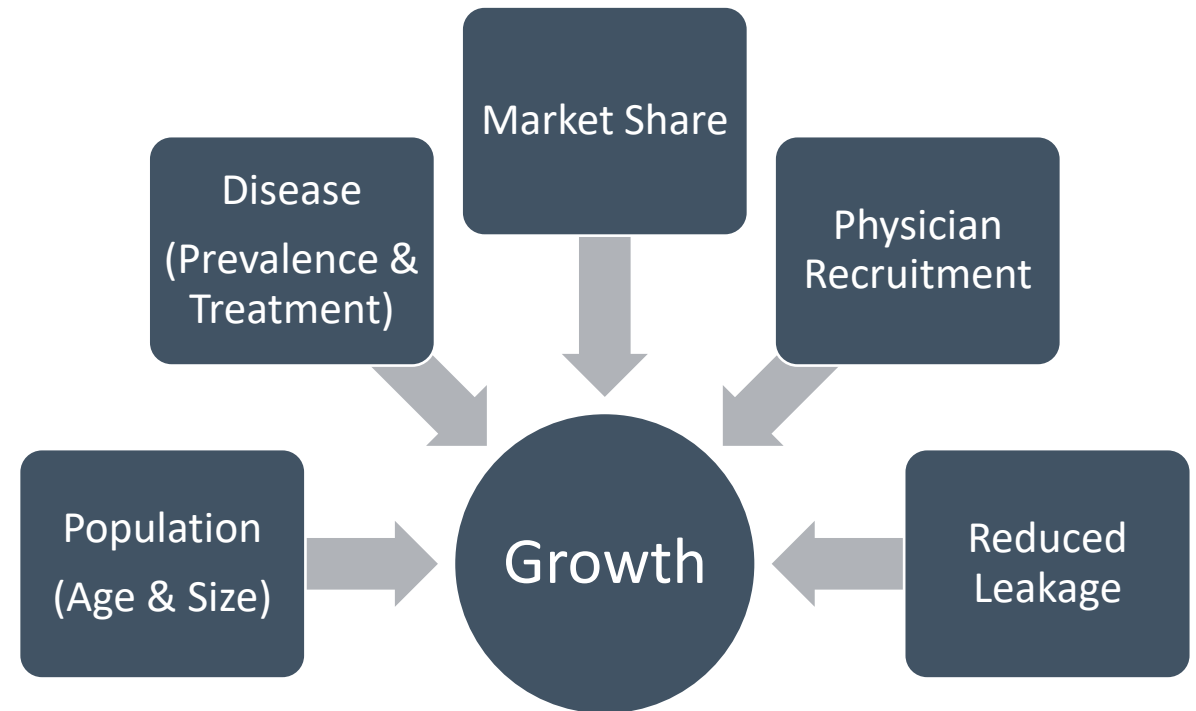


Margin pressures require greater focus in managing operational and quality-based metrics and reducing the cost of care.

Service lines are the best way for a health system to meet patient needs, optimize their physician network and efficiently allocate resources

EH Approach to Gathering Assumptions

- Key volume metrics for each service line
- Anticipated volume growth in conjunction with operations
- Inflation assumptions
- Capital requirements in order to achieve growth
- Alignment of physician assumptions with hospital, facility and support services capacity
- 5-year forecast informs upcoming budget cycle
- Ongoing monitoring of performance and adjustments to forecast as needed



Service Line Approach – Group Input

Tell us about your organization's financial planning at the service line level?

- Wins/what has worked well?
- Lessons learned
- Open discussion/idea sharing



EvergreenHealth Foundation supporters & Dr. Yung Lee – MSK Service Line

Capital Planning and Capital Budgeting

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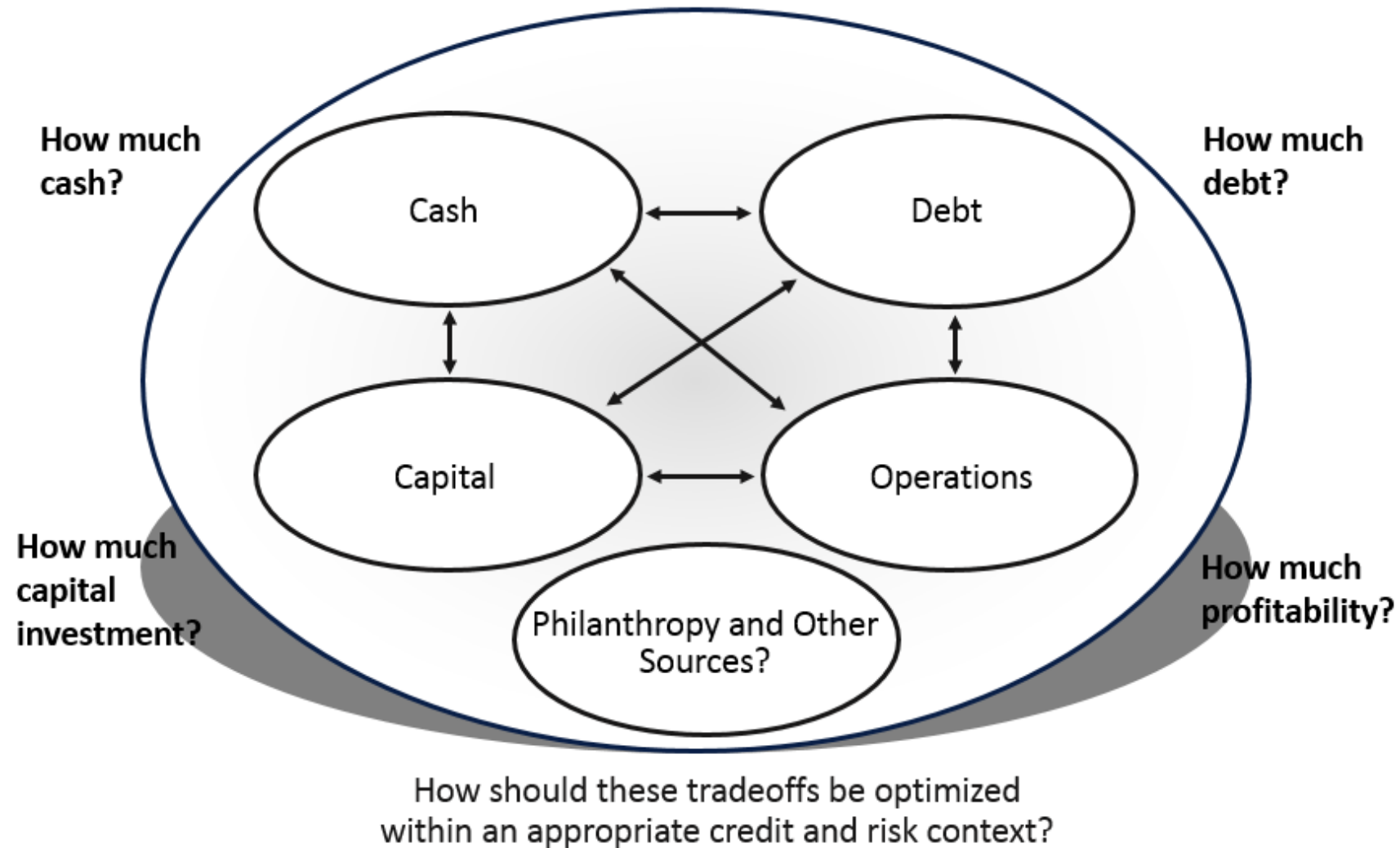


Capital Planning and Capital Budgeting

- What is your organization's capital planning cycle?
- Does your organization perform long-term forecasting for capital (routine, replacement, strategic)?



Balancing Capital Sources and Uses



Capital Planning and Capital Budgeting

- **Portfolio approach** that evaluates and ranks potential investments according to the strategic plan and available capital resources
- **Qualitative and quantitative** assessments and rankings:
 - Quantitative assessment in order of higher Net Present Value
 - Qualitative assessment is based on strategic plan to ensure decisions are in alignment with organizational goals
 - Urgency ranking / Feasibility assessment
- **Capital Pools** subject to varying levels of approval based on dollar thresholds
 - Board approval
 - Capital Committee approval
 - Operations/Local/Division approval
- **Capital Committee:** multi-disciplinary group that includes the CEO and representatives from Finance, Strategy, Operations, IT, Construction & Supply Chain.
- **Prioritization** of capital investments incorporates the impact to service line growth plans
- Long-term planning for **routine replacement capital**

Capital Planning and Capital Budgeting



Wins/what has worked well



Lessons Learned



Open discussion/idea sharing

Integrated Annual Budgeting Process

Integrated Annual Budgeting Process – Group Input

- When does your organization's budget process begin and how long does it last?
- Examples to share of an integrated budgeting process (e.g., combined hospital and medical group budgeting process)?



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Integrated Annual Budgeting Process

- High impact items anticipated to occur (or go away) during upcoming budget year that would change the run rate are identified
 - Ongoing staffing shortages
 - Implementation of new technology
 - Elimination of COVID prevention/support services (e.g., drive through testing, vaccine clinics, etc.)
 - Continued pandemic recovery
 - Payor rates
- Divisional EBIDA targets established that are in alignment with 5-year forecast

Integrated Annual Budgeting Process

- Service line growth plans are the starting point of the budget
 - Hospital element
 - Physician element
- Non-service line facility volumes based on combination of run rates and 5-year forecasted volume growth
- Medical Group revenue budgets determined at the individual provider level (wRVUs, visits, etc.)
- Key budget assumptions pre-populated in budgeting system (e.g., volume, FTEs, depreciation, rent) based on 6 months of baseline data
- Operations leadership responsible for fine-tuning department budgets

A Deeper Dive Into the Medical Group Process

- Supplemental budget reports created to help with “reasonableness” testing
- Reports at the department level as well as the specialty grouping roll up
- 2019 through projected 2021 actuals compared to budget by department:
 - wRVUs, Provider FTEs, wRVUs/Provider FTE
 - EBIDA
 - NOI/Loss
 - NOI/Loss per Provider FTE
 - Total Non-provider FTEs
 - Budgeted staff productivity versus target and variance
- Allows for easy identification of what is changing
- Reports focused on high impact areas that drive performance (provider productivity, staff productivity)

A Deeper Dive Into the Medical Group Process

- Rollup analysis of expense per dollar of operating revenue updated regularly to provide optics on significant year-over-year shifts
- Same analytics used to assess monthly financial performance
- Easy for operations team to understand....



EXAMPLE	Expense Per \$ of Oper Revenue		% change
	2021 Projected	2022 Budget	
Salaries & Wages	\$0.7500	\$0.8000	6.7%
Health & Wellness Benefits	\$0.0600	\$0.0650	8.3%
Other Benefits	\$0.0880	\$0.0870	-1.1%
Professional fees	\$0.0350	\$0.0360	2.9%
Supplies	\$0.0580	\$0.0590	1.7%
Repairs and maintenance	\$0.0040	\$0.0039	-3.8%
Purchased services	\$0.0250	\$0.0380	52.0%
Rent	\$0.0440	\$0.0430	-2.3%
Other operating expenses	\$0.0150	\$0.0160	6.7%
Depreciation and amortization	\$0.0350	\$0.0340	-2.9%
Total Operating Expense per \$ of Operating Rev	\$1.1140	\$1.1819	6.1%

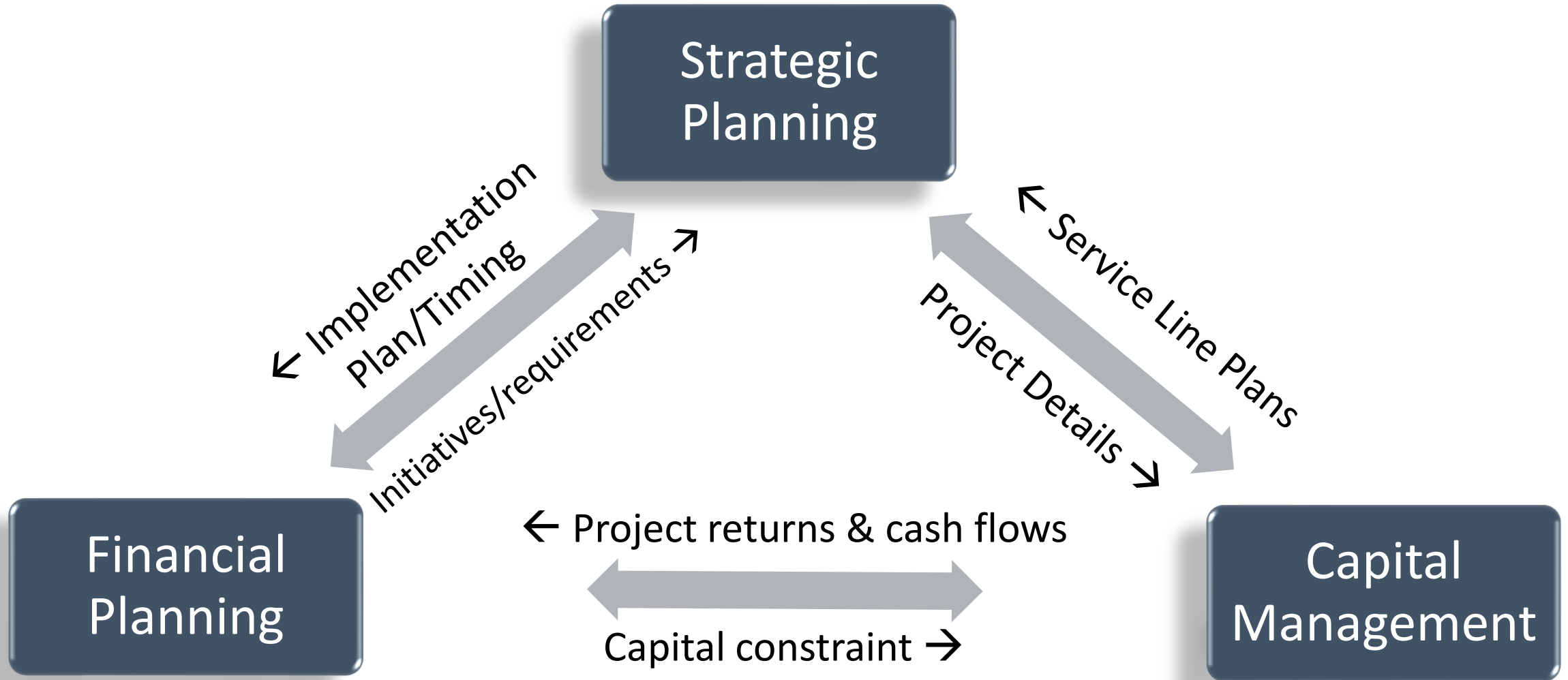


“I think I finally understand this crazy finance stuff!” – everyone (hopefully)

Integrated Budget Process Observations

- Budget spread considerations are different for Medical Group (e.g., FICA, retirement matching, contractals)
- Integrated process ensured consistency between Hospital and Medical Group assumptions
 - Physician wRVU volume growth consistent with hospital growth (e.g., deliveries, surgeries)
 - Enabled “push back” in areas where data didn’t correlate, resulting in additional budgeted volume in certain areas
- In future years, expense per dollar of operating revenue analysis enhancements:
 - Drill to department level
 - Create second view that is based on expense per dollar of ***net patient revenue***
- Expand some of these analytics and “reasonableness” testing to the hospital budgeting process

Disciplined Integration of Organizational Planning



Thank you!