

October 12, 2022

PERSPECTIVE

CHANGES EVERYTHING.

WA-AK HFMA

Financial Planning: The Key to Successful Execution of Your Strategic Plan

WIPFLI

Today's learning objectives

- Learn how to incorporate financial planning into the strategic planning process
- Learn how to evaluate & prioritize initiatives
- Learn process of quantifying key strategic initiatives

Overview of Steps to a Successful Strategic Financial Planning Process

Identify team & stakeholders	01
Develop a common fact base	02
Develop objectives/opportunities	03
Determine the strategy and prioritize initiatives	04
Quantify financial impact	05
Implement, measure, monitor, and improve	06

A modern office interior with large windows and several people working at desks. The office is bright and airy, with a high ceiling and large windows that offer a view of a city skyline. Several people are working at desks, some are standing and talking, and others are sitting at their computers. The desks are equipped with multiple monitors and keyboards. The overall atmosphere is professional and collaborative.

What is a strategic financial plan?

**What is our
strategic plan?**

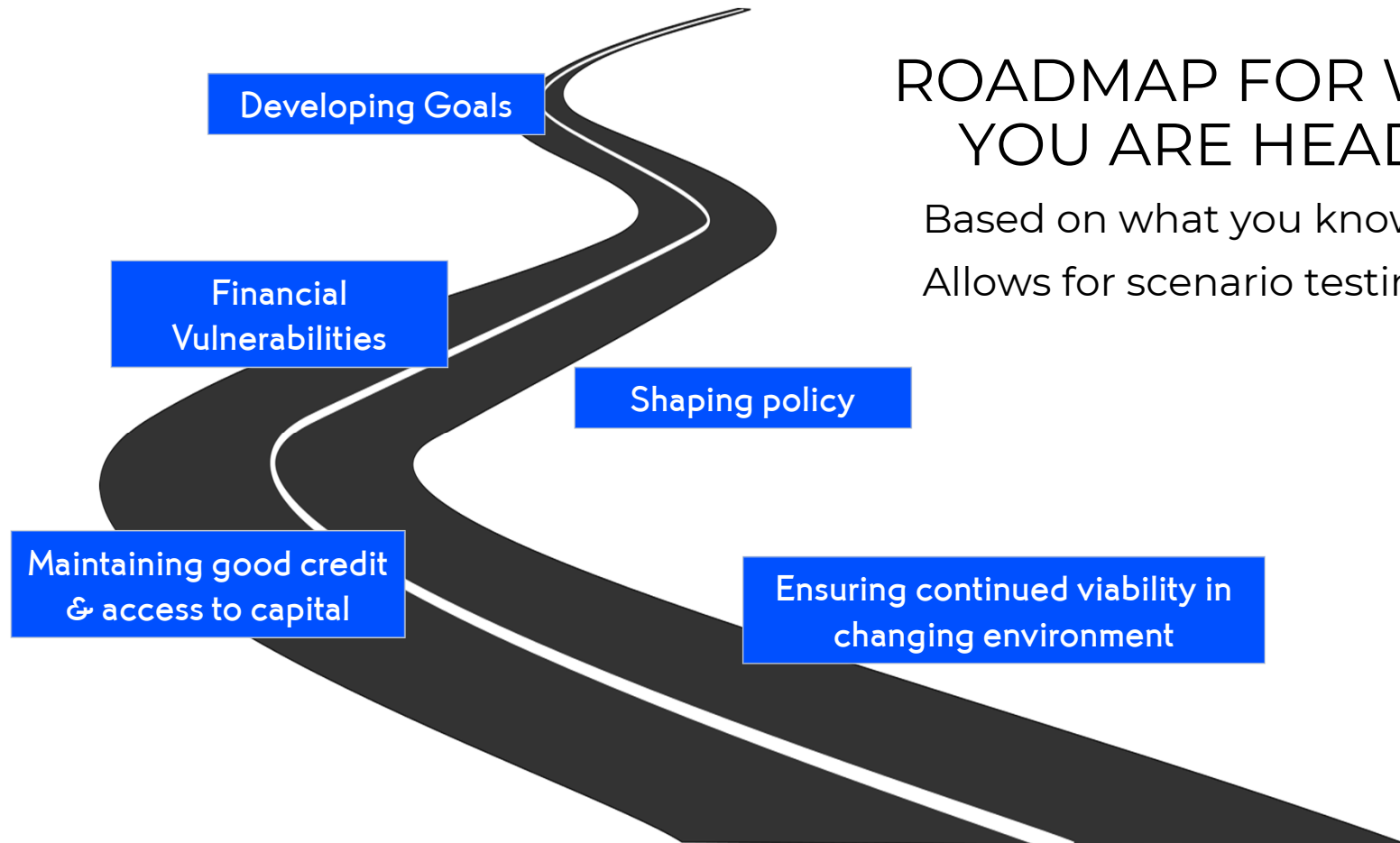


Make sure your current strategic plan is current and relevant?

Several reasons why it may be time to update the “Plan”

- Regulations have changed which are impacting operations
- There are new competitors and new business models which are challenging the standard delivery model
- You ask several members of management to Identify the top three strategies and you get 3 different answers from each member of management
- There are arguments between departments over the importance and timing of various planned projects
- Projects and project budgets are developed independently from each other and change significantly from year to year
- The organization is continuing to face financial challenges even though strategic planning sessions have been conducted regularly.
- Someone has written “update me” in the dust which is on your current financial plan

What is a strategic financial plan?



ROADMAP FOR WHERE YOU ARE HEADED?

Based on what you know today
Allows for scenario testing

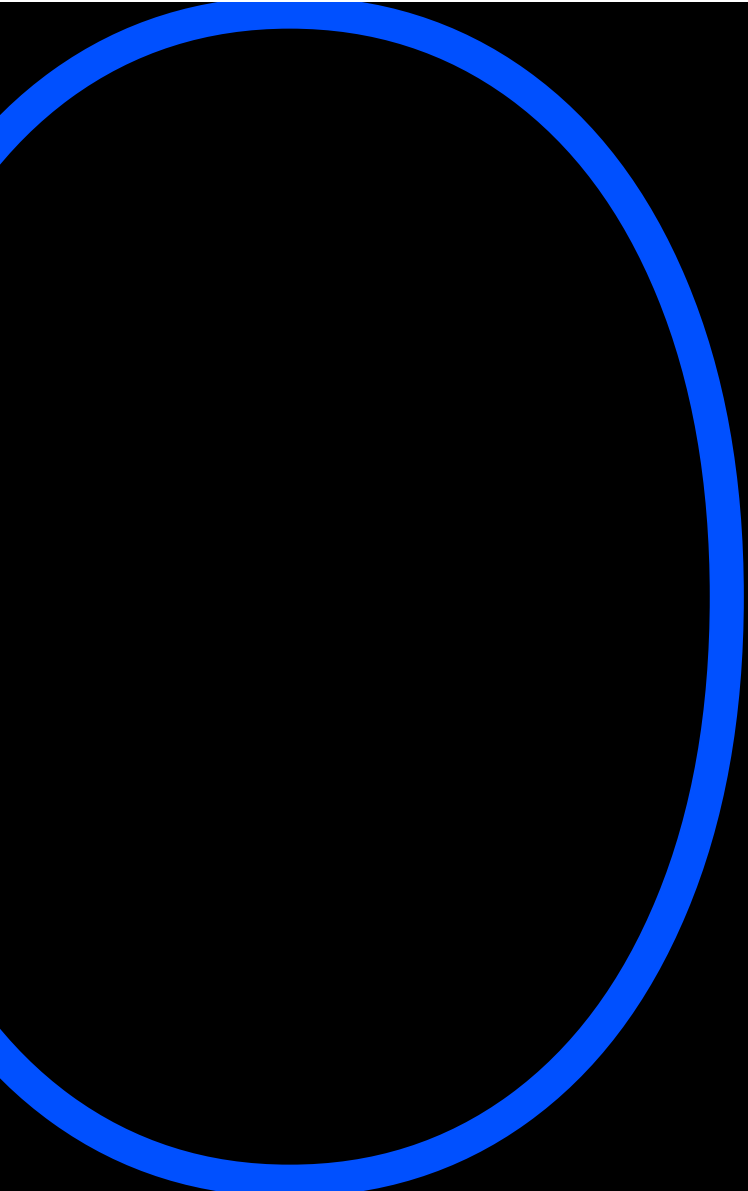
**What is a
strategic
financial plan?**

Successful outcomes of strategic initiatives generally have the following three elements:

- Alignment of the organization and its external environment
- A realistic view of the organization's own core strengths and available resources
- Careful implementation and monitoring of strategic initiatives

A modern office environment with large windows overlooking a city. Several people are working at desks with computers. A man in a suit is standing and talking to a woman in a white dress. The office has a clean, professional look with wooden desks and blue chairs.

Creating a successful strategic financial plan

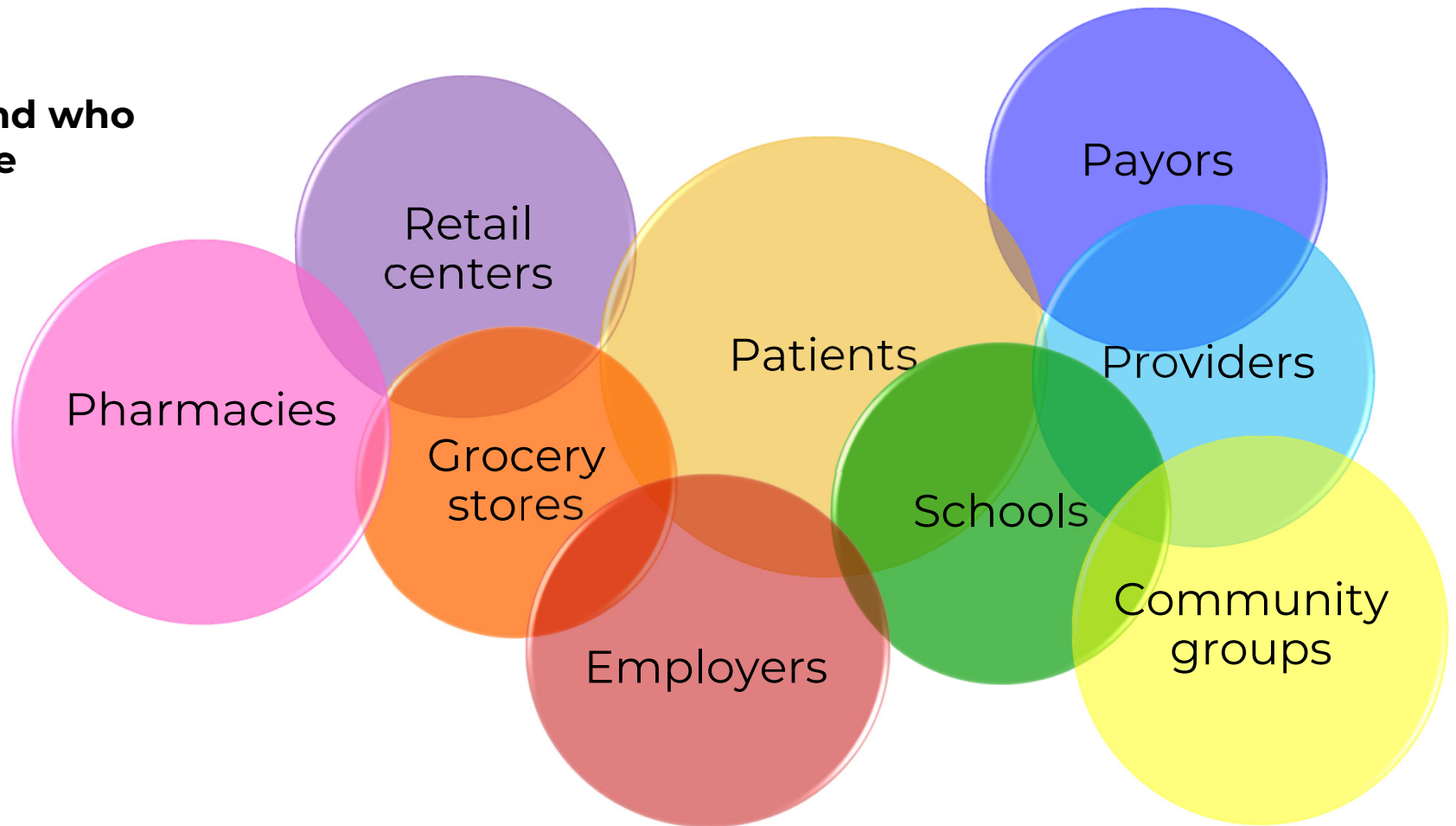


Identify team & stakeholders

Who is involved in the financial planning endeavor?

- Identify the planning team
 - ▶ Establish key roles and responsibilities
 - Identify expectations and requirements
 - Determine how decisions will be made
 - Define the population to be targeted
- Develop the “charter” for the leadership group
 - ▶ Quantify and allocate shared resources
 - ▶ Agree on the planning process to be followed

**Understand who
you will be
serving?**



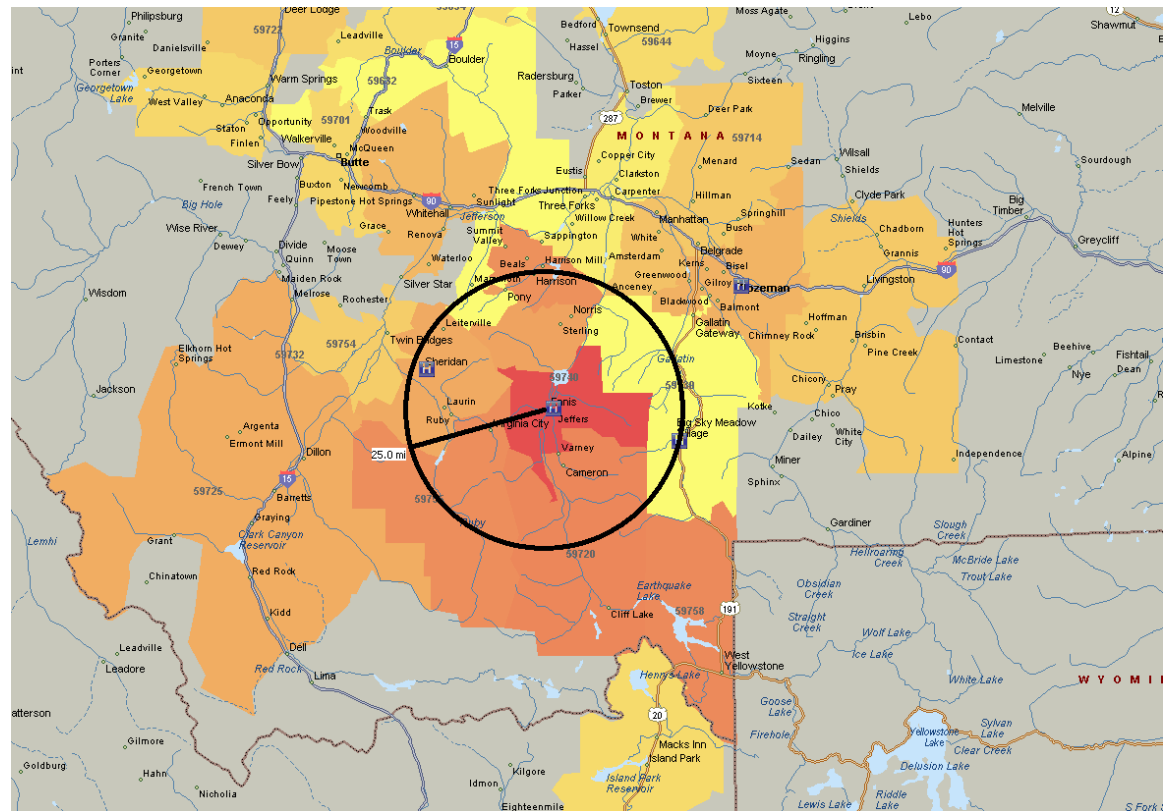
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**Develop a common fact
base**

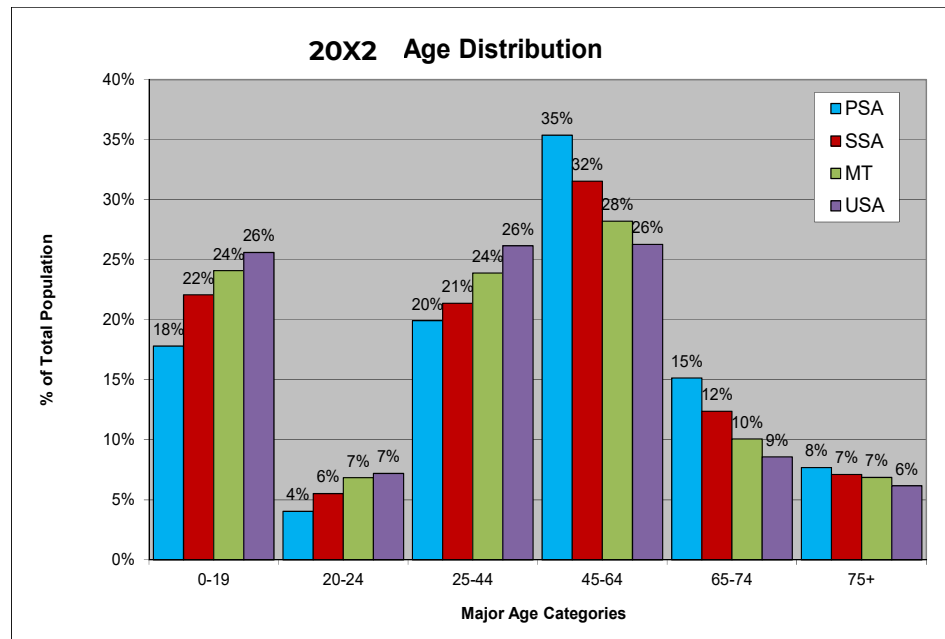
**What do we
need to know to
develop our
plan?**

- Defining the market
 - ▶ Patient base - where from?
 - ▶ Demographics
- Volumes
 - ▶ Existing volumes (current state)
 - ▶ Projected volumes (future state)
- Physician/provider complement
- Base year financial position (current state)

Defining the market



Demographics



- Understand how many people in Primary and Secondary Population and Age Distribution
- Helps assess types of providers and service lines for the hospital

Physician need

Key findings

- No shortage in primary care in PSA
- Only slight demand for medical subspecialties
- Could support some general surgery and ortho surgery

Primary Service Area						
Specialty	2015 Supply	2015 Demand	Overage/ (Shortage)	2020 Supply	2020 Demand	Overage/ (Shortage)
Primary Care						
Obstetrics/Gynecology	0.1	0.4	(0.3)	0.1	0.5	(0.4)
Family Medicine	4.8	1.2	3.6	4.8	1.3	3.5
Internal Medicine		1.1	(1.1)		1.1	(1.1)
Pediatrics		0.5	(0.5)		0.5	(0.5)
Sub-Total	4.9	3.2	1.7	4.9	3.4	1.5
Medical Subspecialties						
Audiology	0.1	0.2	(0.1)	0.1	0.2	(0.1)
Allergy		0.0	(0.0)		0.0	(0.0)
Cardiology	0.1	0.2	(0.1)	0.1	0.2	(0.1)
Dermatology		0.1	(0.1)		0.1	(0.1)
Endocrinology		0.0	(0.0)		0.0	(0.0)
Gastroenterology	0.1	0.1	(0.1)	0.1	0.1	(0.1)
Hematology/Oncology	0.1	0.1	(0.1)	0.1	0.1	(0.1)
Infectious Disease		0.0	(0.0)		0.0	(0.0)
Nephrology		0.1	(0.1)		0.1	(0.1)
Neurology		0.1	(0.1)		0.1	(0.1)
Pulmonary Medicine		0.1	(0.1)		0.1	(0.1)
Rheumatology		0.0	(0.0)		0.0	(0.0)
Sub-Total	0.3	1.0	(0.8)	0.3	1.1	(0.9)
Surgical Subspecialties						
General Surgery		0.4	(0.4)		0.4	(0.4)
Neurosurgery		0.0	(0.0)		0.0	(0.0)
Ophthalmology		0.2	(0.2)		0.2	(0.2)
Ortho Surgery		0.3	(0.3)		0.3	(0.3)
Otolaryngology		0.1	(0.1)		0.1	(0.1)
Plastic Surgery		0.0	(0.0)		0.0	(0.0)
Thoracic Surgery		0.0	(0.0)		0.0	(0.0)
Urology	0.1	0.1	(0.1)	0.1	0.1	(0.1)
Sub-Total	0.1	1.3	(1.2)	0.1	1.3	(1.3)

Market position

Age	2016 Total Service Area Population	Population (Hundreds)	Clinic visits per 100 people ¹ (all specialties)	Total Encounters
<15	5,378	53.78	241.2	12,972
15-24	1,182	11.82	166.3	1,966
25-44	5,007	50.07	231.5	11,591
45-64	6,632	66.32	335.5	22,250
65-74	2,377	23.77	532.2	12,650
75 +	1,748	17.48	669.9	11,710
	22,324		Total PSA Estimated Visits	73,139

¹2015 National Ambulatory Medical Care Survey (based on '12 data)

Total Estimated Clinic Visits in the Service Area (primary and specialty) ¹	73,139
Clinic Visits	29,312

2016 Estimated Market Share for Clinic Visits	40.1%
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¹Using 2015 National Ambulatory Medical Care Survey (based on '12 data)

Financial position

Understand the current state; create a baseline to pressure test the strategic initiatives

	20X1 Audited	20X2 Audited	20X3 Audited	20X4 Annualized
Operating Performance				
Net Patient Service Revenue (\$000)	\$ 78,569	\$ 79,680	\$ 82,020	\$ 83,000
Operating Margin	-2.00%	1.25%	2.20%	2.31%
Total Margin	3.10%	4.20%	6.00%	6.20%
Liquidity Metrics				
Current Ratio	2.04	2.82	1.87	2.05
Days Cash on Hand	202.67	186.97	192.28	158.15
Day Revenue in Accounts Receivable - Net	60.12	61.6	47.25	48.27
Capital Metrics				
LTD to Capital	13%	21%	13%	14%
Net Assets / Total Assets (Equity Financing)	49%	38%	49%	50%
Debt Service Coverage	1.75	2.10	2.20	2.50
Average age of Plant	13.39	12.69	14.22	14.6

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Develop objectives/opportunities

What do you want to accomplish?

- Develop a list of available opportunities relevant to the organization.
- These should come from your overall Strategic Plan – Can be short-term (within next 1-3 years) or longer term (4 or more years)
- For example:
 - ▶ Improvement of current operations (short-term)
 - Revenue cycle
 - Patient satisfaction
 - ▶ Expansion/growth of service offerings (short-term or long-term)

Both may support overall long-term goal for a new healthcare campus or simply a new medical office building.

Identifying opportunities for improvement

Benchmarking

From Wikipedia, the free encyclopedia

- Benchmarking is the process of comparing one's business processes and performance metrics to industry bests or best practices from other companies.
Dimensions typically measured are quality, time and cost.

Identifying opportunities for improvement

External benchmarks and internal data can be useful in identifying financial and operational opportunities for improvement.

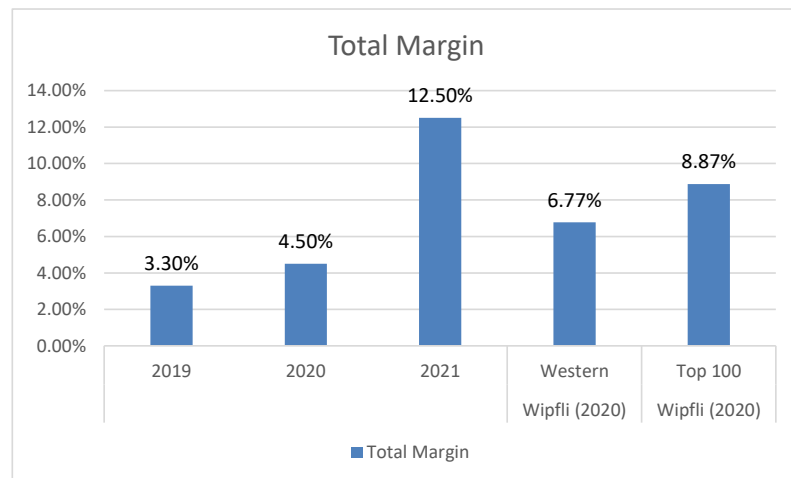
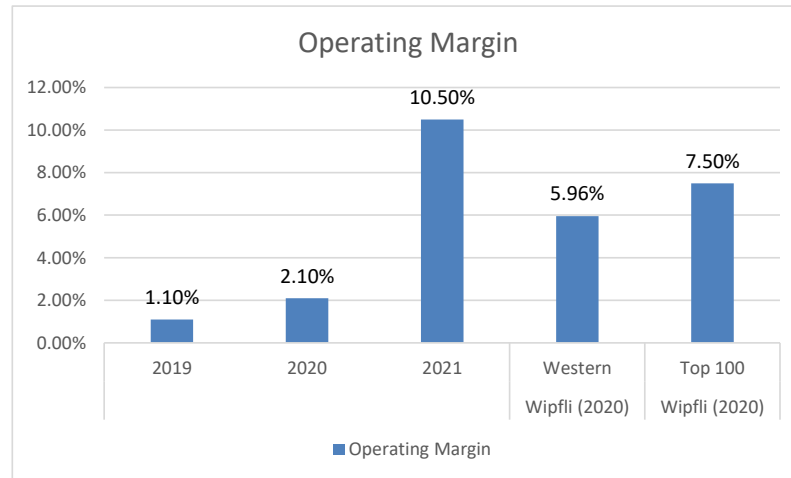
Gaps in comparative key performance indicators:

- Revenue
- Volume
- Collections
- Profitability

Other signals may be less apparent but equally important.

Difficulty developing, recruiting, and/or retaining certain staff and/or technical skills can be a sign that changes should be considered.

Identifying opportunities for improvement



Identifying opportunities for improvement

Caution!

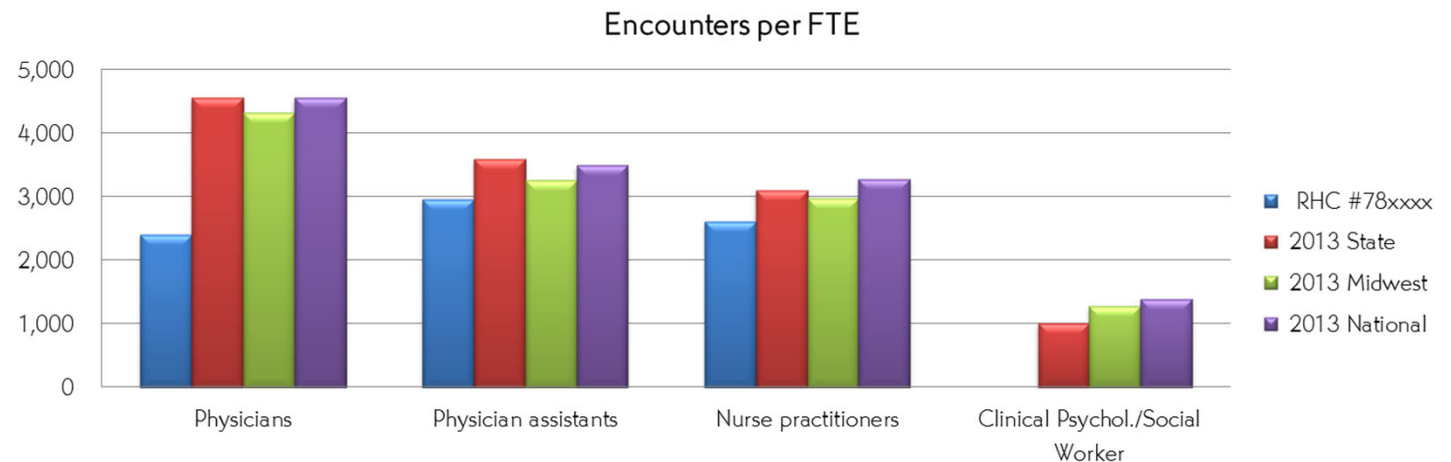
WIPFLI

	2020 Optum (2020)	2021 Optum (2021)	2020 Flex Team	Wipfli (2020) Western	Wipfli (2021) Western	Wipfli (2020) Top 100	Wipfli (2021) Top 100
Profitability Metrics							
EBITDA Margin	7.54%	15.14%	8.45%	6.75%	12.88%	9.38%	15.38%
Operating Margin	4.85%	13.27%	3.62%	5.96%	14.27%	7.50%	16.75%
Total Margin	6.06%	15.52%	5.41%	6.77%	19.40%	8.87%	20.66%
Liquidity Metrics							
Current Ratio	2.04	2.82	1.87	2.05	2.89	2.11	3.20
Days Cash on Hand	202.67	186.97	192.28	158.15	136.29	193.30	217.90
Day Revenue in Accounts Receivable - Net	60.12	61.6	47.25	48.27	53.49	46.35	46.34
Capital Metrics							
LTD to Capital	13%	21%	13%	14%	4%	8%	10%
Net Assets / Total Assets (Equity Financing)	49%	61%	49%	50%	59%	58%	61%
Debt Service Coverage	NR	NR	4.16	5.44	13.38	3.95	8.73
Average age of Plant	13.39	12.69	NR	13.03	12.57	13.59	12.92

Identifying opportunities for improvement

Operations Example –

Based on the data below, it appears that low patient encounters may be the primary cause of the RHC's high cost per encounter.



Identifying opportunities for improvement

Operations Example –

Payer Denial Review and Analysis

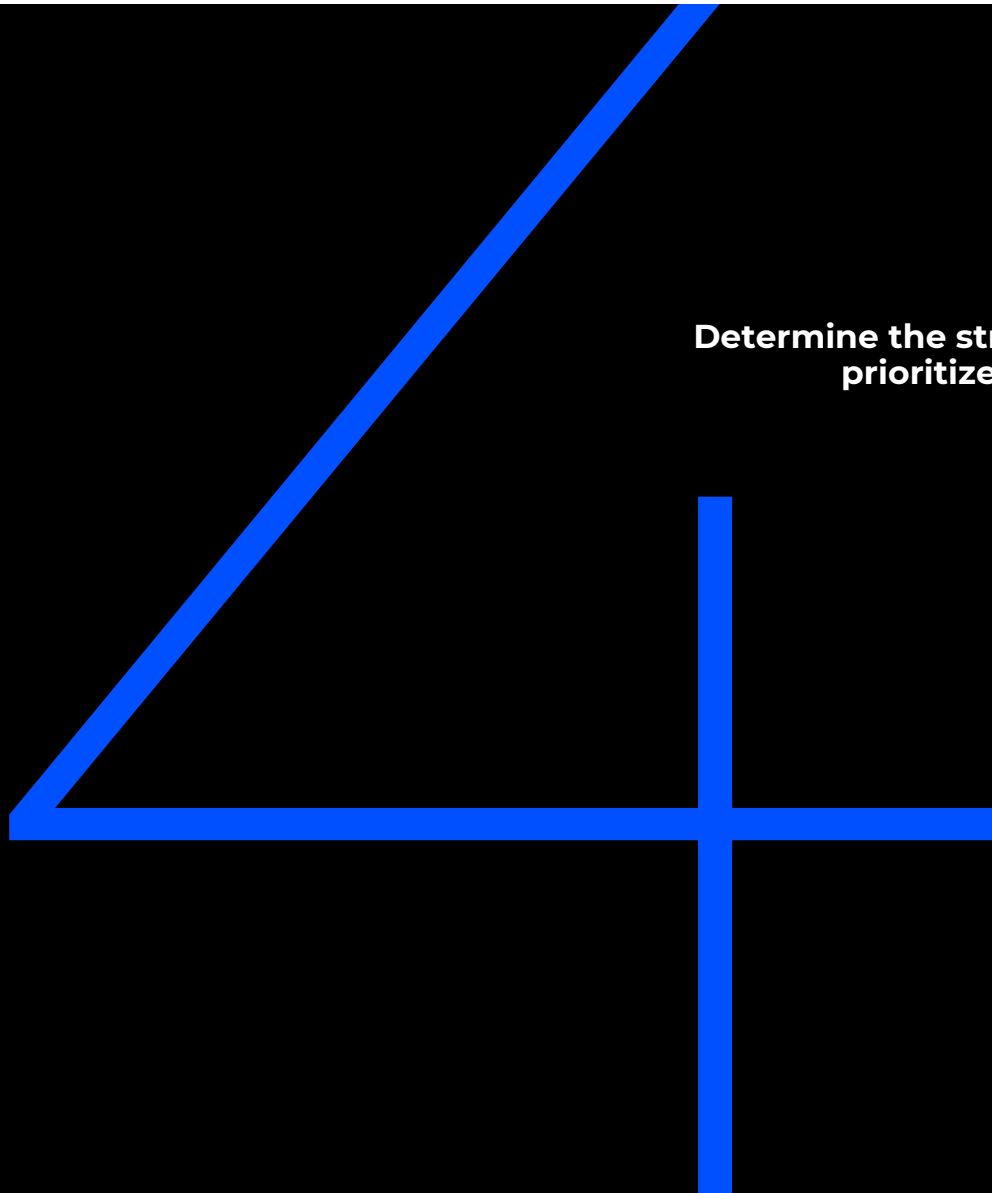
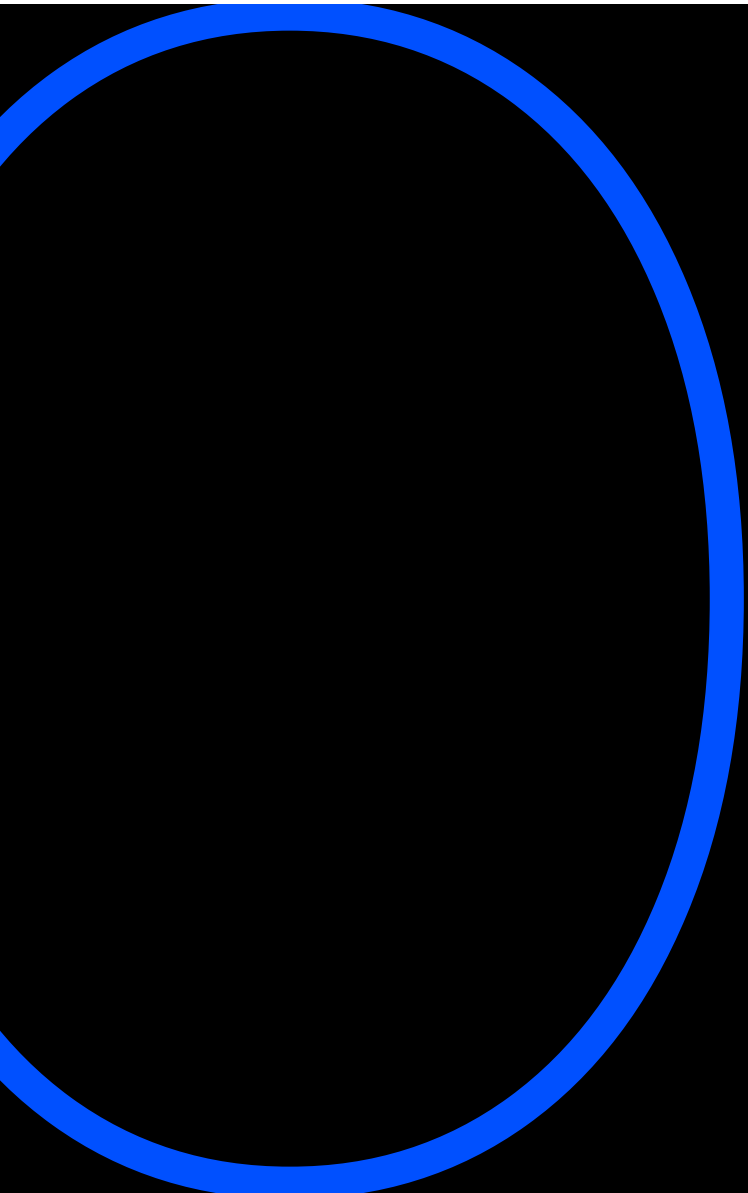
Top denials (and ensuing write-offs) generally fall under a limited number of categories, frequently issues that are avoidable. They represent the key factors in a revenue cycle management struggles.

Top 20 Denials/Write-Off Analysis

Code Description	Un-Avoidable	Avoidable	Total Write-off \$	Total Write-off %
Write-off timely filing		\$ 97,709	\$ 97,709	37%
Write-off no auth		\$ 36,427	\$ 36,427	14%
Write-off benefit check error		\$ 26,716	\$ 26,716	10%
Deductible write-off	\$ 74,257		\$ 74,257	28%
Procedure not paid separately	\$ 10,590		\$ 10,590	4%
Charges exceed contracted fee	\$ 7,620		\$ 7,620	3%
Mutually exclusive procedures	\$ 5,041		\$ 5,041	2%
Other	\$ 2,375	\$ 3,321	\$ 1,200	0%
Totals	\$ 99,883	\$ 164,173	\$ 264,056	

38%

62%



**Determine the strategy and
prioritize initiatives**

How do we refine our strategy?

Prioritization framework – key questions:

- We have limited resources, where do we start?
- Should only the financial impact matter?
- Is there a way to objectively decide on priorities?



Utilize both Quantitative and Qualitative Criteria

Establishing a ranking system

Quantitative factors

- Return on Investment
 - ▶ Negative ROI
 - ▶ 0-5%
 - ▶ 5% +
- Overall financial impact
 - ▶ Significant+
 - ▶ Neutral
 - ▶ Negative (i.e., costs more than brings in)

$$ROI = \frac{(\text{Gain from Investment} - \text{Cost of Investment})}{\text{Cost of Investment}}$$



Establishing a ranking system

Qualitative factors

- Need
 - ▶ Essential for operations
 - ▶ Mission/larger organizational strategy
 - ▶ Competitive advantage
 - ▶ Optional/want
- Urgency
 - ▶ Immediate decision/need required
 - ▶ Must do, but can wait 1-2 years
 - ▶ Optional, can wait 3+ years

05

Quantify financial impact

Quantify the Impact?

Example Strategic Initiative

Expanding primary care in the hospital's service area

- Estimate the costs
- Understand the revenue stream
- Estimate and compare the cost and the benefit
- Ultimately incorporate into overall financial plan

Quantify the Impact

1. Estimate the costs –

- Obtain/analyze cost information – Use external and/or internal benchmark data (i.e., Optum, MGMA, Wipfli CAH & RHC benchmarking report, etc.)
- Focus on direct cost (vs. indirect costs)
- Have sufficient cost detail for support staff and/or provider expense to enable analysis
- Separate overhead from provider costs

Quantify the Impact

2. Focus more on large/controllable cost items –

- Practice overhead costs are usually 60% - 70% of net revenue in a primary care practice
- Staff costs are usually 40% – 50% of overhead costs in a primary care practice; largest single overhead cost in most practices
- Track staff full-time equivalents (FTEs) by functional area (nursing, reception, lab, imaging, billing, administration)

Quantify the Impact

3. Estimate revenue –

- Determine FTE providers needed through market demand analysis
- Provider costs are usually 40% - 50% of net revenue in a primary care practice
- Compare provider costs and related productivity benchmark data (external and/or internal data) that reflect provider type (physician vs. NP vs. PA), FTE status, specialty, and geographic area
 - RVU production data
 - Ancillary revenue per FTE provider (i.e., downstream revenue)
- Allow for ramp-up time (1-2 years)

Quantify the Impact

4. Compare to benchmark data for reasonableness –
 - Practice overhead ratio (e.g., overhead is 60% - 70% of net revenue in a primary care practice)
 - Staffing FTEs (e.g., 4.0 – 5.0 support staff FTEs per physician may be reasonable)
 - Provider compensation and productivity
 - Internal comparisons to prior year and budget data is extremely valuable
 - Build into your financial plan to quantify overall financial impact to hospital

Quantify the Impact

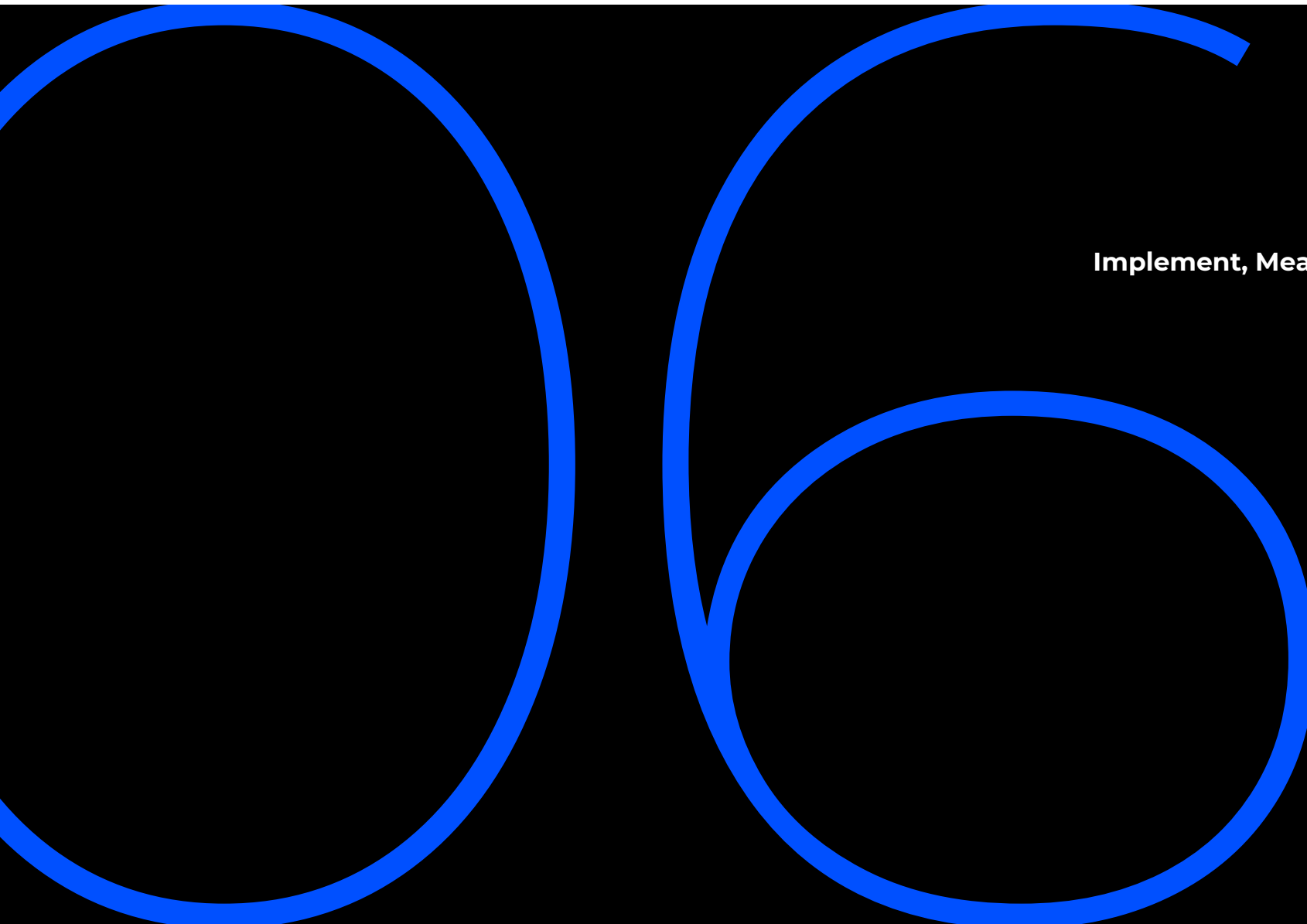
- Build into your financial plan to quantify overall financial impact to the hospital

Projected -	20X5	20X6	20X7	20X8
Operating Performance	Projected	Projected	Projected	Projected
Net Patient Service Revenue (\$000)	\$ 87,150	\$ 92,089	\$ 97,283	\$ 102,805
Operating Margin	0.01%	3.20%	4.30%	5.50%
Total Margin	6.40%	6.80%	7.50%	8.30%
Liquidity Metrics				
Current Ratio	2.1	2.5	2.8	2.3
Days Cash on Hand	155.00	182.00	190.00	175.00
Day Revenue in Accounts Receivable - Net	62.00	61.50	58.00	55.00
Capital Metrics				
LTD to Capital	14%	21%	15%	16%
Net Assets / Total Assets (Equity Financing)	49%	52%	50%	49%
Debt Service Coverage	2.00	2.05	2.70	2.80
Average age of Plant	14.50	13.50	11.00	10.40

Quantify the Impact

5. Build into your financial plan to quantify overall financial impact to the hospital (continued)

<i>Change from Baseline</i>	20X5	20X6	20X7	20X8
Operating Performance	Projected	Projected	Projected	Projected
Net Patient Service Revenue (\$000)	\$ 830	\$ 2,316	\$ 3,919	\$ 5,707
Operating Margin	0.01%	2.20%	2.30%	3.00%
Total Margin	-0.05%	0.09%	0.53%	1.05%
Liquidity Metrics				
Current Ratio	0.0	0.5	0.8	0.3
Days Cash on Hand	(5.00)	22.00	30.00	15.00
Day Revenue in Accounts Receivable - Net	12.00	11.50	8.00	5.00
Capital Metrics				
LTD to Capital	0%	7%	1%	2%
Net Assets / Total Assets (Equity Financing)	-1%	2%	0%	-1%
Debt Service Coverage	(0.50)	(0.45)	0.20	0.30
Average age of Plant	(0.10)	(0.10)	(1.60)	(1.20)



**Implement, Measure, Monitor and
Improve**

Implement

There are very few flawless implementation plans!

- Identify time frame
- Communicate implementation successes and challenges with the leadership team
- Be nimble - adjust implementation plans quickly if needed
- Use leading and lagging indicators
- Share results across the stakeholder group
- Be accountable for results!

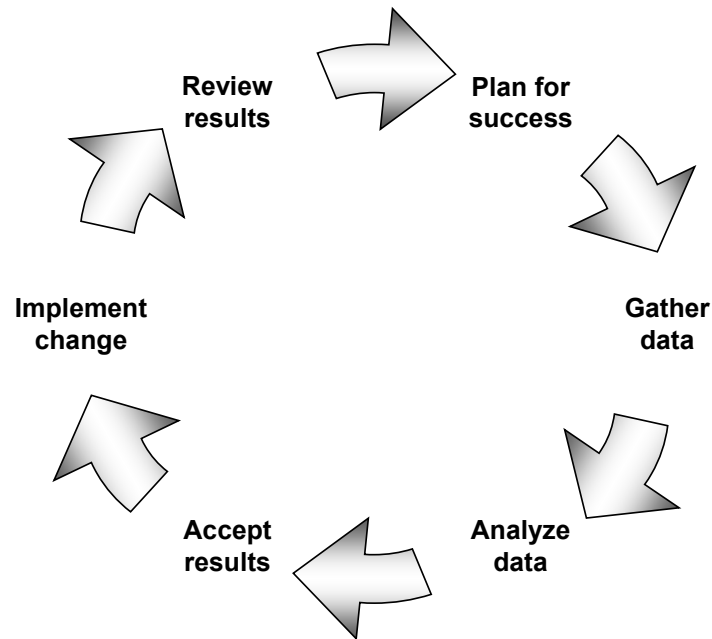
Measure

Define Goals and Metrics

- Profitability metrics (limit to 3 measures)
- Liquidity metrics (limit to 3 measures)
- Capital structure metrics (limit to 4 measures)
- Patient satisfaction
- Decrease denials (i.e. avoidable write-offs)
- Increase market share (increase patient panel, etc.)
- Quality reporting

Monitor

Strategic financial planning is a continuous process



Reminder that benchmarking helps us to drive the definition of:

- Targets - When have we achieved our goals?
- Alarms - When do we need to alert the organization to take action?

Keys to success

Three imperatives to achieving alignment

1. Everyone must know the organization's goals (vision)
2. Everyone must feel a personal connection with the vision
3. Everyone must know how to align their individual work to achieve the vision

Conclusion

To achieve results:

- Establish a common fact base
- Identify strategic objectives
- Quantify potential impacts of objectives
- Prioritize
- Implement
- Monitor

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