CASE STUDY

Using financial tools to improve efficiencies

Returns on the Return

By Giuseppe Siena, Denise Veras, and Austin Horan

COVID-19 has caused unprecedented financial challenges to healthcare facilities, particularly during the reopening process. Social distancing and infection control drove uncertainty around alignment of expense-to-volume and revisions to operations.

To meet these challenges, New York City-based Montefiore Faculty Practice Group (FPG) developed a financial model to help its practices understand how volume and utilization changes were impacting their bottom lines. In turn, FPG central leadership effectively planned and executed successful recovery measures.

Model Development Stages

The initial intent of the model was to evaluate the impact of COVID-19 and telehealth on departments in order to refine the expected variance to budget based on use changes (i.e., inpatient increase with admission surge, elective surgery closure, and certain site closures). Although telehealth was used as a tool to mitigate the effect of volume decrease on practices, these visits explained only 15% of utilization, and reimbursement rates did not equate to in-person visits. Due to this, the model was enhanced to factor 2020 volume and revenue forecast by month to drive departments through an optimal reopening process.

Assumptions and Initial Projections

FPG defined three recovery scenarios, which outlined ramp-up, monthly percent increase in volume, and year-end comparison to baseline assumptions (Figure 1). Reopening of the practices began in May; therefore, all scenarios assumed that the volume ramp-up started in June and that with constant growth, the Faculty Practice would achieve 70%, 75%, or 85% of 2019 volume by the end of 2020, for low, medium, and high scenarios, respectively (see "Model Ramp-Up").

Tools to Engage and Empower Department Leadership

The involvement and collaboration between core, central, and local practice-level leadership was fundamental during this process. These leadership teams used the volume and revenue model to evaluate actual initial month recovery, display department performance, and request a revised departmental volume projection. This allowed practices to analyze their recovery process and compare themselves to the three proposed scenarios.

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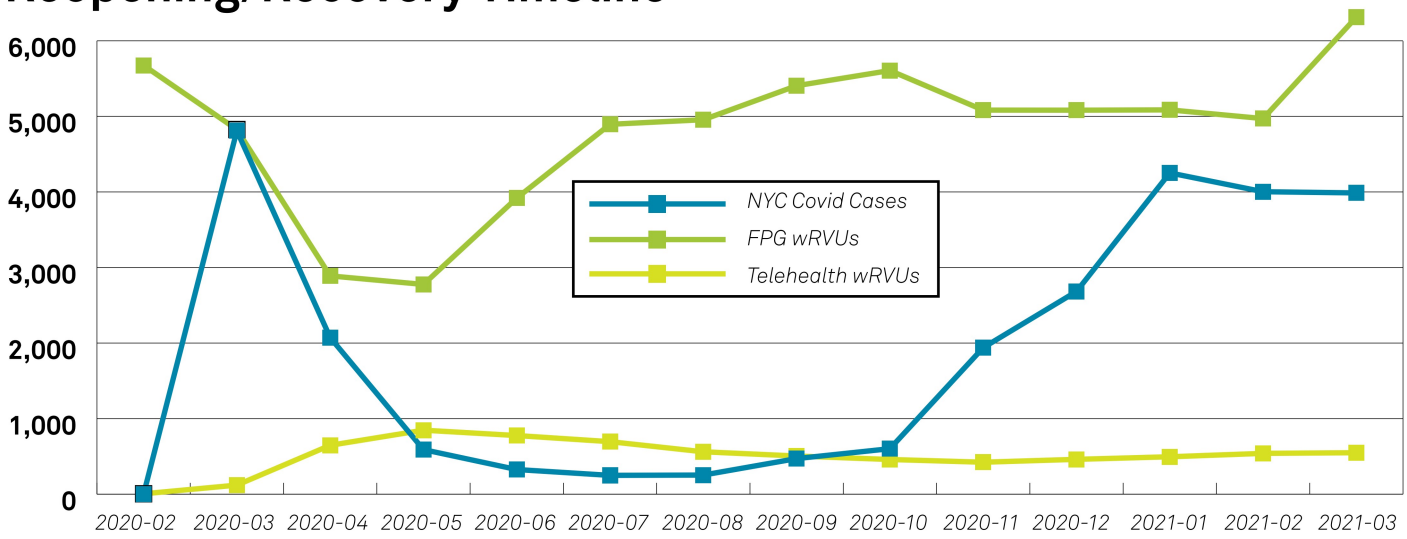
Figure 1

Reopening/Recovery Timeline



FPG prepared and sent the following package to clinical practices:

- Financial statement
- Volume and revenue model with a monthly spread
- Visit volume by week and category (new, return, testing, and treatment) with historical values from beginning of year
- Visit volume by week and Evaluation and Management (E/M) code (telehealth vs. face-to-face) with historical values from beginning of year
- Pre-/during/post-COVID-19 surge breakout of visit category
- Completed surgical cases by patient class disposition (inpatient, outpatient, emergency department) with historical values from beginning of year
- Provider productivity performance bucketed by % above or below 100% of budgeted target, adjusted by budgeted clinical full-time equivalent (FTE)
- Provider productivity tied to visits to provide understanding of tangible actions, with historical values from beginning of year
- Overall visit volume by week and month across departments, telemedicine phone vs video, backlog, canceled visits, surgical cases, and ambulatory referrals

Along with the package, multiple meetings delineating expectations were held. To initiate the process, the Health System Chief Financial Officer (CFO) met with Faculty Practice Chairs to present the organization's financial status through the end of June. Following the initial meeting with the CFO, the Faculty Practice Group VP with the team and Chief Medical Officer (CMO) had individual financial recovery sessions with each department's leadership. At these meetings, departments reported on their volume projections through year end, along with obstacles needing FPG central leadership support.

Model Ramp-Up

The FPG model captured 2020 volume and revenue projections by month, department, and service type. Medium and low scenarios began the ramp-up at around 60% of 2019 volume with a 5% monthly growth factor, while the high scenario assumed an aggressive ramp-up, starting at 78% of 2019 with a 2% monthly growth factor. FPG actual volume followed the medium scenario for June and high for the remaining months.

Contribution Margin Model

Through the recovery process, a sophisticated model was developed to demonstrate the seriousness of the financial situation and manage expectations around year-end contribution margin (CM). The goal of the model was to achieve, in the remaining months of the year, 2020 budgeted contribution margin or forecast, whichever was more favorable.

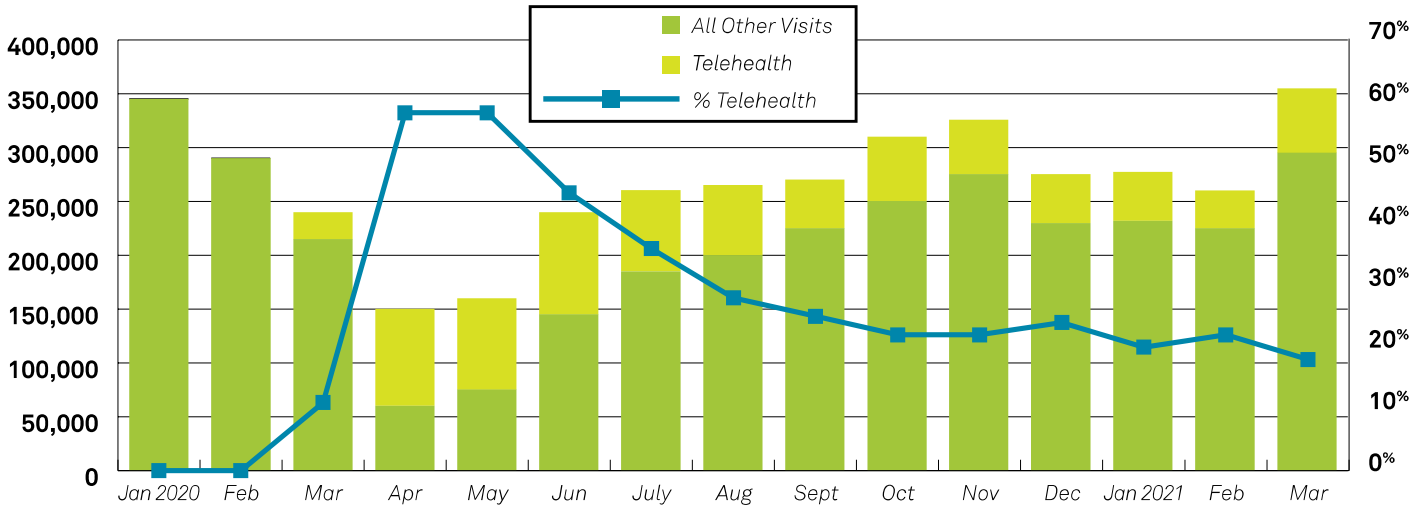
On the revenue side, the CM forecast assumed that we would achieve the departmental projections constructed using the initial model; and for expenses, that we would continue the remaining months at the same level we were at in August, including adjustments for known new hires. The difference between the CM goal and the forecast defined the projected opportunity, which was later shared with the practices.

Post-Meeting Work

As volume started to rise in ambulatory practices, significant challenges arose in facilitating leadership's review of resource prioritization. It became clear that tracking mechanisms needed to be re-established. Requests for staff replacements upticked, and because the FPG is an 85% labor economy, FTE allocation and

Figure 2

Reopening/Recovery Telehealth % – MMC % of Telehealth Visits[a]



a MMC = Margin Model Contribution.

management was key in aligning revenue and expense. In a steady state, the budget would serve this purpose; however, given that the budget was no longer consistent with reality, the CM model was presented as the tool to determine if incurred expenses aligned with expected revenue and projected contribution margin.

CM projections were added to the standard monthly model updates, including volume trends and forecasts, and shared with the departments. The FPG requires departments to introduce the model as a supporting exhibit in their all-resource allocation requests to ultimately improve the process of reviewing staffing decisions and expense approvals.

Model in Steady State

As operations continue to improve, the use case nature for this model has evolved and expanded (see Figure 2). An exercise that was one of titration to endure the unknown has transitioned into a study of strategic resource allocation, given not only recent performance but also growth opportunities on the horizon. This model uniquely positions the strategy, operations, and finance teams to think about the future. It is now an indelible part of our labor management process and serves as a baseline for modeling strategic initiatives. Moreover, as new initiatives have been identified, the finance team has layered the impact of approved initiatives into future iterations of the forecast model. This allows a truly dynamic and fully integrated financial modeling, planning, and performance analysis tool to take shape.

Model in Future

Looking to the future, the team plans to explore opportunities to expand model functionality and content. Opportunities for further development include:

- Incorporation of third-party benchmarks for expense utilization and wage-rate expense for both modeling and comparative analysis
- Expanded resolution of FTEs and relationships among the types of FTEs within given services and the implied impact to forecast changes over time (e.g., a given department's increase in advanced practice provider [APP] use correlated to work relative value unit [wRVU] growth, actual and forecast)
- Addition of suggestive modeling capability based on retrospective study of seasonality and historic implied relations between primary and ancillary services (e.g., for given change in surgical volume, an implied change of x for pathology volume would be indicated, all else being equal)

Development of this Financial Recovery Model has brought together a diverse group of individuals who share a common passion to understand the complexities of post-recovery health care and empower healthcare leaders to make decisions with the confidence that rigorous analysis affords. GPJ

Giuseppe Siena *is associate vice president, Professional Services Department – Faculty Practice Group;* ***Denise Veras****, Director of Revenue Integrity & Client Services, Professional Services Department – Faculty Practice Group; and* ***Austin Horan****, Senior Director of Finance – Faculty Practice Group at Montefiore Medical Center.* *The authors would like to thank Jeffrey Short, vice president and chief of staff – leader of Faculty Practice Group and chief transformation officer; James Geraghty, chief financial officer – Albert Einstein College of Medicine, Montefiore Faculty Practice and Medical Groups; and Andrew Schweitzer, senior director, Professional Services Department – Faculty Practice Group, Montefiore Medical Center, for their contributions to this article.*