Tool 2a: Financial Feasibility Workbook Instructions

The Financial Feasibility workbooks are two instances of the same interactive tool. The **Example**, **Tool 2b**, is filled out with sample information, and the **Blank**, **Tool 2c**, is blank, for you to fill out with your own information. Like the other tools, the Workbooks are attached to the main Toolkit document.

Because the calculations in the workbooks involve formulas in many of the cells, the workbooks have been locked to ensure that formulas are not altered. (We have provided the password for you at the end of this document.) The best way to use the workbooks is to leave the Example workbook locked and look at it for reference. When you use the **Blank** workbook, we suggest you unlock it and then immediately make a copy, in case you need to go back to the original.

Worksheet I: Market Demand and Clinic Capacity

For Worksheet I, you will need the following data:

- ✓ Utilization rates (per thousand) for each specialty service you are considering;
- ✓ Total patient population for each clinic that you are including as part of your potential market;
- ✓ Hourly rates that you expect to pay each specialist;
- ✓ Number of hours that each specialist (or type of specialist) will contribute annually; and
- ✓ Hourly patient capacity for each specialist or specialist type.

Step 1: Estimate the rate of demand for each specialty.

- ✓ Utilization rates (per thousand) for each specialty service you are considering

Estimate the utilization per specialty for the population you have defined as your market. Typically, if your clinic has not been providing specialty services, you will need to go outside your own records to obtain this data. There are a number of options for this data, including a local IPA or HMO, or ManagedCare.com (this requires a subscription).

Most resources for utilization estimates come from the commercial and Medi-Cal managed care worlds and are based on a "users per 1,000 members" number. Your clinic may not count "members," but you can approximate the statistic using your own patient records. Start with a user count, with "user" defined as a patient is a member who has come for a visit at least once in a year (and "visit" defined as an Evaluation and Management code or Preventive Medicine Service code).

To account for fluctuations in the data, add two years' worth of users and divide in half. Use this number as a proxy for members.

Example: The clinic has 40,000 users for 2007 and 35,000 for 2008. The proxy for members would be (35,000 + 40,000)/2, or 37,500. If the specialty service you are considering providing has utilization of 200 per 1,000 members, for 37,500 "members" total expected utilization would be [(37,500/1000) * 200)], or 7,500 specialty visits.

The utilization estimates may require other adjustments in order to fit the circumstances of your clinic or network. For example, commercial managed care data is for a population with more adults and fewer children than is common in CCHCs, while Medi-Cal managed care data typically is the reverse. The best data for your clinic can be obtained by sorting available data by the age ranges you will be seeing.

Similarly, if your specialist is not going to provide the full range of services that he/she would provide in his/her office, you may need to adjust the estimated utilization rate, as the data assumes all outpatient services.

Example: You are considering adding a urologist. She will not be doing any surgeries at the clinic location. Her utilization is 20 per 1,000 members, but her surgeries represent 20% of her visits. Reducing the 20 per 1,000 by 20% would give a more accurate projected utilization of 16 per 1,000 members.

Step 2: Estimate the total population of the market served by the specialty project at each clinic participating.

- ✓ Total patient population for each clinic that you are including as part of your potential market

Enter the population you expect to serve with your specialty services. This could include just your clinic, other clinics, and/or other community sources. To obtain this figure from Uniform Data Set data it would again be useful to take an average of two years to get a representative count.

Step 3: Estimate the specialists' capacities.

- ✓ Hourly rates that you expect to pay each specialist
- ✓ Number of hours that each specialist (or type of specialist) will contribute annually
- ✓ Hourly patient capacity for each specialist or specialist type

Enter the number of hours you expect the specialists to work annually, and the average number of visits per hour for each specialist. The average visit per hour rate can be obtained from the specialists' office data or from sources such as Medical Group Management Association (MGMA) if you are not yet able to generate your own visit per hour rate. You will also enter an hourly

compensation rate for each specialist or specialist type. If the provider is a volunteer, leave the hourly rate blank.

Worksheet I Example

Steps 1 and 2: You have 100,000 clinic members to whom you want to provide cardiology services. The estimated number of cardiologist visits that will be generated from this population will be 46.80 visits per 1,000 population – thus, you can expect market demand for 4,680 cardiology visits annually.

Step 3: Continuing with this example, you can estimate specialist capacity, using the number of hours that a specialist provider is available.

Worksheet II: Patient Mix and Revenue

For Worksheet II, you will need the following data:

- ✓ Percentage paid by each payer, for each specialty service, and
- ✓ Average reimbursement from each payer, for each specialty service.

Step 4: Estimate payer mix and revenue for each specialty type.

- ✓ Percentage paid by each payer, for each specialty service

These fields should include only the variable revenue sources that are unlimited (for which each visit will equal a reimbursement). Fixed income, such as grant income, should not be included.

This mix may vary by specialty type, and should be entered accordingly. For example, a clinic might expect a 60% Medicare mix for cardiology but only a 50% Medicare mix for dermatology.

For a hub model, you should forecast an overall payer mix based on the mixes of your own clinic and those of any referring clinics. This should be done through projected patient counts (instead of payer mix percentages) for maximum precision. For example, the providing clinic might expect to send 50 Medi-Cal and 80 uninsured patients to the cardiologist annually, while Across-town Clinic expects to send 20 Medi-Cal and 10 uninsured. These projected numbers should be combined to get a single payer mix for each service, which is then entered into the worksheet.

A single clinic should enter its own projected payer mix for each service, and clinics contemplating a circuit rider model should each complete the worksheet separately.

- ✓ Average reimbursement from each payer, for each specialty service

As Medi-Cal and uninsured patients are likely to make up the largest percentages of most clinics' payer mixes, these figures should be as precise as possible.

Using the data sources above, you can calculate total revenue per service type, total revenue for all specialty services, and average revenue per specialty visit.

Worksheet III: Expenses

For Worksheet III, you will need the following data…

- ✓ Ratio of full-time equivalent (FTE) staff to FTE specialists per hour;
- ✓ Hourly rates for staff;
- ✓ Fringe benefit percentage for staff;
- ✓ Other medical operating costs for specialty procedures;
- ✓ Lab, pharmacy and imaging costs for uninsured patients; and
- ✓ Overhead and indirect costs as a percentage of total medical costs

for each of the following staff types:

- Medical assistant;
- Billing staff;
- Receptionist; and
- Referral coordinator.

The staff categories are suggestions only, based on the most common support staffing needs for clinics adding specialty care. Every staffing pattern is different, of course. The worksheet does not include a line item for nurses, for example, but if your model includes a new nursing position, then it should be entered accordingly.

Step 5: Estimate hours per specialty

- ✓ Ratio of full-time equivalent (FTE) staff to FTE specialists per hour

Staffing needs are entered as a ratio, compared to one specialist. For example, you may need 1.0 FTE (full time equivalent) medical assistants per 1.0 specialist, but only .50 FTE billing staff per 1.0 specialist. The worksheet will calculate the FTE support staff, in the various categories, needed per FTE specialist.

These ratios can be obtained from MGMA or from the specialists' own experience.

Using the hours per specialty provider entered in Worksheet I, Worksheet III calculates the ratio of additional staff to specialists on an hourly basis.

Step 6: Estimate expenses

The worksheet is set up to calculate ancillary costs (lab, imaging, and pharmacy) for uninsured patients only. If you provide ancillary services in-house to all patients, including those with insurance, the workbook will have to be modified to reflect the revenue and/or expenses for ancillary services for those patients.

Worksheet III also includes a cell to input extra facility costs. These should be included only if the specialty services will lead the clinic to incur additional facility expenses. A clinic may have facility capacity and not incur additional costs, or may need to rent space for one specialty but not another. The "facility costs" cell should therefore be filled with the total additional fixed costs to be incurred, if any.

Worksheet IV: The Bottom Line

The final worksheet does not require additional data from you; it simply consolidates the calculations from previous worksheets to provide estimates of the overall financial viability of specialty services at your clinic. For each specialty service, it compares market capacity visits and clinic capacity visits (from Worksheet I), average revenue per visit (from Worksheet II), and average expense per visit (from Worksheet III) to derive a net profit or loss per visit and an overall net profit or loss from specialty services.

Password

The password is "specialty."