

# Meeting Agenda

- I. Preliminary Key Findings**
- II. Preliminary Recommendations**
- III. Next Steps / Action Items**
- IV. Best Practice Case Studies**

University Medical Center, Inc.

**UL** OF Health Care

## Key Findings



DRAFT

Ad Hoc Operations Committee

May 9<sup>th</sup>, 2012

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# Strategic Operations Assessment

## FINANCIAL ANALYSIS

Debt Capacity Study

## GROWTH STRATEGIES

Market Positioning

Physician Alignment

Service Line Offering

Asset Planning

Reform Readiness

## OPERATIONAL EXCELLENCE

Capacity Management

Trauma  
Operating Room  
Oncology  
Stroke

Cardiology  
Orthopedics  
Other Key Service  
Lines

Department  
Optimization

## CLINICAL EXCELLENCE

Clinical Outcomes

Patient Safety

Patient Education

## ORGANIZATIONAL COSTS

Supply Chain

Labor Efficiency

## REVENUE CYCLE

Denials Management

Charge Capture

Self Pay Management

Pricing & CDM

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# Strategic Operations Assessment

## Current State Assessment

DASHBOARD	2012	Summary	Trend
Growth Strategies	Market Position	↓	—
	Physician Alignment		
	Service Line		
	Return Readiness		
Operational Excellence	ER	↔	+
	Trauma		
	OR		
	Oncology Neuroscience		
Clinical Excellence	CMS Core Metrics	↔	+
	HCAHPS		
	SCIP		
	ER		
	Trauma		
	OR Oncology Neuroscience		
Organizational Costs	Labor	↓	—
	Supply Chain		
Revenue Cycle	Pre-Encounter	↔	—
	Encounter		
	Post-Encounter		
Financial Assessment	Liquidity Ratios	↓	—
	Capital Structure		
	Profitability Ratios		
	Activity Ratios		
	Other Debt Capacity		

## KEY FINDINGS

- Maintaining the status quo is not viable.
- Operational improvements are essential regardless of partnership.
- Growth opportunities appear to exist if aggressive action is taken.
- Quality improvement initiatives have been successful - ongoing improvements required.
- Variability exists in key service line operations and clinical outcomes.
- Organizational structure consists of misaligned incentives.
- Disparate IT systems negatively impact clinical and operational effectiveness.

## PRELIMINARY RECOMMENDATIONS

- Find a partner that enables UMC to increase access points and expand PCP-base.
- Develop a strategic plan with a revitalized organizational Mission and Vision.
- Pursue 3 - 5 LEAN initiatives for operational, economic, and cultural improvements.
- Engage with ULP to promote closer alignment and integration.
- Pursue service line growth initiatives with support from ULP.
- Evaluate the structure to ensure aligned incentives for all parties.
- Assign individual ownership to each improvement initiative.

# #1. Maintaining the status quo is not viable.

## Debt Capacity Study Approach

### Base Model Development

- Historical performance
- Management Plans
- Future Operations Forecast
- Healthcare Reform

### Rating Agency Comparison

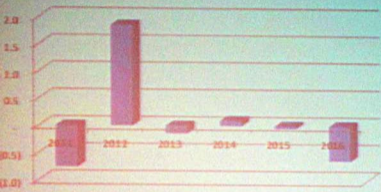
Compared forecasted financial results to rating agency comparative information.

### Scenario Modeling

Will model specified operational and strategic initiatives to understand overall economic impact.

# #1. Maintaining the status quo is not viable – Debt Capacity Summary.

### Operating Margin



### Debt Service Coverage



### Days Cash on Hand



### Key Assumptions

- 2011 – 2012 Comparison
  - Cost related to unsuccessful merger
  - Modest increases in volume
- 2012 – 2013 Comparison
  - Passport Reductions: \$12.9M
  - EHR Investment: \$11.5M
  - Medicare Reductions due to Reform

# #6

# #1. Maintaining the status quo is not viable – *Debt Capacity Summary.*

Operating Margin

Debt Service Coverage

## Debt Capacity Summary

- Operating margins are forecast to decline due to continued decreases in reimbursement.
- Days cash on hand is forecast to decline as reserves will be needed to support operations.
- Without operational improvement and/or strategic initiatives, the Hospital has **no debt capacity** and could experience **significant financial risk**.

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- EHR Investment:

\$11.5

# #1. Maintaining the status quo is not viable - *Ratio Trends.*

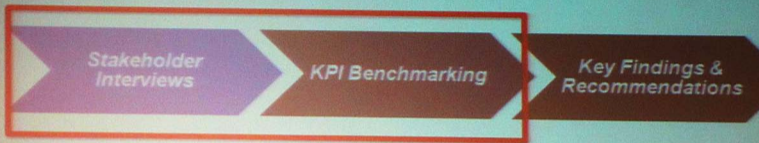
	2012	2013	2014	2015	2016	S&P	Moody's
Operating Margin						<BBB	<Baa
Excess Margin						<BBB	<Baa
Days cash on hand						<BBB	<Baa
Cushion Ratio						BBB	Baa
Maximum debt service coverage						<BBB	<Baa
Long-term debt capitalization	26.8	27.2	26.1	24.3	22.8	AA	Aa
Average age of plant						AA	A
Days in accounts receivable	53.0	53.0	53.0	53.0	53.0	BBB	Baa
Average payment period	77.2	76.2	77.0	78.4	75.9	BBB	Baa
<b>Overall likely rating</b>						<b>&lt;BBB</b>	<b>&lt;Baa</b>

Source - Standard & Poors Not-For-Profit Health Care System Medians by Rating Category 2010  
 Moody's Investor Service Medians by Broad Rating Category, FY 2010



# #2. Operational improvements are essential regardless of partnership – Revenue Cycle.

## Revenue Cycle Approach



## Analysis Components & Grouping

Pre-Encounter	Encounter	Post-Encounter
Scheduling	Clinical Care	Claims Preparation
Medical Necessity Determination	HIM	Claims Submission
Pre-Registration	Coding	Third Party Follow-Up
Registration/Insurance Validation	Charge Capture	Self-Pay Follow-Up
Insurance Verification	Charge Entry	Rejection Processing
Pre-Certification	Charge Description Master	Payment Posting
Financial Counseling	Billing Master	Payment Validation
Point of Service Collections		Denial and Appeal Management
		Contracts
		Uncollectible Management

## #2. Operational improvements are essential regardless of partnership – *Revenue Cycle.*

### Front Line Accountability

*As reimbursements continue to shrink and margins continue to tighten, more emphasis will be placed on Revenue Cycle processes. Individual ownership and accountability for Revenue Cycle should be assigned to one individual.*

### Recommendations

- Evaluate clinical documentation program for potential case mix index increase (.01 increase yields \$400K).
- Develop a point-of-service collection program (improvement to best practice performance yields \$288K).
- Immediately analyze DNFB figures / process, improvement to best practice (14.7 to 3.3 days) accounts for \$57.6M.
- Analyze and develop a process to improve cost to collect measures (\$14.6M impact).

## #2. Operational improvements are essential regardless of partnership – **Labor Efficiency.**

DP

### Labor Efficiency Approach

Collect Labor  
Performance  
Data

Define  
Compare  
Criteria &  
Volume

Normalize  
Compare Data

Run &  
Analyze  
Department  
Reports

### Compare Group Characteristics

1. Member of UHC
2. Member of Council of Teaching Hospitals
3. Magnet Hospital
4. Similar Department Volume

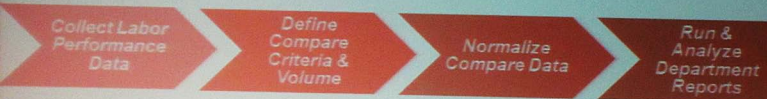
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## #2. Operational improvements are essential regardless of partnership – *Labor Efficiency*.

DP

### Labor Efficiency Approach



### Compare Group Characteristics

1. Member of UHC
2. Member of Council of Teaching Hospitals
3. Magnet Hospital
4. Similar Department Volume

Total Negative Labor Expense Variance	
25th%-tile	\$27,810,546
50th%-tile	\$13,290,000
75th%-tile	\$3,350,060

## #2. Operational improvements are essential regardless of partnership – *Supply Chain.*

### Strengths

- Operates a Procurement Center for best efficiency, accuracy, and cost effectiveness.
- Recognized as Superior among Group Purchasing peers at Premier.
- Deployed resources for the Recovery of High Cost Supply Items in the delivery of indigent care.
- Pharmacy manages a Tight Pharmaceutical Formulary.
- Efforts are currently underway to Improve Supply Chain Processes in Surgical Services, Oncology, Medical, and Pharmacy.

### Opportunities

- Price and Commodity Negotiations	\$ 300,000.00
- Standardization of Suppliers	\$1,660,000.00
- Waste of Supplies	\$ 880,000.00
- Utilization of Supplies	<u>\$1,160,000.00</u>
Estimated Total Savings:	*\$3.3M-\$4.0M

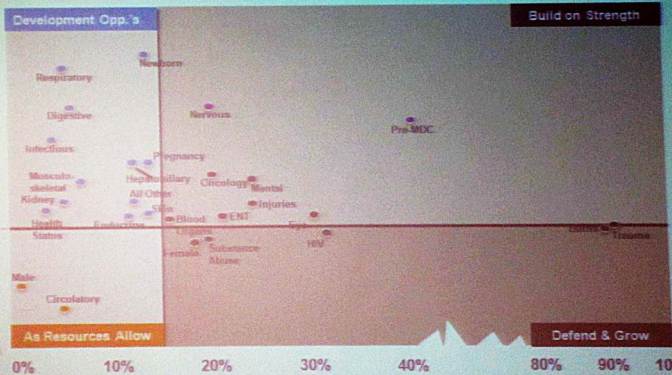
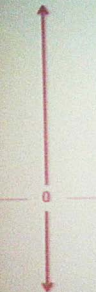
\*Can be realized over the next 12 months.

### 3. Growth opportunities appear to exist if aggressive action is taken.

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U of L Market Share = 14%

High Impact  
(contribution/profit)



U of L IP Market Share = Strength

### #3. Growth opportunities appear to exist if aggressive action is taken.

<u>Service Lines</u>	<u>U of L Current Market Share</u>	<u>Market Leader</u>	<u>5% Market Share Increase</u>
Oncology	24.0%	Norton	\$ 1,787,551.25
Nervous	24.1%	Norton	\$ 4,357,077.41
Trauma	90.7%	U of L	\$ 330,464.87
Digestive	9.5%	U of L, Norton, Jewish	\$ 4,692,725.98
Musculoskeletal	11.1%	Norton	\$ 8,428,927.89
<b>Total</b>	<b>14%</b>	<b>NORTON</b>	<b>\$ 19,596,747.40</b>
# of ULP Physician FTEs	490		
% of FTEs Practicing at UMC	24%		

#### Strategic Necessities for Physician Engagement

1. Economic Alignment: Co-Management, Bundled Payments, Risk-based Contracting
2. Clinical Alignment: Performance Improvement Incentives
3. Strategic Alignment: Marketing, Branding, Market Penetration

## #4. Quality improvement initiatives have been successful – ongoing improvements required.

### Value-Based Payment Calculator

U of L Score

24

Out of 100

Performance Period: Q2 2010 – Q1 2011

Payback Factor: 2.1

Baseline Period: Q3 2009 – Q2 2010

### Financial Impact

Withheld:	\$353,646
Expected Payment:	\$71,124
<b>Lost Revenue:</b>	<b>\$282,521</b>



## #4. Quality improvement initiatives have been successful – ongoing improvements required.

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### Value-Based Payment Calculator

U of L Score

43

Out of 100

Performance Period: Q3 2011 – Q4 2011

Payback Factor: 2.1

Baseline Period: Q3 2009 – Q2 2010

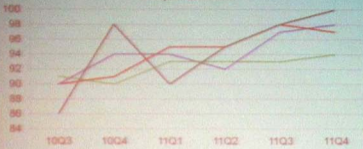
### Financial Impact

Withheld:	\$353,646
Expected Payment:	\$387,232
<b>Incremental Revenue:</b>	<b>\$33,586</b>

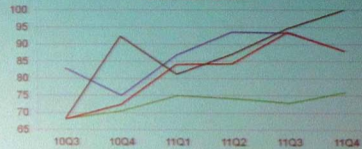
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# #4. Quality improvement initiatives have been successful – ongoing improvements required.

Composite Scores



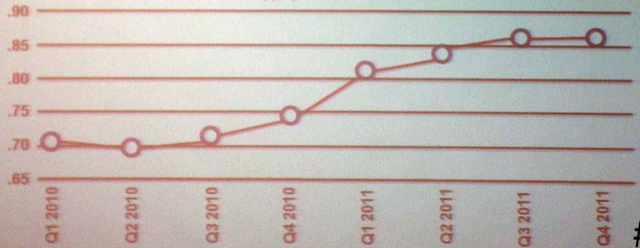
Perfect Care Scores



— SCIP — PN — HF — AMI

— SCIP — PN — HF — AMI

CMS Appropriate Care Measure



## #5. Variability exists in key service line operations and clinical outcomes.

Performance Indicators	Key Service Lines			
	ED	Trauma	Neuro	Oncology
<b>Positive Service Line Operations &amp; Clinical Outcomes</b>				
Readmissions	N/A	+	+	+
Clinical Outcomes	+	+	+	+
Volumes	+	0	+	+
<b>Variable Service Line Operations &amp; Clinical Outcomes</b>				
Physician Relations	0	+	+	-
Throughput	-	+	-	-
Outreach	-	-	+	-
APN Utilization	-	+	-	-
<b>Negative Service Line Operations &amp; Clinical Outcomes</b>				
Vision & Strategy	-	-	-	-
Capacity	-	-	-	-
IT	-	-	-	-

## #6. Organizational structure consists of misaligned incentives



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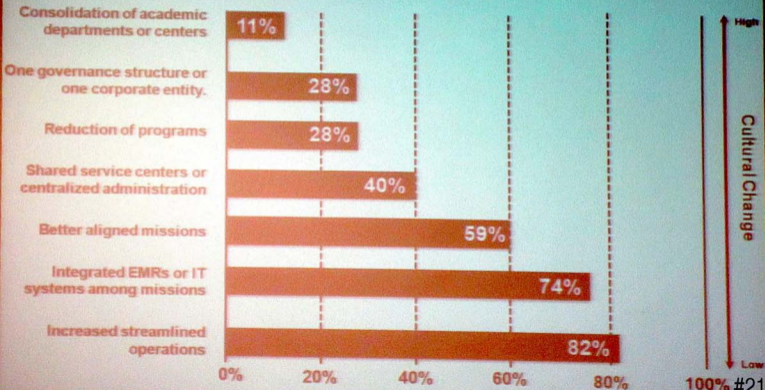
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**LOUISVILLE**

University of Louisville Physicians



## #6. Organizational structure consists of misaligned incentives.

Organizational Misalignment: Old AMC Structure not Designed to Address New Challenges



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**DHG**  
**Recommendations**








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**Ad Hoc Operations Committee**  
*May 9<sup>th</sup>, 2012*

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## Big Picture Recommendation

Even with operational and strategic improvements, the economic viability of University Hospital is questionable at best. DHG believes that University Hospital should explore partnership opportunities in conjunction with the following improvements to make itself a more suitable partner:

-  *Develop a strategic plan with a revitalized organizational Mission and Vision.*
-  *Pursue 3 – 5 LEAN initiatives for operational, economic, and cultural improvements*
-  *Engage with ULP to promote closer alignment and integration.*
-  *Pursue service line growth initiatives with support from ULP.*
-  *Evaluate the structure to ensure aligned incentives for all parties.*
-  *Assign individual ownership to each improvement initiative.*
-  *Find a partner that enables UMC to increase access points and expand PCP-base.*

## Next Steps / Action Items

**I. Finalize Key Findings & Recommendations**

**II. Conduct Economic Scenario Modeling**

**IV. Create a High Level Action Plan**

**IV. Deliver Final Presentation**



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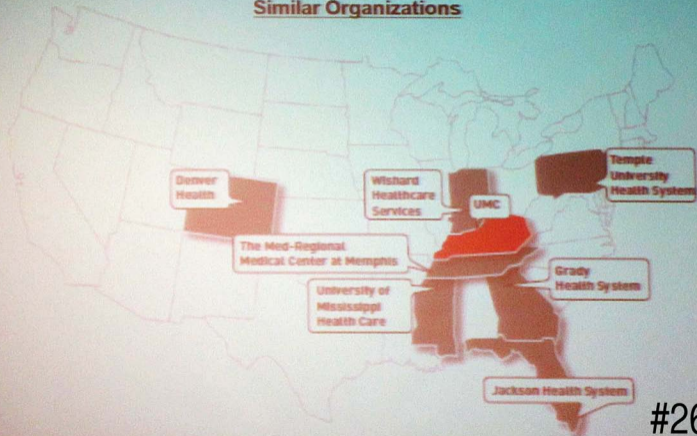
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**Similar  
Organizations:**

**Case Studies &  
Best Practices**

**#25**

### Similar Organizations



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