Understanding Departmental Finances

New Chairs Program

March 4, 2021

Disclosures

- None

Today's Objectives

- Understand funds flow and what that means
- Learn key areas that you need to familiarize yourself with as a new chair, tools, and concepts
- Hear how to work with your administrator to ensure financial sustainability

Academic Medicine

Funds Flow Basics

In the Perfect World an AMC's…

- **Education Mission** is fully supported by tuition and fees,
- **Research Mission** is fully supported by grants and contracts,
- **Clinical Mission** (regardless of specialty) is supported by patient care revenue

Reality: Where's the Money?

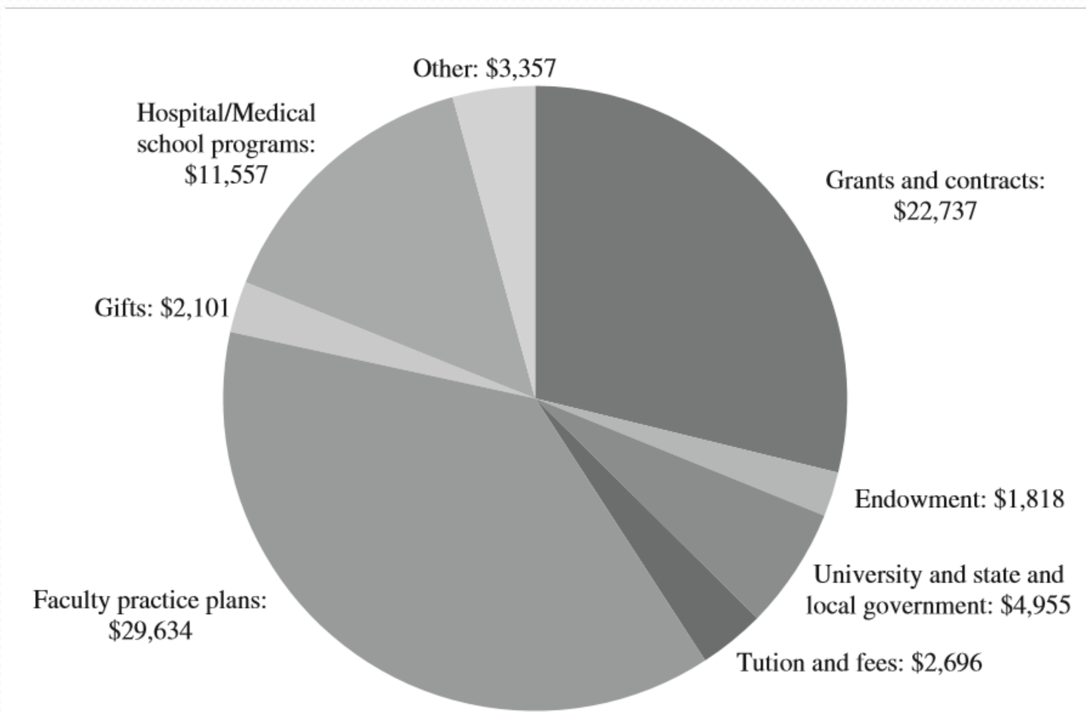

Figure 1 U.S. medical schools' annual revenues in millions by source, 2007–2008. Total revenue was $78.9 billion.[3]

Clinical revenue – 55%
Tuition - 4%
Research – 30%
Endowments – 5%
Other – 6%

NOTE: Great variation among institutions- state/private

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Realities of…Education

Expenses:

- Medical student teaching effort – UME
- Resident & fellow teaching effort – GME
- Program & Fellowship director support (ACGME mandates)
- Support/backstop for housestaff stipends and fringe (including time off)
- Recruiting and retainment costs (wellbeing, social events, etc)
- Research and QI expenses
- Curriculum and conference/accrediting costs

Revenue:

- Tuition and fees
- CHGME or CMS
- Endowments
- Dean's allocations
- Additional hospital support

Realities of…Research

Expenses

- Startup packages
- Salary caps and cost share
- Indirect cost (F&A) caps and return
- Unfunded departmental research (junior investigators, etc)
- Regulatory & compliance costs
- Research development infrastructure (grants hub, CCRU, IRB review, concept review, K clubs, grant writing, etc)

Revenue

- Federal awards
- Research foundation
- Clinical trials/Clinical trial residuals
- Training grants
- Professorships
- Development/donations

NOTE: For every NIH dollar it is estimated that it costs at least 1.25 dollars to the institution

Realities of…Clinical

Expenses/Losses

- Clinic expenses and overheads (staff, space, equipment)
- EMR/IT
- Regulatory compliance and quality
- Revenue management/cycle expenses (coders, prior authorization, registration, etc)
- Charity care/bad debt
- Declining reimbursement
- Cognitive specialties with low E & M payments
- Non-reimbursed care such as call coverage
- Payor mix and contract rates

Revenue

- Direct patient care receipts
- Hospital contracts for medical directorships and coverage
- DSH payments
- IME/DME for resident costs from hospitals
- State and federal clinical contracts
- Outreach contracts
- Quality incentives
- Development/donations

Key Points to Understand

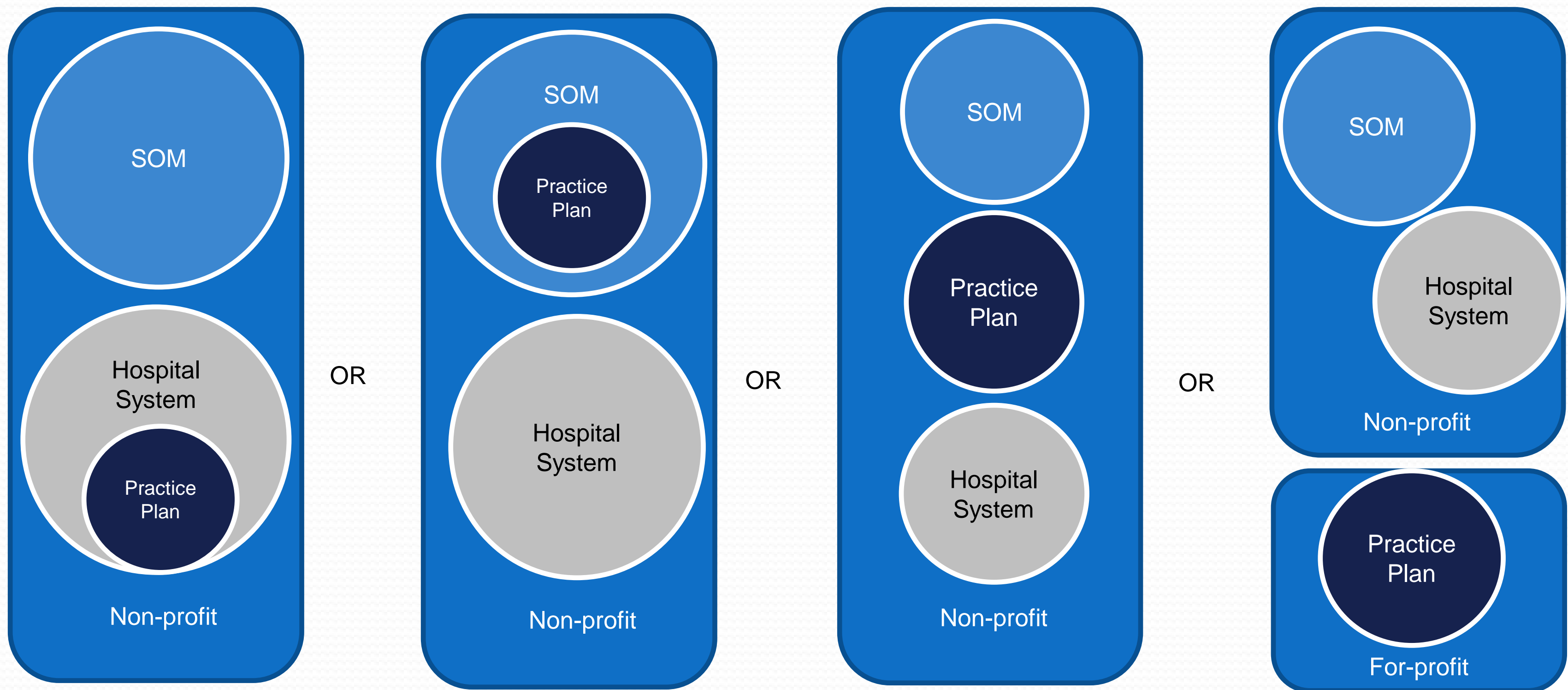
Many of these items related to funds flow relates to how your institution is set up – organizational and governance.

- What is the organizational and governance relationship between your department and the SOM, hospital/health system and the practice plan?
    - Are the entities non-profit or for-profit?
    - How are the physician faculty employed?
    - Who sets physician faculty compensation and productivity metrics?

There are many variations of the arrangements and thus funds flow but it is important to know so you can understand the context on how and why things work they way they do.

AMC Structure – Different models

(governance + organizational structure)



Or another variation…

Influencing Finances

Key Factors

Department Metrics

Key Performance Indicators can impact your funds flow:

- Clinical revenue and expenses
- Previous budget and actual data (P & L info)
- Revenue data (payor mix, collection rates, DRO and A/R)
- Research metrics – direct and indirects, indirects/square feet, unfunded research, commitments that are unfunded (K- awards and delta between NIH cap and salaries)
- Education metrics – pass rate, education cost share by the department, diversity recruitment %
- Endowments- balances and distribution rate
- Clinical Metrics (cFTE, Work RVU's, access metrics)

Hospital or Practice Plan Support

Many hospitals/practice plans gain DSH support or are eligible for 340B purchasing program due to Medicaid volumes. If your funds flow has a hospital component, identify:

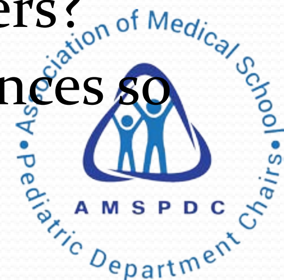
- Clinical coverage support - subsidy or PSA contracts, what do they cover (call, moonlighting, etc)
- ACGME Program support (if not CHGME)
- Leased physician time for administrative roles (pay % effort vs flat dollar amount)
- Resource support request process
- Budget Cycle
- Any quality payments/incentives

Considerations For You

- Review departmental KPI before you start your job
- Understand how the money flows in your organization
- Understand major sources of revenue
- Learn major expense components
- Know your institutional indirect rate and return model from SOM to department
- Find historical "deals" or arrangements made
- Understand benchmarks and data you should monitor regularly

Questions For You

- How do the funds flow (expenses and revenues) in your institution (hospital/health system, SOM, practice plan, department)?
- What productivity metrics (clinical and academic) are used that impact your funds flow?
- Where your department fits in the medical school - winner or loss leader?
- Who negotiates with the hospital – department, medical school or practice plan?
- What levers do you have access to in order to manage the budget and what are the pros and cons associated with those levers?
- How can you work with your administrative team on finances so that it is a win- win?



Panel Discussion

Perspective from Departments with Different Funds Flow Models

Department Perspectives

Category	Duke University	University of South Florida (USF)
Organizational Status and Structure	SOM (Private university; Non-Profit), Practice Plan (For-Profit), Hospital System (Non-Profit)	SOM (State university; Non-Profit), Practice Plan (Non-Profit), multiple hospital partners (Non-Profit)
Physician Employment Status	Employee (SOM) and Self-Employed (Practice Plan)	Employed (SOM and Practice Plan)
Physician/Faculty Numbers	Approximately 200 primary physician and PhD Faculty 18 Clinical Divisions (including primary care and specialty care); 1 Academic Division	Approximately 90 physician and PhD Faculty 15 Clinical Divisions (including primary care and specialty care); 1 Academic Division
Education and Research	4 Residency Programs + 25 ACGME Fellowship Programs (over 135 residents/fellows) FY20 Research - $81M in direct and $24M indirect expenditures	2 Residency Programs + 3 ACGME Fellowship Programs (approx. 70 peds and med-peds residents, neonatology fellows, and allergy/immunology fellows) FY20 Research - $13m in direct and $1m indirect expenses
Clinical Operations	Own and manage clinical operations and budgets for practice plan ambulatory clinics Do not oversee hospital inpatient or hospital ambulatory operations; subsidy contracts with 2 hospitals for physician service.	Management and oversight of 5 ambulatory clinics; do not retain cash receipts from practice Administer multiple clinical contracts and other agreements at 3 hospitals.

Funds Flow	• Must balance academic and clinical books of business like an ”R – E” model:
	    • Practice Plan = retain all clinical cash earned; pay for all practice plan expenses
	    • Academic = cover deficit
	• Contracts with hospital for some clinical service, GME support and medical directorships
	• Support from SOM for teaching and some indirect sharing
		• Practice plan – margin target set by practice plan
		• Academic and grant funds must net zero
		• Contracts, GME and directorships flow into practice plan budget
		• Support from medical school for UME teaching