Budgeting and Forecasting to Meet Your Strategic Planning Needs in Home Health

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Objectives

• Provide essential tools for long term budgeting in home health services

• Identify the factors relevant to long term budgeting and the range of variation in those factors

• Explain the budgeted safeguards and contingencies necessary in a Medicare home health program budget and forecast
VNA of Boston & Affiliates

Key Statistics

- Provided nearly 180,000 visits to 12,000 patients in 2012
- Payer mix: Medicare 50%, Medicaid 10%, Commercial 40%
- $44 million operating budget
- VNA Hospice Care provides end of life/palliative care, average daily census is 169
- VNA Private Care provides private duty and companion services, average 78,000 hours annually

CLINICAL CENTERS OF EXCELLENCE
Cardio Pulmonary Rehab
Diabetes Management
Maternal Child Health
Wound Care

PROGRAMS
- Care Calls - Check in calls to patients after discharge
- Community Blood Pressure Clinics and Community Resource Specialists
- HomeSafe – Reducing re-hospitalizations
- Telehealth Home Monitoring

127 + Years Old...

Visiting Nurse Association of Boston & Affiliates

First home health care agency in the United States
Home care, hospice, private care, corporate wellness program, chronic care management, clinical centers of excellence
Highly mission focused
History of collaboration... and innovation
Greater Boston service area and growing... seeing 2,000+ patients every day
Industry leading outcomes

"Twas up to the roof where the nurse must go" Photo circa 1210
## Steps and Process in Budgeting

- **Strategic Planning**
  - Market and Industry outlook (SWOT, Data marts, interviews, health care marketplace)
  - Development of Strategic Goals and Objectives
- **Forecasting**
  - Long term – Multi-year projections (3, 5?)
  - Short term – Current year
- **Budgeting**
  - Operating budget – Annual plan
  - Capital Budget – Major Purchases with return > 1 year
  - Cash Flow Budget – Impact of projections on cash

## VNA of Boston Strategic Planning

- **Setting Strategic Direction**
  - Standing committee of the Board
  - Best if supported by outside consultant
  - Experts used to educate the Board
  - Mission, Vision and Values are reviewed
  - Looks at external environments and trends
  - Creates plan typically across three years
  - Management provides data and context for internal environments
  - In some cases Board provides oversight on process but management prepares plan
VNA of Boston Strategic Planning (cont.)

- Creates output and recommendation to the full Board
  - Identifies the Strengths, Weaknesses, Opportunities and Threats (SWOT)
  - Reports on the Key Strategic Goals
    - Organized to be SMART (Specific, Measurable, Achievable, Realistic, Timely) E – Extend capabilities and R - Reward
  - Management prepares Strategic Objectives and Initiatives (tactics) to accomplish goals
    - Initiatives should be laid out by identifying R - Responsibilities, A – Accountabilities, C – Consults by key managers and I – Informed members of the team (RACI)

VNA of Boston Forecasting

- Identify Key Assumptions for the multiyear Forecasts
- Create model to help relate single and multi-variable changes
- Global Model was designed for three year view and to update annual forecasts to begin the annual budget planning cycle
- Model is high level - but uses key variables or “drivers” to address key changes in revenues and expenses
- Use High, Medium, Low for risk and likelihood
Global Model and Long Range Forecast

VNA OF BOSTON
PLAN 2014 - 2016
DRIVERS

<table>
<thead>
<tr>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>Change</th>
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<tbody>
<tr>
<td>NOI - Projections</td>
<td>210,338</td>
<td>208,229</td>
<td>205,776</td>
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<tr>
<td>CHANGE</td>
<td></td>
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<tr>
<td>Direct FTE's incl contract</td>
<td>160.71</td>
<td>160.71</td>
<td>150.22</td>
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<tr>
<td>Indirect FTE's (excl Salaries)</td>
<td>140.25</td>
<td>140.25</td>
<td>136.28</td>
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<tr>
<td>Revenue/Volume</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicare Admissions</td>
<td>6,103</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Episodes per Admission</td>
<td>1.43</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicare Episodes</td>
<td>8,809</td>
<td>8,738</td>
<td>8,604</td>
<td></td>
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<tr>
<td>Medicare LUPA percent</td>
<td>11.7%</td>
<td>11.7%</td>
<td></td>
<td></td>
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<tr>
<td>Medicare Episode Rate</td>
<td>$2,528.80</td>
<td>$2,536.60</td>
<td>$2,528.80</td>
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<tr>
<td>Medicare Caseweight - Full</td>
<td>1.3490</td>
<td>1.3490</td>
<td>1.3490</td>
<td></td>
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<tr>
<td>Medicaid Episodes</td>
<td>1,928</td>
<td>1,029</td>
<td>1,020</td>
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<tr>
<td>Medicaid Initial Rate</td>
<td>$1,027.31</td>
<td>$1,027.31</td>
<td>$1,027.31</td>
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<tr>
<td>Medicaid Subsequent Rate</td>
<td>$1,595.38</td>
<td>$1,595.38</td>
<td>$1,595.38</td>
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<tr>
<td>Other Payer Rates - (Nursing)</td>
<td>$109.70</td>
<td>$109.70</td>
<td>$109.70</td>
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<tr>
<td>Medicaid FFS Visits</td>
<td>2,264</td>
<td>2,330</td>
<td>2,674</td>
<td></td>
</tr>
<tr>
<td>Other Visits - BC/Tufts/Harvard</td>
<td>27,159</td>
<td>25,836</td>
<td>24,075</td>
<td></td>
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</tbody>
</table>

Strategic Planning - Projections

Operating Gain/(Loss) Cuts Reduced

<table>
<thead>
<tr>
<th>Worst</th>
<th>Medium</th>
<th>Best</th>
</tr>
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<tbody>
<tr>
<td>$1,500,000</td>
<td>($1,375,000)</td>
<td>($4,250,000)</td>
</tr>
<tr>
<td>($7,125,000)</td>
<td>($10,000,000)</td>
<td></td>
</tr>
</tbody>
</table>

Volumes Drop

2012 2013

2014
**Annual Operating Plan**

- **Management translates into Annual Operating Plans**
  - Volume and Revenue Projections
    - Medicare Episodes, Medicaid, Commercial FFS, Capitation, Risk Contracts
    - Referral targets projections
  - Expense Projections
    - Salary and Benefits
    - Contracts
    - Medical Supplies
    - Occupancy costs
    - Bad Debt, Interest and Depreciation

**Annual Operating Plan (cont.)**

- **Based on historic trends**
  - Cost versus Benefit of zero based budgeting
- **Includes strategic goals and objectives**
  - New programs; Key investments
- **Begin with fact – build in strong annual forecast**
  - The better the forecast, the better the budget
- **Create model to make changes to assumptions or key variables from Forecast**
  - Build model so “material” revenues and expenses can be modeled
Dignity Health Home Health Agencies

- Not For Profit Health Care system
- Mission:
  - Delivering compassionate, high-quality, affordable health services;
  - Serving and advocating for our sisters and brothers who are poor and disenfranchised; and
  - Partnering with others in the community to improve the quality of life
- 40 hospitals, 32 foundations, 150 urgent care /ambulatory/etc.
- 17 Home Health; 7 Hospices, 1 facility w/for-profit JV
- 5th largest hospital provider in nation
- $1.3B in charity & unsponsored care last year
Projecting Revenue for Budgeting

• Different reimbursement models
  - Fees for direct services
  - Episodic
  - Cap lives – “insurance premiums”

• Suggested approach
  - Use standardized charges associated with the services you provide for Gross Revenue
  - Net Revenue to be the expected amount you will receive in cash
  - Difference between these will be “Revenue or Contractual Allowances”

Projecting Revenue for Budgeting

• For fee for service, use visits, supplies and net rates by discipline by payor grouping to determine net revenue
• Determine all services where you would have a unique rate of charge or reimbursement
• Recommend setting charges at or above 10% of the fully allocated budgeted cost of the service
• Different accounting treatments for bad debts, typically an expense, need to consider
Projecting Revenue for Budgeting

- Traditional Medicare
  - Paid by 60-day episodes
  - Complex
  - Multiple types of adjustments
  - Annually updated by CMS
  - Changes often unpredictable
  - Difficult to understand affects of variables
  - Recommend use of revenue template for predicting Medicare revenue

Medicare Revenue Template

- Can be simple or complex depending upon level of accuracy desired
- Provides ability for “what if” scenarios
- Excellent for making management decisions for improvements, KPIs, Key Performance Indicators
- What would you need to begin
  - Agency historical data: use averages
  - Start with current Medicare variables
  - Adjust with your estimated changes
Medicare Revenue Template

- Suggested data elements to use
  - Medicare admissions
  - Average # patient episodes per admission
  - Average case mix index (non-LUPA only if possible)
  - % of episodes – LUPA
  - % of episodes – PEP
  - % of episodes – Outlier
  - LUPA % with Add-on

Medicare Revenue Template

- PEP episode estimate # of pro-rated days
- Outlier episodes: average # of visits by discipline
- All of the above available to be used for “What if” scenarios
- Use for the Proposed Rule Changes to measure affects
- Template Output Results
  - Estimated number of episodes by type
  - Detailed and consolidated net revenue
    • Can illustrate adjustments
  - Average net revenue per episode
Demo of Medicare Net Revenue Budget Tool

- Inputs
- Results

Field Staff Labor Template Budgeting Tool

- Simple template for computing field staff labor cost with productivity and rate variables
- Needs for entering
  - Hourly rates, use overall averages for each category
  - Productivity factors for visit types
  - Average number of visits per 8-hour working day
  - Define visit types
  - Productive hours not part of visit production
  - Optionally add benefit cost percentage
- Output results: average labor cost per visit by visit type
Demo of Field Staff Labor Template

- Input
- Results

Budget Margin Analysis by Major Payor Group

- Recommended for management decision making
- Analysis provides high level review of projected margins by major payor groups
- “What If” scenarios provides the immediate ability to observe affects of changes
Budget Margin Analysis Tool

- Elements to detail
- Admissions
- Visits
- Gross Revenue, Allowances and Net Revenue
- Direct Expenses or Expenses allocated by service line
- Salaries, Benefits, Contract labor, Other Direct
- Indirect Expenses
- Margin

Sample Budget Margin Analysis Tool

<table>
<thead>
<tr>
<th>Element</th>
<th>Medicare FFS</th>
<th>Medicare Managed Care (non Cap)</th>
<th>Medicare Managed Care (Cap)</th>
<th>Medicaid (Cap)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admissions</td>
<td>34,389*</td>
<td>5,337*</td>
<td>176*</td>
<td>1,888*</td>
</tr>
<tr>
<td>Gross Revenue,</td>
<td>$10,867,550</td>
<td>$1,667,510</td>
<td>$57,196</td>
<td>$613,037</td>
</tr>
<tr>
<td>Visits</td>
<td>34,389*</td>
<td>5,337*</td>
<td>176*</td>
<td>1,888*</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$10,867,550</td>
<td>$1,667,510</td>
<td>$57,196</td>
<td>$613,037</td>
</tr>
<tr>
<td>Cost of Services</td>
<td>$4,416,573*</td>
<td>$693,106*</td>
<td>$27,455</td>
<td>$405,644*</td>
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<tr>
<td>RN</td>
<td>$1,730,660*</td>
<td>$246,626*</td>
<td>5,735*</td>
<td>97,062</td>
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<tr>
<td>ST</td>
<td>$734,646*</td>
<td>$8,560*</td>
<td>1,133*</td>
<td>1,233*</td>
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<tr>
<td>OT</td>
<td>$351,407*</td>
<td>$53,132*</td>
<td>2,462*</td>
<td>23,386</td>
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<tr>
<td>MSW</td>
<td>$116,284*</td>
<td>18,175*</td>
<td>337*</td>
<td>6,233</td>
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<tr>
<td>HHA</td>
<td>$130,583*</td>
<td>40,423*</td>
<td>181*</td>
<td>2,353</td>
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<tr>
<td>Total</td>
<td>$6,839,343*</td>
<td>$1,038,057</td>
<td>$37,122</td>
<td>$411,685</td>
</tr>
<tr>
<td>Total EXP</td>
<td>$6,839,343*</td>
<td>$1,038,057</td>
<td>$37,122</td>
<td>$411,685</td>
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<tr>
<td>MARGIN</td>
<td>$1,175,514*</td>
<td>$78,065*</td>
<td>($4,881)*</td>
<td>($613,037)</td>
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<tr>
<td>Margin %</td>
<td>16.40%</td>
<td>0.90%</td>
<td>(15.14)%</td>
<td>(15.14)%</td>
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</table>
Capital Budgeting

Usually for Assets with useful lives greater than 1 year and over a certain dollar threshold

Capital can be used for creating value or return on investment for key elements including:

• Mission related services
• Replacement of existing assets
• New Initiative or profit motivation

Capital Budgeting (Cont.)

• Capital project decision-making process
  ▶ Generation of Project Information
    • Cost data, Benefits, Resources, Risks
  ▶ Evaluation of Projects
    • Rating of the impact to the overall goals
    • Cost Benefit Analyses
    • Return on Investment (ROI)
  ▶ Decision matrix
    • Develop tool that includes weighting of benefits
  ▶ Project Implementation and reporting
    • Tracking and providing updates along the way
Cash Flow - Budgeting

- Operating and Capital Budgets – Completed but need to determine the impacts on Cash
- Cash is generated from sources
  > Operations
  > Fundraising
  > Debt
  > Cash/Investments
- Usually look at Operating Budget and add back non-cash items (depreciation)
- Changes in Current assets and liabilities should be included

Cash Flow - Budgeting (cont.)

- Need to look at revenue and expense streams when starting a new program – impacts cash during growth mode
- Revenues – Look at payment histories
- Expenses – Payroll weekly/bi-weekly and other expenses based on commitments and A/P runs
- Based on Uses – Determine the level of Sources for Funding Operations and Capital
- Lines of Credit can cover gaps and contingencies
- Regular monitoring of Cash is important
Wrap - Up

- Provided structure for current and long term budgeting in home health services
- Identified tools and the key variables including Medicare revenue and salary expenses in preparing forecasts and annual budgets
- Identified margin analysis and capital budget analysis
- QUESTIONS?