Sample #1 – Case Study outline

This is an actual submission from a Certified Medical Practice Executive working toward completion of the Fellowship requirement.

American College of Medical Practice Executives

Case Study Topic and Outline
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Improving the Financial Health of an Imaging Center through a Hospital Joint Venture

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This case study outline is being submitted in partial fulfillment of the requirements for election to Fellow.
Statement of Problem

In 1989, an academic radiology department opened a freestanding imaging center inside a new medical office building on the grounds of a large academic medical complex. The complex consisted of a medical school, research facilities, medical offices, and a large hospital. The center’s mission was to serve the imaging needs of the academic practices that were moving into the new building. The radiology department used imaging center surpluses to fund non-clinical activities within the radiology department. With a few exceptions, the center grew in both test volume and revenue each year until 2006.

Medicare and Medicaid Services (CMS) reduced payments for multiple images taken on the same patient at the same visit beginning in January 2006. In addition, the Deficit Reduction Act passed in February 2006 further reduced spending on imaging services. In fact, overall nationwide Medicare spending in this area declined by 14 percent between 2006 and 2008. By July 2008, the center revenue was beginning to decline, even though case volume continued to grow by about 4 percent over the prior year. Financial projections for fiscal year 2009 (July 2008 – June 2009) estimated the imaging center would lose close to $300,000.

Along with this declining revenue, new demands were placed on the center, requiring additional staff. For example, patients and referring physicians wanted expanded service hours. Additionally, some insurance companies began requiring pre-authorizations for testing. Referring physicians expected the center to secure these approvals.

Finally, the hospital, which was also experiencing declining reimbursements, questioned the center’s necessity. If the declining revenue trend was not stopped or reversed and the new service expectations were not met, the center would continue to lose money and could eventually be forced to cease operations.

Arriving at Alternative Solutions

An evaluation team, formed in November 2008, began to address the imaging center problems. The team, led by the radiology department business administrator, included a financial representative from the hospital, the operations manager from the imaging center, the operations manager from the hospital and a representative from the medical school. The team met weekly for two months to brainstorm possible solutions. During this period, the two operations managers networked with their colleagues from other institutions to assist in the search for alternatives.
**Alternate Decisions Considered**

**Do Nothing**

**Pros:**
1. Center management maintains control of facility and staff.
2. If significant volume growth occurred, revenue increases may be enough to continue operations even with reduced reimbursements per case.
3. Most of the imaging equipment would be paid off in five years, freeing up over $500,000 per year.

**Cons:**
1. Future reimbursement reductions were being discussed (e.g. combined payment for CT of abdomen/pelvis).
2. The hospital would continue pressuring the imaging center to address the competitive situation between the two entities.
3. Doing nothing does not respond to the need for additional funds to improve the non-imaging services (e.g. longer hours, pre-authorizations, etc.).

**Sell the Center to the Hospital:**

**Pros:**
1. The new capital infusion would fund improvements in other areas of the department.
2. Staff and other imaging center costs become the joint venture's responsibility.
3. Both entities could standardize imaging, research and training protocols.

**Cons:**
1. Department would lose control of center management and operations.
2. Value of depreciated equipment might not be enough to pay back current loans, thus forcing the radiology department to use reserve funds to clear the loans.
3. There was no guarantee that the hospital would keep the center open or that the hospital would not favor its facilities over the centers.

**Create Imaging Center Joint Venture with Hospital**

**Pros:**
1. A separate joint venture was already in place at an affiliated imaging center so the legal research and structure existed.
2. With a management agreement, radiology department could still maintain control of day-to-day operations.
3. Equipment ownership stays with the center. By making lease payment to the center, the joint venture takes over the expense.
4. Staff and supply costs shift to the joint venture.
5. The billing of the technical component of imaging as hospital-based service increases revenue for each procedure.
6. Both entities could standardize imaging, research and training protocols.
7. Any positive margin created with the joint venture will be split equally between the partners after a six-month expense reserve account is fully
Note: See attached financial projections for joint venture showing the imaging center before the joint venture and after.

Cons:
1. The imaging center would have to change to the hospital information system, which is more cumbersome than the center system.
2. Under the current system, the imaging center billed global fees for all procedures and kept all revenue. Under the joint venture, the imaging center owners would only receive the professional fees, and the technical fees would go to the joint venture. While the imaging center would get a share of the technical revenue, there would be a delay in receiving them due to need to create a reserve operating account.
3. Creation of the joint venture management board would create more complexity in decision-making.
4. Center would have to devote significant resources to become Joint Commission compliant.

Chosen Solution

The team presented all alternatives to senior management at the hospital, medical school, and radiology department. While the hospital initially favored an outright purchase, the amount of cash required to purchase the equipment and other assets would have been challenging. Since all parties involved had positive experiences with previous joint ventures, the joint venture with the hospital was the chosen solution.

Implementation

1. Department Business Administrator led the implementation team in partnership with hospital vice president of finance.
2. The implementation team used the joint venture structure and legal documents from the affiliated imaging center in the initial discussions.
3. The joint venture established a separate cost center to allow for tracking of all revenue and expenses. It would produce a separate profit and loss statement. A management agreement ensured control of operations remained with the current center management.
4. Both entities selected representatives to form a joint venture board of directors primarily to sign off on legal documents and to agree on profit distributions.
5. The joint venture leased the use of the space and equipment from the center.
6. Any staff and direct costs (e.g. supplies) were charged to the joint venture.
7. Center adopted the hospital information system for scheduling and registration purposes.
8. Entire process took nearly a year for several reasons.
   a. Debate about the legal structure in spite of successful model already created.
   b. Determining fair market value for lease of equipment and space.
c. Adopting the information system of the hospital required extensive development and training of all registration staff.
d. Creation of separate cost center and P&L statements took longer than anticipated due to accounting system constraints.

**Outcomes**

1. Joint venture started in October 2009.
2. Revenue to the imaging center temporarily declined because technical fee revenue went to the joint venture.
3. Joint venture held all profits until it had established a six-month expense reserve, so there were no distributions until January 2011.
4. The joint venture will distribute nearly $400,000 in profits to each partner in the next year.
5. The joint venture leased equipment, space, and employees from the imaging center, thus reducing cost to the imaging center by about $800,000.
6. Between the profit distributions and reduced costs, the end benefit to the imaging center was a net increase in revenue of about $1 million.
7. Plans to add additional locations to the agreement will further increase profits and distributions.

**Lessons Learned**

1. Because a legal structure already exists does not mean that the two sides will not want to review the documents and entire process. Build in time for this.
2. Merging financial data from two different partners is very challenging. Accounting experts should have been involved from the beginning of the process and not after the majority of the other work had been completed.
3. A hospital information system can be more complex for staff and the registration process. The center used both scheduling systems for several months while management created templates trained staff.
4. More frequent communication with staff and those who will be directly affected can alleviate fears of staff reduction and operational changes and reduce resistance to change.

**Recommendations for Other Managers**

1. Carefully construct the implementation team from the beginning. Involve more people early in the process then break them into subgroups if necessary to address their area of expertise.
2. Communicate regularly with the staff about the project status. Be transparent in the process. This will reduce staff anxiety and may reduce resistance to change.
3. Create a detailed implementation plan. Involving an expert in project management to map out the entire process would be beneficial.
4. Build a cash reserve to make up for the temporary loss of technical fee revenue.
ENDNOTES