Negotiating Funds Flow with Your Hospital/SOM
Funds Flow @ Washington University

- Clinical Revenue 72%
- Endowment, DFA, Other Revenue 9%
- BJC Profit Share 9%
- Clinical and Basic Research Grants 10%

- Established through affiliation agreement between SOM and academic hospitals
- Profit-share whereby SOM receives 45% of net surplus of teaching hospitals
- SOM allocates portion back to clinical departments based on WRVU and central overhead expenses for each clinical location
But.................profit share can work both ways:

for every dollar spent on these.......  
Nursing support
Supply chain
Hospital foundation
Medical directorships

means 45 cents “shared” with department
Orthopedics Profit Share by Location

- **BJ Chesterfield**: 40%
- **SLCH West County**: 13%
- **BJ West County**: 2%
- **SLCH- WUMC**: 17%
- **BJ - WUMC**: 28%
Case Study – new orthopedic center

Department began discussions with hospital in 2002 regarding a new off-campus orthopedic facility

Department case for change:
• current off-campus site was at max capacity
• service excellence would never be optimal in a highly complex, multi-specialty academic medical center
• new technology is shifting service delivery to outpatient-based models
• And changing patient expectations........

✓ Easy access
✓ Convenience
✓ Quality outcome
✓ Excellent service
✓ Coordinated care
✓ Reasonable cost
Hospital case for status quo:

- high volume, high margin cases will leave campus hospital
- duplication of facility and services
- cannibalization of existing business not new growth
- “domino effect” of service lines leaving hospital
- competing with private physicians at other system hospitals
- lack of trust in department achieving goals
• Discussions come to a

• Department and Faculty Practice Plan present business case to University Board of Trustees

• Trustees vote to proceed with or without hospital participation

• Discussions resume
What we were able to agree upon:

- separate ownership of facility and revenue streams
- operating agreement to define relationship:
  - joint governance
  - scope of services
  - performance metrics with penalties for shortfalls
  - co-management of operations and capital improvements
  - extension of hospital profit share formula to new site
  - exit language with right of 1st refusal
new center opens fall 2007

department office visits

CAGR = 23%
Patient satisfaction improves
Case Study – community hospital site

The business opportunity
• new community hospital in desirable market location
• fastest growing county in the state
• business growth attracting millennials with young families
• pediatric practices aligned with University already in place
• strong payer mix

The hospital’s issues
• dependent on private physician groups that refer patients to their own ASC and imaging facilities
• leakage to competing hospital systems
• limited orthopedic pediatric coverage
• negative profit margin
The department’s issues
• would need to recruit physicians and APPs
• no profit share arrangement with hospital
• very competitive orthopedic market
• ED coverage
• pro forma shows deficits in first 2 years but good margins thereafter

The ask
• we request an amount up front to cover start-up
• hospital offers a much smaller amount – citing private physician opposition, Stark II laws, setting precedent, etc.
• we point out advantages to hospital e.g. downstream revenue, reduced patient leakage, pediatric coverage, etc.
• hospital improves offer and we accept
AOC Survey on funds flow arrangements

32 programs responding
AOC survey results – denote all sources of support

- Chair Support: 28%
- GME Program Director: 26%
- GME Administrative Coordinators: 22%
AOC survey results – rank by amount of support

1. Chair-Support
2. Support for Oncology Faculty
3. Support for Pediatric Faculty
4. Support for new faculty hires
5. Call coverage
6. Support for new clinical faculty hires
7. Research support (beyond your Chair package)
8. Revenue from Krey
9. Revenue from Physical Therapy
10. Revenue from MNI
11. Revenue from DME
12. Gain-sharing or shares of profitability
13. Coverage agreements tied to other hospitals
AOC survey results - other pearls & comments

- “We try to leverage the value of an Orthopaedic surgeon to the system by looking at margin data from service line”

- “Sit on funds flow committee, identify win/win scenarios for FF requests, build relationships with key influencers”

- “Gain share with hospital. Propose attractive hospital savings that physicians drive and split the savings between the department and the hospital for 12-24 months with a commitment of that savings in perpetuity. Obviously going after the fixed cost DRGs will yield largest bang for buck.”

- “We are accruing almost 1 MM annual back to the department from gain sharing that we split with the divisions that they can use to support their programs- research or others. Our hospital will gain share on any cost savings that improve quality or keep it constant. This includes implants, efficiencies, and drugs & medicine.”
AOC survey results - other pearls & comments

• “Our supports primarily come from our relationship with the executive team and Deans office. We are aligned in our strategies and stay coordinated.”

• “Peg your COM support to a metric that allows your support to grow over time as your dept. grows”

• “We are not allowed to individually deal with the hospital. All agreements are determined at Practice Plan level or SOM level. We basically get what we get.”
AOC survey results - other pearls & comments

• “I am very interested in understanding how facilities handle call coverage. I also want to know if Sports Programs produce significant revenue for departments through outreach, contracts and ancillaries.”

• “We are currently recruiting for a new dept. chair. I anticipate a negotiated chair package to include large chair support, including discretionary funding as well as research support.”

• “Comprehensive legal agreements with affiliated teaching hospitals that allow for sustained core funding of aforementioned initiatives.”
Washington University
Orthopedics
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Thanks for listening!