FPM

FEATURE

Determining the True Value of a Family Practice Residency Program

***This financial model enables directors to begin to quantify the intangible contributions that traditional financial reports don't consider*.**

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These are financially challenging times for residency programs. Many are feeling the impact of managed care, reduced Medicare reimbursement for graduate medical education and the Balanced Budget Act of 1997, which has narrowed, and in some cases even eliminated, hospitals' operating margins.

Family practice residency programs are particularly vulnerable as a result of these economic changes. More than 80 percent are based in community hospitals, where many are the only graduate medical education program generating revenue. They typically serve disenfranchised patient populations and have little access to revenues from “high-reimbursement” surgical procedures and specialty consultations that, for example, are available to surgical residency programs. Unstable patient populations, productivity pressures that challenge teaching time and high operating expenses further strain already fragile budgets.

With financial resources declining, residency programs are under increasing pressure from sponsoring institutions and their governing bodies to show a positive contribution to the bottom line.

Determining true value

While traditional profit-and-loss statements do a good job of quantifying revenue and expenses generated by teaching and patient care activities, they fail to recognize the indirect and intangible benefits of a residency program, such as the contribution that a program makes to the “mission,

vision and value" of the sponsoring institution and the money the sponsoring institution saves by having to recruit fewer physicians.

KEY POINTS:

- Residency program directors are being increasingly pressured by their sponsoring organizations to show a profit.
- Directors need a financial model that encompasses all of the revenue and expenses generated by teaching and patient care as well as the more intangible contributions.
- The financial model presented here encapsulates the true costs and broad benefits of a residency program. Because it is data-driven, it will also withstand a financial audit.

To survive in the current economic climate, residency directors must show the true worth of their programs. This requires a new financial model with the ability to capture and quantify these indirect and intangible benefits. The model must also be data-driven so that it can withstand a financial audit; comprehensive enough to meet the varying needs of residency programs, hospital finance departments and the governing boards of sponsoring institutions; and generic enough to be applicable in a majority of training settings.

While we still consider the model we've developed to be a work in progress, we've found it to be an effective starting point for encapsulating the true costs and broad benefits that a residency program offers its sponsoring organization and the local community.

The model

Our model began as a simple budgeting spreadsheet developed for the AAFP's Residency Assistance Program (RAP) workshop titled "Reality-Based Budgeting." We later used it in a budgeting exercise for the AAFP's Fundamentals of Management course, where it evolved to include a more detailed perspective of cost accounting and revenue source identification. We reformatted it and further refined it through the RAP "Focused Financial Issues" consultation. Reduced Medicare reimbursement and other environmental pressures prompted us to further refine the model in order to identify any and all positive financial contributions made by residency programs.

The financial analysis model

Traditional profit-and-loss statements account for the direct costs and revenue generated by a family practice residency program but fail to recognize the other valuable contributions that a residency program makes to its sponsoring institution. We've created a new model that better captures the value of these more elusive contributions.
To apply the model, simply assign a dollar amount to each of the descriptors. Many of the numbers you'll need can be obtained from financial reports from the previous fiscal year. Others, such as "revenue adjustment" and "intangible revenue," will need to be estimated or calculated with the help of your program administrator or your institution's financial department. Not all items will apply to all residency programs.

Download in MSWORD format (https://www.aafp.org/content/dam/brand/aafp/pubs/fpm/issues/2000/0600/p39-rt1.doc)
Most program directors will be familiar with the financial terms listed in the model. Those who aren't should consider asking for assistance from their institution's financial department or should seek additional training in residency finance. [See the educational resources and additional reading.]

To use the model, plug in the corresponding dollar amounts next to each applicable line item. Many of the figures, especially direct revenue and expenses, can be found in standard hospital cost accounting reports and billing and collections data (traditional profit-and-loss statements) from family practice centers. Some of the numbers for indirect revenue cost avoidance and expenses are more difficult to obtain because they have to be estimated. This requires working with the program administrator or the institution's financial department to determine agreed-upon values for these categories. It is especially difficult to quantify intangibles. The best way may be to analyze them in terms of "what happens if they go away."

Information about indirect revenue, cost avoidance and expenses typically can be gleaned from the following sources:

- Annual hospital finance reports to government entities (e.g., a Medicare cost report);
- Patient accounting systems that separately identify cases involving residents (e.g., the marginal contribution to fixed costs through program admissions to inpatient units);
- Hospital data that can be used to calculate cost savings (e.g., the average cost per case avoided by using residents as surgical assistants);
- Program-specific tracking systems (e.g., referrals to local consultants resulting in utilization of sponsoring institution's facilities or average revenue received from admissions by local

surgeons and other specialists);
- Other reports that can reliably be used to support estimates (e.g., average marginal contribution to fixed costs through local and regional referrals to specialists that result in inpatient admissions, outpatient procedures or ancillary services provided within the system).

In addition, doing a little research (e.g., determining the cost of recruiting a primary care physician to the institution) can also yield valuable information.

Caveats

Although we've attempted to be as comprehensive as possible as we've developed this model, there are some significant caveats. First, not every institution has true cost data available. This will make it difficult for some programs to calculate indirect benefits. In addition, many primary care practices, particularly those in markets heavily penetrated by managed care, operate with an acknowledged deficit that is absorbed by a larger "system."

Educational resources

The following programs are designed for directors of family practice residencies interested in strengthening their financial management and leadership skills.

The American College of Physician Executives offers a broad range of educational seminars for physicians who have just begun to explore a management career as well as for the seasoned physician executive. More information is available at http://www.acpe.org/education/index.aspx (http://www.acpe.org/education/index.aspx).

The National Institute for Program Director Development provides new directors with the foundational skills they need to understand the financial realities of running a residency program. The institute includes three structured learning sessions, an advisorship with an experienced program director, and a longitudinal project. More information is available at http://www.afmrd.org/i4a/pages/index.cfm?pageid=3319 (http://www.afmrd.org/i4a/pages/index.cfm?pageid=3381).

The Residency Assistance Program holds an annual workshop for faculty and staff of family practice residencies and also offers a "Focused Financial Issues" consultation to help program directors and administrators improve their programs' financial statements and develop strategies for sound fiscal management. More information is available at https://www.aafp.org/rap (https://www.aafp.org/online/en/home/aboutus/specialty/rpsolutions.html).

Also, because this model doesn't separate the family practice center from the residency program, it can't be used to compare the family practice center with other local clinical facilities. In fact, very little data has been published comparing the financial deficits incurred by a residency family practice center with those of family practice offices in the same market. This is an area that could clearly benefit from additional investigation.

A final word

As experienced teachers and program directors ourselves, we've recognized the need for a financial model that incorporates all of the contributions residencies make to their sponsoring institutions and local communities. In fact, some of the driving forces that precipitated the creation of the model were actual problems posed to us by program directors attending our workshops and presentations.

In these challenging times, every family practice residency director should be working toward identifying *all* that a residency program contributes to its sponsoring organization and local community. Relying solely on profit-and-loss statements to determine the value of a residency program is an inappropriately narrow point of view and a potentially costly mistake that should be avoided whenever possible.

Additional reading

1. Woodcock EW. "Assessing Primary Care's Contribution to Centers.". *Medical Group Management Journal.* 1999;46(2):14-18.

2. Casey L, Gillanders WR, Oprandi AM, et al. “Economic Analysis of Family Practice Residency Programs: A Report From the Northeastern Ohio Network.”. *Family Medicine.* 1995;27(7):424-430.

3. Kahn NB, Pugno PA, Brown TC. “Transferring Hospital Sponsorship of a Family Practice Residency: Financial Implications.”. *Family Medicine.* 1991;23(8):620-623.

4. Kues JR, Sacks JG, Davis LJ, et al. “The Value of a New Family Practice Center Patient to the Academic Medical Center.”. *Journal of Family Practice.* 1991;32(6):571-575.

5. Schneeweiss R, Ellsbury K, Hart LG, et al. “The Economic Impact and Multiplier Effect of a Family Practice Clinic on an Academic Medical Center.”. *Journal of the American Medical Association.* 1989;262(3):370-375.

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