



Preparing Laboratory Leaders for Today and Tomorrow

A joint collaboration between



Preparing a Budget for Pathology and Laboratory Services



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Objectives



INTRODUCTION

Upon completion of this course, you should be able to:

- Prepare and justify a budget for a hospital or clinical laboratory
- Calculate a fee schedule to meet the Budget
- Determine the cost of a new test



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Case Study



INTRODUCTION

How to start the budgeting process

It is July 1st, your hospital (healthcare system) administrator has asked you to prepare the annual budget for your laboratory - a preliminary budget should be ready by September 15th.

What information do you need to begin the process?



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Budget Impacts



INTRODUCTION

Strategic Plan, Operational Plan and Pro-forma

- New programs
- Expanded programs
- Reduced or discontinued programs
- Revenue/profit goals
- Last Year's Budget and Management Reports

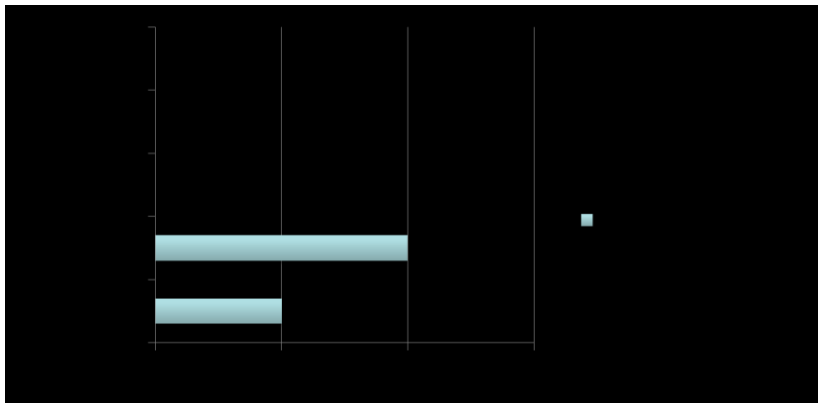


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Budget Calendar



INTRODUCTION



Phase 1: Planning

- Review strategic plan
- Create wish lists
- Prioritize within the department

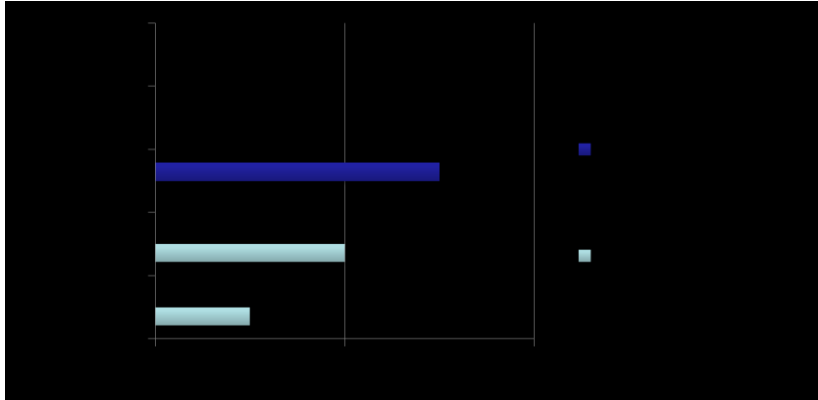


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Budget Calendar



INTRODUCTION



Phase 2: Budget Negotiation

- Negotiate preliminary budget with administration

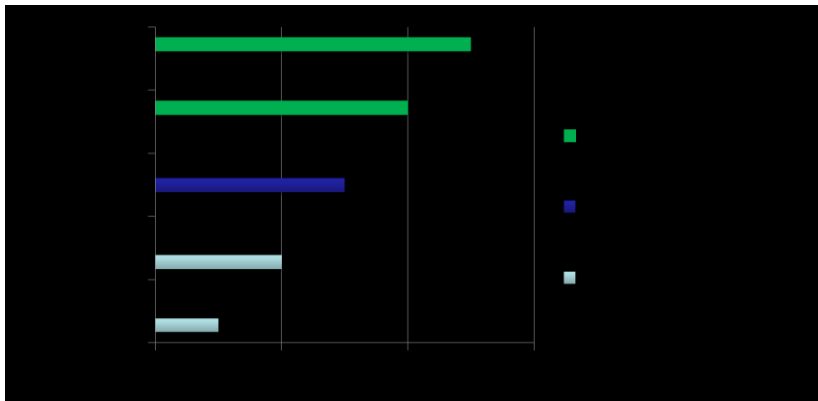


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Budget Calendar



INTRODUCTION



Phase 3: Submission & Approval

- Submit final budget to administration
- Receive approved budget



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Budget Components



INTRODUCTION

- Capital
- Income
- Personnel
- Operating (Supply & Expense)
- Indirect expenses (Overhead)



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Capital Budget



This is the purchase of asset that has expected useful life of more than one year.

The purchase is reflected on the hospital's balance sheet. The actual purchase is not calculated into profit or loss for the year.

It does, however, appear in the operational budget of the laboratory and is an expense item listed as Depreciation.



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Justification



CAPITAL BUDGET

Why do we need this new instrument?

- Necessary to meet governmental requirements
- Necessary for patient or employee safety
- Replace item in order to continue operation
- Provide marked improvement in patient care
- Enhance productivity and/or reduce costs
- Improve patient or employee satisfaction
- Improve operating efficiency
- Improve quality



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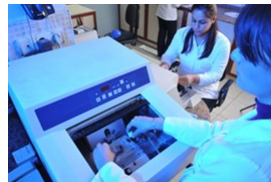
Technology Assessment



CAPITAL BUDGET

Why is this instrument the best?

- Measure Clinical Utility - does the technology make a difference in patient management or outcome?
- Do the clinicians want or need the new technology?
Need the clinicians input.
- Is the technology accurate, sensitive and reproducible?



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Equipment Costs



CAPITAL BUDGET

How much will this cost?

- Instrument costs
 - Depreciation
 - Maintenance
 - Calibration
 - Quality Control
 - Space
 - Utilities
 - Hook-up
 - Installation



Equipment Costs



CAPITAL BUDGET

How much will this cost?

- Labor Costs
 - Direct
 - Indirect
- Material Costs
 - Reagents
 - Pipettes
 - Paper
 - Indirect



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CAPITAL BUDGET

Return on Investment (ROI)

ROI = (gain from investment minus cost of investment) divided by cost of investment

Acquisition Options (financing decisions)

- Purchase
- Lease
- Reagent Rental (Cost per test)
- Used Equipment



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Knowledge Check

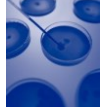
Scenario

The histology laboratory is interested in purchasing a rapid tissue processor to replace an existing machine. The cost of the equipment is \$200,000 . An analysis of FTE savings due to faster processing time and decreased reagent usage is estimated at \$3500 per month. The equipment has a useful life of 5 years. What is the return on investment percentage? Would you purchase this equipment? If your savings were only \$2000 per month would you make the same decision?

Initial cost of equipment	200000	200000
Useful life in months	60	60
Savings per month	3500	2000
ROI	5.00%	-40.00%

Submit

Sources of Revenue



INCOME

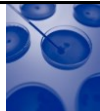
Current and Estimates for Coming Year

- Medicare (In/Out Pt, A/B)
- Medicaid
- Private Insurance
- Managed Care including ACO
- Professional (Management) Fee
- Other (Incentives, HIT, PQRS, etc)
- MINUS Discounts and contractual allowances



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Relevant Factors



PERSONNEL
BUDGET

- Evaluation of current workload and productivity
- Expected workload
- Changes in productivity
- Changes in staffing/scheduling
- Changes to accommodate new or expanded programs



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Justification



PERSONNEL
BUDGET

This is similar to capital justification plus...

- Increased workload and productivity
- Improved service (e.g., decreased TAT)
- Decreased length of stay
- Increased revenue or decreased cost (e.g., reference test in house)



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Knowledge Check



PERSONNEL
BUDGET

Scenario

Current lab has 50 FTEs and does 5,000,000 WLU. Assume that next year you have a 20% increase in workload from 5,000,000 to 6,000,000 WLU and a 5% improvement in productivity from 48 to 50 WLU/hour.

How many FTEs will you need ?

Submit



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Supplies and Expenses



OPERATING BUDGET

This includes

- Reagents
- Supplies
- Purchased services (blood, reference lab)
- Maintenance
- Physician fees
- Education/travel
- QA
- Depreciation
- Leases
- Transfers to other departments
- Rent and utilities for satellite labs
- Marketing
- Transportation and communication costs
- Computer costs
- Safety



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Supplies and Expenses



OPERATING BUDGET

Calculations

Current Operating Budget

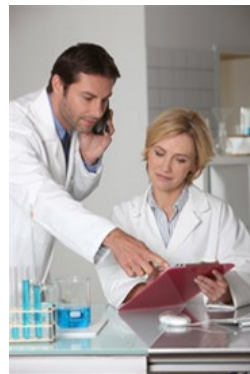
X

% Change in Workload

X

% Change in Inflation Rate

Projected Operating Budget



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Indirect Expense Budget



INDIRECT EXPENSES

Common overhead expenses allocated to the laboratory

- Space (Buildings and maintenance). Based on square feet.
- Utilities - based on square feet
- Hospital Administration - based on % of revenue
- Personnel Services - based on % of Personnel budget
- Purchasing services - based on % of Operating budget



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Rate Setting



COST-DRIVEN PRICING

Balancing the budget requires that **income = expense**.
Often the fee schedule and rates must be modified.

Cost-driven Pricing Method

- Gross expected revenue - deductions and allowances - budgeted direct and indirect expenses = net revenue
- Net revenue plus profit (5-10%) = adjusted gross revenue
- Adjust current fees to meet new adjusted gross revenue



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Knowledge Check



Scenario:

Calculate a new fee schedule based on the following projections and a demand from administration for net revenue of 5%

Anticipated Gross Revenue using Current Fees	\$50,000,000
Deductions and Allowances	-30,000,000
Direct expenses	-12,000,000
Indirect Expenses	-8,000,000
Required Profit	5,000,000
Net Revenue	(5,000,000)

<Click to add response>

Submit

Test Cost Analysis



Test Cost Analysis may be needed when introducing new procedures

- Prime Cost
 - instrument cost including maintenance
 - direct material costs
 - direct labor costs
- Indirect Costs
 - general laboratory supplies
 - indirect labor (supervision/training)
 - other indirect (research)



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Test Cost Analysis



TEST COST ANALYSIS

- **Laboratory Overhead**
 - Specimen collection & processing
 - Result reporting
 - Laboratory Information System
 - Laboratory management and direction
 - Continuing Education - School of Medical Technology
 - Quality Assurance
 - Marketing
 - Communication
 - Depreciation
- **Hospital Allocated Overhead**
- **Total Test cost = Sum of all the above**



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Summary



Preparing a Budget for a Laboratory requires you to know:

1. The Institution's Strategic Plan
2. How to get the entire laboratory staff involved
3. Skills in prioritizing and negotiation
4. Knowledge of healthcare financing
(Where does the money come from?)
5. How to justify the various expenses
6. How to determine the cost of a test
7. How to set the fees to achieve a positive bottom line



Congratulations



COMPLETION
REQUIREMENTS

You have successfully completed the online learning course:

Preparing a Budget for Pathology and Laboratory Services

Credit is awarded upon successful completion of the post-test.

- Access the post-test by exiting the course and returning to the course content page.
- Click the link Post-Test to take the exam. You must score 80% in three attempts for credit to be awarded.

Interested in applying these best practices on the job?

- You can download LMU Educational Tools and Resources from your Learning Plan in LMU.
- Please join the discussion in the Lab Management University online communities of practice. The more you participate and share, the more everyone can benefit including you and your team.



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Think about it



CONCLUSION

You don't get paid for the hour. You get paid for the value you bring to the hour. -*Jim Rohn*

Reference

Rohn JH. Brainy Quote website.
<http://www.brainyquote.com/quotes/j/jimrohn388566.html>. Accessed December 17, 2013.

