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Redwood Coast Medical Services Expansion of Urgent Care Services

Coast Life Support District
Gualala, California
November 6, 2013



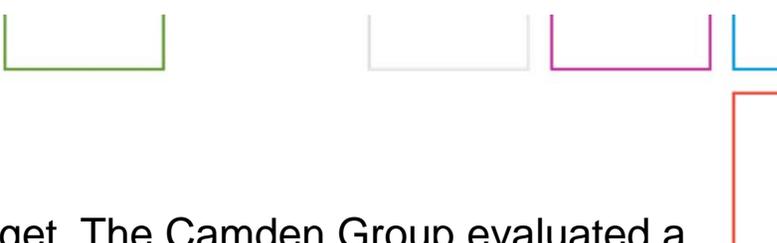
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Introduction

- The Camden Group was engaged to assess the reasonableness of the projected costs associated with plans to expand Coast Life Support District's ("CLSD") operating hours at the Redwood Coast Medical Service ("RCMS") urgent care clinic.
- The Camden Group made efforts to assess the reasonableness of the following aspects of RCMS's analysis:
 - ▶ The fiscal year ("FY") 2014 budgeted cost estimates
 - ▶ The incremental costs associated with extending the urgent care clinic's on-call coverage to supplement its current operating hours
 - ▶ The reasonableness of RCMS's current revenue per visit
 - ▶ If another model could be more appropriate to meeting the urgent care needs of the community outside a federally qualified health center ("FQHC")



Income Statement Assessment

- To assess the expense levels in RCMS's FY 2014 budget, The Camden Group evaluated a variety of sources and identified an urgent care facility located in Northern California to use as a comparison due to its location, size, and services offered.
- Since RCMS receives tax revenue and also maintains hours and patient access for community benefit and not for revenue maximization, the comparison to more traditional urgent care centers is not highly relevant.
 - ▶ The results show that RCMS operating costs are similar to the similar sized urgent clinic example included.
 - ▶ However, it should be noted that RCMS actual costs in 2012 were 9.0 percent lower than the budget for fiscal year 2014. This represents about a 3.7 percent increase year-over-year which is within the expected range of a 2.0 and 4.0 percent. Factoring an escalation into the tax proposal will be essential to long term sustainability.
- The table on the following page depicts the results of the comparison.

Income Statement Assessment

Redwood Coast Medical Services
Urgent Care Budget
Fiscal Year Ending 2014

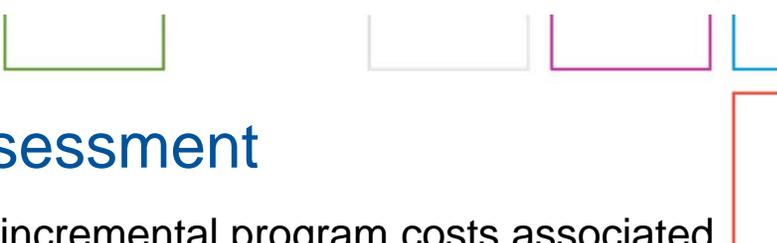
	RCMS 2012 Actual	RCMS Budgeted Income Statement (Current Operation Hours)	Example Urgent Care Clinic
Operating Revenue			
RCMS Urgent Care Related Revenues	\$494,669	\$487,498	
Contract Services (CLSD Tax Proceeds)	150,000	150,000	
Other Revenue	76,250		
Total Operating Revenue	\$720,919	\$637,498	\$1,333,620
Expenses			
Non-provider Wages	\$252,171	\$240,708	\$159,545
Non-provider Benefits	67,818	75,823	\$45,470
Contracted Services ⁽¹⁾	185,160	208,000	299,213
Furniture and equipment	492	3,494	3,713
Building and occupancy	29,490	17,893	58,476
Medical and surgical supply	33,965	31,838	13,509
Radiology and imaging	9,838	30,000	16,319
Clinical laboratory	5,900	5,318	12,374
Admin supplies and services	13,657	19,990	8,549
Promotion and marketing	683	1,706	12,000
Other insurance premiums	1,081	5,851	67,830
Miscellaneous operating cost	23,745	25,358	19,230
Building/occupancy depreciation	11,083	11,560	67,830
Value Of Donated Facility	0	16,000	n/a
Furniture/equipment depreciation	6,505	11,376	4,673
Total Operating Expenses	\$641,589	\$704,917	\$788,731
Non-Operating Expenses			
Cost allocated to practice from parent	\$176,557	\$171,925	\$0
Total Operating Expenses After Allocation	\$818,146	\$876,842	\$788,731
Net Operating Income	(\$97,227)	(\$239,344)	\$544,889

/Clients/Coast_Life_Support_District/Business_Plan_2013/Financial/[CLSD_RCMS_Urgent_Care_Financial_Analysis.xlsx]Inc_Benchmark

Source: RCMS and The Camden Group.

Note: "n/a" signifies line items in which benchmarking data is not available.

⁽¹⁾ Provider Costs are contracted and included here.



Incremental Cost Reasonableness Assessment

- The Camden Group reviewed RCMS's analysis of the incremental program costs associated with offering additional hours of service at the urgent care.
- Our analysis consisted of the following:
 - ▶ Review of RCMS's original incremental cost analysis (shown on the next page) in addition to discussions with leadership about which services and staff would be required to provide the additional coverage.
 - RCMS only plans to offer on-call coverage during the additional hours of operation.
 - Given that all operations would remain consistent aside from the additional on-call coverage, it is reasonable to assume that the only incremental costs would be related to the on-call coverage.
 - To be conservative, no additional patient volume or revenue was projected with the expanded hours. Projected volume data is not readily available, but historical experience suggests that there would not be a significant shift in volume.

Incremental Cost Reasonableness Assessment

Original RCMS Urgent Care Cost Analysis

Urgent Care Cost Analysis (1)

	10/5 (Current) Option	10/7 Option	12/7 Option	16/7 Option	24/7 Option
Hours/Day =	10	10	12	16	24
Days/Week =	5	7	7	7	7
Hours/Year =	2,600	3,640	4,368	5,824	8,736
Visits/Year (2) =	4,000	4,000	4,000	4,000	4,000
Revenue/Visit =	\$ 115	\$ 115	\$ 115	\$ 115	\$ 115
Total Operating Revenue =	\$ 487,498	\$ 487,498	\$ 487,498	\$ 487,498	\$ 487,498
CLSD Existing Parcel Tax Receipt Contribution(3) =	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000
RCMS Total UC Related Revenue =	\$ 637,498	\$ 637,498	\$ 637,498	\$ 637,498	\$ 637,498

RCMS UC Related Expenses

Additional Hours/Year (4) =		1,040	1,768	3,224	6,136
Cost/Hour of PA/MD and X-ray/Lab (5) =	\$ -	\$ 160	\$ 160	\$ 160	\$ 160
Additional Cost of PA/MD and X-ray Technician =		\$ 194,400	\$ 310,880	\$ 543,840	\$ 1,009,760
Total Operating Expense (6)(7) =	\$ 704,917	\$ 704,917	\$ 704,917	\$ 704,917	\$ 704,917
Allocation of Administration (6)(7) =	\$ 171,925	\$ 171,925	\$ 171,925	\$ 171,925	\$ 171,925
Total RCMS UC Related Expenses =	\$ 876,842	\$ 1,071,242	\$ 1,187,722	\$ 1,420,682	\$ 1,886,602
Projected RCMS Loss/Year =	\$ (239,344)	\$ (433,744)	\$ (550,224)	\$ (783,184)	\$ (1,249,104)

Additional UC Related CLSD Expenses - Already Funded from Proceeds of Existing Parcel Tax

CLSD Administrative Overhead (8) =	\$ 23,662	\$ 23,662	\$ 23,662	\$ 23,662	\$ 23,662
Triage Telephone Service (9) =	\$ 25,454	\$ 25,454	\$ 25,454	\$ 25,454	\$ 25,454
Total CLSD UC Related Expenses =	\$ 49,116	\$ 49,116	\$ 49,116	\$ 49,116	\$ 49,116

Assumptions underlying the above computations:

- 1) An annual cost escalation factor is to apply to the contracted amount. The CPI-U for Medical Services will be used for this purpose
- 2) Visits would not increase with additional hours- based on historical data
- 3) Receipt of \$150,000 per year of proceeds from existing CLSD Parcel Tax
- 4) All additional hours would be on-call
- 5) Cost of \$160/hour is based on a cost of \$100/hr. for a PA and \$30/hr. for an X-ray Technician, backup MD
MD supervision at \$30/hr. or \$160/hr. for an MD with x-ray certification plus \$8,000/year for scheduling and \$20k for contingencies such as phone/pager, additional pharmacy costs (since the local pharmacies wont be open) and a bit more malpractice wrap-around.
- 6) No additional overhead or administration would be required
- 7) No additional liability/malpractice insurance is needed
(completed three years ago) and review of each patient call record, which are faxed to RCMS immediately upon termination of a call
- 8) 10% of Evan Dilk's (CLSD Operations Manager) time and 20% of Scott Foster's (CLSD District Administrator)
- 9) Continued use of Team Health Nurse Triage Telephone Service at slightly enhanced service level



Incremental Cost Reasonableness Assessment

- We also performed an analysis of RCMS' projected incremental costs associated with the additional on-call coverage (RCMS' projection shown on the following page).
- Based on conversations about the services provided with RCMS leadership, comparison to like entities, and The Camden Group's experience, RCMS's original assumption regarding the categories of positions required for on-call personnel, as listed below, is appropriate:
 - ▶ A physician for supervisory/consultation support
 - ▶ A physician assistant
 - ▶ A radiological technologist

Incremental Cost Reasonableness Assessment

Detailed RCMS Incremental Cost Projections

Redwood Coast Medical Services
Redwood Coast Medical Services' Estimated Incremental Impact
Fiscal Year Ending 2014

	10/5 (Current) Option	10/7 Option	12/7 Option	16/7 Option	24/7 Option
Additional Annual Staffing Cost					
Additional Operating Hours Per Year	0	1,040	1,768	3,224	6,136
Physician On Call Hourly Rate	\$0.00	\$30.00	\$30.00	\$30.00	\$30.00
Physician Assistant's Hourly Rate	\$0.00	\$100.00	\$100.00	\$100.00	\$100.00
Radiology Technician's Hourly Rate	\$0.00	\$30.00	\$30.00	\$30.00	\$30.00
Total Hourly Cost	\$0.00	\$160.00	\$160.00	\$160.00	\$160.00
Total	\$0	\$166,400	\$282,880	\$515,840	\$981,760
Incremental Annual Costs					
Additional Annual Staffing Cost	\$0	\$166,400	\$282,880	\$515,840	\$981,760
Phones Annual	0	8,000	8,000	8,000	8,000
Other Annual	0	20,000	20,000	20,000	20,000
Total	\$0	\$194,400	\$310,880	\$543,840	\$1,009,760
Existing Budgeted Costs					
Current Budgeted Operating Expense	704,917	704,917	704,917	704,917	704,917
Allocation of Administration	171,925	171,925	171,925	171,925	171,925
Total	\$876,842	\$876,842	\$876,842	\$876,842	\$876,842
Projected Loss	(\$239,344)	(\$433,744)	(\$550,224)	(\$783,184)	(\$1,249,104)

/Clients/Coast_Life_Support_District/Business_Plan_2013/Financial/[CLSD_RCMS_Urgent_Care_Financial_Analysis.xlsx]RCMS_Est_Cost
 Source: Redwood Coast Medical Services



Incremental Cost Reasonableness Assessment

- The Camden Group used publically available cost data to validate the RCMS projections for incremental costs associated with the expanded hours.
- We identified industry benchmarks for the additional personnel required to work in the urgent care center or serve on-call and compared them to RCMS' cost estimates to assess reasonableness.
 - ▶ A detailed listing of the industry benchmarks utilized can be found in Appendix A.
- The Camden Group used two models to assess RCMS's estimates. Both models provide two personnel able to be on-site, as needed.
 - ▶ It was assumed that RCMS would need to recruit providers from outside the area and would therefore need to compensate them an on-site rate vs. an on-call rate to attract providers that would be locally available to come in as needed.
 - ▶ All hourly rates reflect cash compensation plus benefits. Any on-call payments do not include benefits.
 - ▶ These models are outlined on the following page.

Incremental Cost Reasonableness Assessment

- Model A assumed the same staffing level proposed by RCMS.
 - ▶ A blended rate between MGMA median and 75th percentile was used for the physician assistant to account for the remoteness of the area and the associated difficulty of retaining competent staff, while the other rates reflect median.
- Model B assumed that the additional hours would be staffed by a physician and a paramedic.
 - ▶ The MGMA Western Region Median Urgent Care physician compensation plus 11 percent benefits was used for the physician.
 - ▶ For the paramedic, RCMS's current paramedic step-6 hourly rate plus 25 percent benefits was used.

Incremental Cost Reasonableness Assessment

The differences between RCMS and The Camden Group's rates are shown in the table below.

Redwood Coast Medical Services Estimated Hourly Cost Fiscal Year Ending 2014

Hourly Staffing Costs	RCMS Estimate	The Camden Group Estimates	
		Model A	Model B
Physician Support On-Call Hourly Rate	\$30.00	\$37.00	
Physician Assistant Hourly Rate	\$100.00	\$73.30	
Radiology Technician Hourly Rate	\$30.00	\$44.01	
Physician Hourly Rate			\$136.40
Paramedic Hourly Rate			\$23.53
Total Hourly Cost	\$160.00	\$154.30	\$159.93

/Clients/Coast_Life_Support_District/Business_Plan_2013/Financial/[CLSD_RCMS_Urgent_Care_Financial_Analysis.xlsx]Comparison



Incremental Cost Reasonableness Assessment

- In addition to the direct personnel costs, we applied a 15 percent contingency for unanticipated expenses. This is consistent with standard business planning practices.
- The table on the following page summarizes The Camden Group's estimation of incremental costs associated with the expanded hours. The costs projected by The Camden Group's staffing Model B were utilized because it was considered the more conservative approach.
 - ▶ The total projected costs are consistent with the results of the RCMS analysis.

Incremental Cost Reasonableness Assessment

The Camden Group's Benchmarked Incremental Cost Estimate

- As can be seen from the table, The Camden Group's projections are similar to those of RCMS for the 10/7 option.
- As the hours increase the cost variance gets more significant, particularly due to the 15 percent contingency.

Redwood Coast Medical Services
The Camden Group's Estimated Incremental Impact
Fiscal Year Ending 2014

	10/5 (Current) Option	10/7 Option	12/7 Option	16/7 Option	24/7 Option
Additional Annual Staffing Cost					
Additional Operating Hours Per Year	0	1,040	1,768	3,224	6,136
Physician Hourly Rate	\$0.00	\$136.40	\$136.40	\$136.40	\$136.40
Paramedic Hourly Rate	\$0.00	\$23.53	\$23.53	\$23.53	\$23.53
Total Hourly Cost ⁽¹⁾	\$0.00	\$159.93	\$159.93	\$159.93	\$159.93
Total	\$0	\$166,323	\$282,750	\$515,602	\$981,307
Incremental Annual Costs					
Additional Annual Staffing Cost	\$0	\$166,323	\$282,750	\$515,602	\$981,307
15% Contingency	0	24,948	42,412	77,340	147,196
Total Incremental Annual Cost	\$0	\$191,272	\$325,162	\$592,942	\$1,128,503
Existing Budgeted Costs					
Current Budgeted Operating Expense	704,917	704,917	704,917	704,917	704,917
Allocation of Administration	171,925	171,925	171,925	171,925	171,925
Total	\$876,842	\$876,842	\$876,842	\$876,842	\$876,842
TCG Projected Loss	(\$239,344)	(\$430,616)	(\$564,506)	(\$832,286)	(\$1,367,847)
RCMS Project Loss	(\$239,344)	(\$433,744)	(\$550,224)	(\$783,184)	(\$1,249,104)
Difference in Incremental Cost Between RCMS and TGC Projection	\$0	\$3,128	(\$14,282)	(\$49,102)	(\$118,743)
Percentage Variance from RCMS	0%	2%	-5%	-10%	-12%

/Clients/Coast_Life_Support_District/Business_Plan_2013/Financial/[CLSD_RCMS_Urgent_Care_Financial_Analysis.xlsx]TCG_Est_Cost

(1) It was assumed that no existing non-provider staff will be needed during additional hours of operation.

Note: Sources for all rate estimates are displayed in the appendix near the end of the report

Visit Revenue Comparison

- A comparison of RCMS's projected revenue per visit was performed against two California freestanding urgent care clinics to validate the revenue assumptions and to help determine whether it could be beneficial to consider converting RCMS from a FQHC to an urgent care center with traditional reimbursement. This also is consistent with The Camden Group's experience with urgent care clinics.
- Given that RCMS has a significantly higher Medi-Cal reimbursement rate than most urgent care centers and that governmental payers constitute 50 percent of its visits, it does not appear advantageous to transition from cost-based reimbursement to another model at this time.

**Redwood Coast Medical Services
Revenue Per Visit Comparison
Fiscal Year Ending 2014**

Payer	RCMS	Example Urgent Care Clinic A	Example Urgent Care Clinic B
Medicare	\$109	\$85-\$110	\$85-\$100
Medi-Cal	174	\$70-\$80	\$65-\$70
Crossovers	174	n/a	n/a
CMSP	174	n/a	n/a
CHDP	174	n/a	n/a
Private Insurance	93	\$150-\$180	\$170-\$200
Private Pay and Other	70	\$65-\$70	\$65-\$70
Weighted Average	\$114	\$92-\$110	\$97-\$112

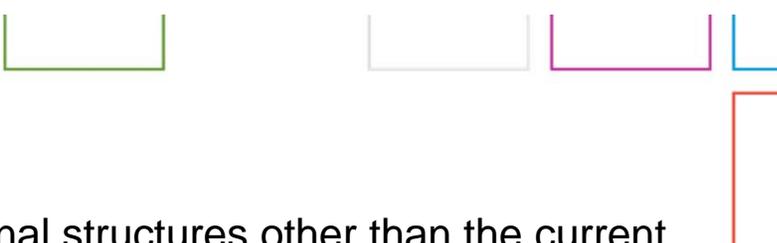
Support_District/Business_Plan_2013/Financial/[CLSD_RCMS_Urgent_Care_Financial_Analysis.xlsx]Revenue_Analysis

Source: The Camden Group and Redwood Coast Medical Services



Findings and Conclusion

- Our comparison of RCMS' operating expenses to industry benchmarks and data from similar organizations suggests that the projected incremental expenses associated with the expanded hours are reasonable in the 10/7 option.
 - ▶ The \$160 of incremental cost for each additional hour estimated by RCMS appears reasonable and allows for flexibility in staffing mix.
 - ▶ For the options with more additional hours, a larger contingency is recommended.
- Due to the level of uncertainty associated with reimbursement levels and the healthcare industry in general, cost estimates should include a contingency component and an annual escalator.
- Our analysis of RCMS' revenue per visit found that:
 - ▶ The RCMS average revenue per visit is consistent with other urgent care centers in California.

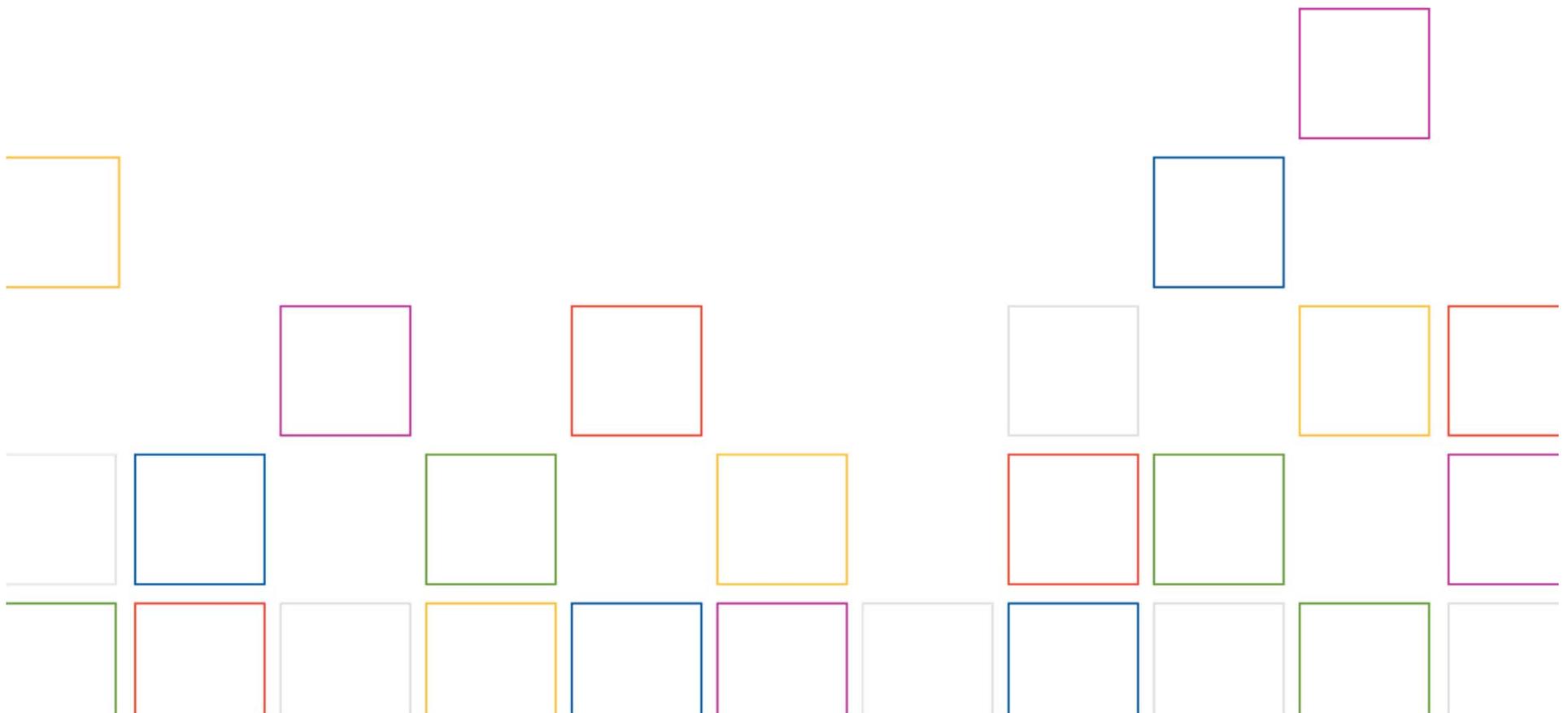


Findings and Conclusion

- The Camden Group assessed urgent care organizational structures other than the current FQHC structure to determine whether those models might be financially advantageous to RCMS.
 - ▶ One structure is to provide a clinic as a department of a local hospital. Due to distance, this model is not an available option.
 - ▶ Another structure used by others is a district clinic designated as a rural health center. Due to the current payer mix, the current FQHC reimbursement rates, and the expense associated with establishing a district clinic this model was determined to not be cost effective.
 - ▶ The Camden Group determined that the current FQHC designation is the most cost effective and efficient structure for the community.

Appendix A

List of Industry Benchmarks Used



List of Industry Benchmarks Used

**Redwood Coast Medical Services
Benchmark Cost Buildup
Fiscal Year Ending 2014**

Metric	Amount	Benchmark
Physician Compensation	\$245,837	MGMA Median- Western: Urgent Care MD Compensation
Physician Benefits as a % of Compensation	11.0%	MGMA Cost Survey: All Practice Types: Western - Family Medicine
Physician Compensation & Benefits Per Hour ⁽¹⁾	\$136.40	
Physician Call Coverage Comp Per Hour	\$37.00	MGMA National Call Coverage Survey: Family Practice (Without OB)
PA Compensation	\$129,641	MGMA 75th Percentile - Western: PA: Urgent Care Compensation
PA Compensation	\$116,373	MGMA Median- Western: PA: Urgent Care Compensation
PA Benefits as a % of Compensation	19.2%	MGMA Cost Survey: All Practice Types: Western - Family Medicine
PA Compensation Per Hour ⁽²⁾	\$73.30	
RCMS - Paramedic Hourly Rate	18.82	Represents Hourly Rate for a Paramedic Step-6
Paramedic Benefit Percentage	25%	Standard Benefit Percentage
RCMS - Paramedic Hourly Rate Plus Benefits	\$23.53	
Radiation Technologist ⁽³⁾	\$73,230	The Bureau of Labor Statistics: Occupational Employment Statistics May 2012 - Occupational Employment and Wage Estimates: North Coast Region of California nonmetropolitan area
Radiation Technologist	25%	Standard Benefit Percentage
Radiation Technologist Cost Per Hour	\$44.01	

/Clients/Coast_Life_Support_District/Business_Plan_2013/Financial/[CLSD_RCMS_Urgent_Care_Financial_Analysis.xlsx]Cost_Buildup

⁽¹⁾ Assumed 2000 Hours for Physician work Per Year.

⁽²⁾ Assumed 2080 Hours for Physician Assistant's Salary Per Year.

⁽³⁾ Assumed 2080 Hours for Radiation Technologist's Salary Per Year.