

Whistling Past the Graveyard – Part I: The Scenario

SCENARIO – SETTING THE SCENE

Twenty two separate, independent, medical group practices of 200 surgeons and specialists – 38 locations covering a geographic span of 110 miles by 30 miles – one ambulatory surgery center (ASC), two urgent care clinics - all independently owned and operated by ownership medical groups of one to 12 physicians - with approximately 36 employed associate physicians and a non-physician staff of approximately 950 various physician extenders (including nurse practitioners, physician assistants) para-professionals, technologists, technicians, medical assistants, coders, billers, receptionists, transcriptionists, and administrative assistants.

IS/IT HARDWARE PLATFORMS/NETWORKING BACKGROUND

Thirty eight different and various legacy information systems, encompassing platforms ranging from AS400, DOS- based PCs, Windows based PCs, Commodore, Lanier and Wang proprietary word processors with billing add-ons, and one external vendor application service provider (ASP). Networks included Unix, Novell, Windows-for-work-groups, Microsoft NT, and three SNEAKER networks (i.e., a pair of sneakers and a floppy diskette).

IS/IT SOFTWARE BACKGROUND

Seven of the billing application packages were no longer supported by the vendor or the manufacturer was no longer in business and there were no escrow provisions for access to the code. Only four of the practices had been maintained with VAR support, maintenance and upgrades, and one practice had a proprietary system written by the graduate student son of a former partner who had left in a dispute (with his son and the source code and documentation). Most had not inventoried licenses, maintained documentation on revisions, alterations, or preserved custom queries or reports. Only one practice had a full time technical staff person and one had a formal training program or help desk function. One practice of Ophthalmologists had initiated the installation of a German software company's computerized medical record system designed specifically (and exclusively) for Ophthalmic care activities.

ENGAGEMENT BACKGROUND - CIRCA 1997-1999

Our engagement was to define and then develop an information system that would allow our client physicians to meet and survive the crushingly urgent demands of the unfolding "perfect storm," i.e.: (1) the rapid incursion of managed care into this heretofore fee-for-service only reimbursement environment; (2) the development by the four hospitals in the market service area of hospital owned and driven managed care organizations (MCOs) contracted for 65% of the total covered lived in the area, with the "linkage" requirements that physicians participate on provider panels for the HMO products to be allowed to participate in the more desirable PPO plans; (3) the acquisition by each of the four hospitals in town of virtually every primary care practice (referral source for specialists and surgeons) in the community; (4) enhanced regulatory scrutiny and enforcement initiatives of Stark prohibitions of physician ownership in technical fee component entities providing proscribed designated health services (DHS); (5) a significant ratcheting-down of the reimbursement yield from professional fee component activities due to the recent (1996) full implementation of the Medicare prospective payment oriented Resource Based Relative Value System (RBRVS, being adopted as the negotiation benchmark for all commercial insurance reimbursement fee schedules; and, (6) the subsequent demand on the part of the hospitals that the specialists and surgeons accept a 40% to 80% discount off their fee schedules, subject to an additional 20% withhold in the event that the hospitals' MCO actuaries incorrectly forecasted the risk pools for the various plans.

Stay Tuned for: Part II of the series *Whistling Past the Graveyard* – "The Software Solution."



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HEALTH CAPITAL CONSULTANTS (HCC) is an established, nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, Missouri, with regional personnel nationwide. Founded in 1993, HCC has served clients in over 45 states, in providing services including: valuation in all healthcare sectors; financial analysis, including the development of forecasts, budgets and income distribution plans; healthcare provider related intermediary services, including integration, affiliation, acquisition and divestiture; Certificate of Need (CON) and regulatory consulting; litigation support and expert witness services; and, industry research services for healthcare providers and their advisors. HCC's accredited professionals are supported by an experienced research and library support staff to maintain a thorough and extensive knowledge of the healthcare reimbursement, regulatory, technological and competitive environment.



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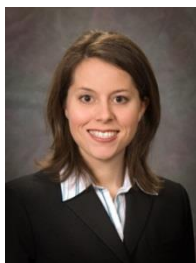
Mr. Cimasi holds a Masters in Health Administration from the University of Maryland, as well as several professional designations: Accredited Senior Appraiser (ASA – American Society of Appraisers); Fellow Royal Intuition of Chartered Surveyors (FRICS – Royal Institute of Chartered Surveyors); Master Certified Business Appraiser (MCBA – Institute of Business Appraisers); Accredited Valuation Analyst (AVA – National Association of Certified Valuators and Analysts); and, Certified Merger & Acquisition Advisor (CM&AA – Alliance of Merger & Acquisition Advisors). He has served as an expert witness on cases in numerous courts, and has provided testimony before federal and state legislative committees. He is a nationally known speaker on healthcare industry topics, the author of several books, the latest of which include: *“The U.S. Healthcare Certificate of Need Sourcebook”* [2005 - Beard Books], *“An Exciting Insight into the Healthcare Industry and Medical Practice Valuation”* [2002 – AICPA], and *“A Guide to Consulting Services for Emerging Healthcare Organizations”* [1999 John Wiley and Sons].

Mr. Cimasi is the author of numerous additional chapters in anthologies; books, and legal treatises; published articles in peer reviewed and industry trade journals; research papers and case studies; and, is often quoted by healthcare industry press. In 2006, Mr. Cimasi was honored with the prestigious *“Shannon Pratt Award in Business Valuation”* conferred by the Institute of Business Appraisers. Mr. Cimasi serves on the Editorial Board of the Business Appraisals Practice of the Institute of Business Appraisers, of which he is a member of the College of Fellows.



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Mr. Zigrang holds a Master of Science in Health Administration and a Masters in Business Administration from the University of Missouri at Columbia, and is a Fellow of the American College of Healthcare Executives. He has co-authored *“Research and Financial Benchmarking in the Healthcare Industry”* (STP Financial Management) and *“Healthcare Industry Research and its Application in Financial Consulting”* (Aspen Publishers). He has additionally taught before the Institute of Business Appraisers and CPA Leadership Institute, and has presented healthcare industry valuation related research papers before the Healthcare Financial Management Association; the National CPA Health Care Adviser's Association; Association for Corporate Growth; Infocast Executive Education Series; the St. Louis Business Valuation Roundtable; and, Physician Hospitals of America.



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