

Mark Your Calendar

Leadership Training Conference

April 25-27, 2004
San Francisco Hyatt
San Francisco, CA

Annual National Institute

June 22-26, 2003
Baltimore Convention Center
Baltimore, MD

June 27-July 1, 2004
Opryland Hotel Convention Center
Nashville, TN

Spring Golf Outing

May 27, 2003
Highlands Golf Club



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Inside This Issue

The Twelve Missing Links in Revenue Cycle Management	1
President's Message	3
Career Corner	5
Revenue Cycle Leadership Summitt	6
Are You Tracking Private Use?	7
Mark Your Calendar	12

The Twelve Missing Links in Revenue Cycle Management

No new band-aid is likely to fix your receivables problem. More than likely it will be a contribution of strategies – all orchestrated by the receivables manager to overcome the “sins of omission” that contribute to high days and bad debt.

Here are the sins of omissions and how to correct them.

Sin #1 – Loose control prior to service

What to do: Develop a well organized system and train personnel to obtain information prior to medical service given in order to negotiate potential problems, make good decisions and obtain all necessary information needed for billing and collection follow-up. Have admission program under A/R manager. “Do it right, upfront.”

Sin #2 – Sloppy controls of patient discharge

What to do: Set up a tight discharge control system to gather and control necessary data, improve collections and firm up all arrangements. Train cashiers to collect more at discharge. Maintain cashier productivity reports.

The Twelve Missing Links (cont'd)

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Sin #3 – Letting small balance accounts eat you alive

What to do: Neutralize outpatient and emergency room accounts by developing a specific collection system and strategy that isolates their type of high volume, low dollar accounts, allowing you to concentrate on the larger balance accounts. Design collection notices and billing cycles that will work on smaller balances.

Sin #4 – Lousy one-on-one collection skills

What to do: Improve one-on-one collections with debtor and third-party insurance accounts. Train and motivate employees.

Sin #5 – Little time and effort spent on collecting insurance

What to do: Concentrate your forces on collection from insurance – the factor that will make the most contribution to lowering days revenue outstanding and improved cash flow. Build up your knowledge of insurance companies as it relates to payment of your bills. Maintain various billing reports. Tolerate integral billing backlogs or extended delay from third-party payers.

Sin #6 – Carry self-pay accounts on installment

What to do: Try to avoid carrying your self-pay accounts on an installment basis. Use credit cards, bank notes and payment in full policy. The more you have to follow-up on installment accounts, the less time you have to spend on other more profitable accounts.

Sin #7 – Using collection letters that don't work

What to do: Gain a good understanding of how to design collection letters that will pay off. Keep them to a minimum. Use them in special spots.

Continued on Page 4

What's New?

We want to know what's new with you.

Remember to keep National HFMA informed whenever you:

- get promoted
- move to a new organization
- get a new business address
- move to a new home
- work for a different department, unit, etc.
- anything new about you or your organization

To receive a Member Record Update Form and instructions, call Fax-It, 800/839-HFMA, and request document no. 200002.

Or call HFMA's Member Service Center at 800/252-HFMA, ext. 350.

HFMA

Anti-Abuse Rules

The Commissioner of the Internal Revenue Service has some broad reaching enforcement powers such that a reallocation of expenditures, which the Service deems more accurately reflect the economics of a transaction, are possible. This ability should be carefully considered when tracking private use, and certainly when planning to remediate any potential excess.

Conclusions

The development of a thorough monitoring system which tracks private use on a bond issue basis, complete with updated average use is a very valuable tool, enabling better financial planning and analysis when market condition changes demand changes in facility use. A monitoring system should also prove invaluable when contemplating alternative financing strategies for expansion plans, as the tracking requirements stay with each bond issue, even if it has been advance refunded.



Are You Tracking Private Use?

Are You Tracking Private Use?

the advancement of scientific knowledge, absent a specific commercial objective should meet a safe harbor, and not be included as private use.

Hospital Services

Many hospital services can potentially contribute to the total private use. Examples of services which could produce private use include: (a) child care or adult day care on-site which have users from other than the immediate hospital institution; (b) rehabilitation facilities which sell memberships to non-patients, hospital pharmacies which service non-patients; (c) gifts shops staffed with contract labor; (d) laboratory services funded and staffed with outside vendors; (e) cafeterias which cater special events and (f) any other service provided by the hospital which generates unrelated business income.

Additional Triggers of Private Use

Any arrangement which provides special legal entitlements to beneficial use of the property can cause private use. To meet this test, control over the property associated with the special entitlement is carefully considered. There is an additional trigger based upon economic benefit derived from the property, even if there is no legal entitlement to the property.

Changes in use of property from that originally planned based upon evolving market conditions and needs should be done in light of careful analysis of private use to date, and could cause a reconsideration of new plans. Funding of a project from sources other than what was planned when the bonds were issued should only happen with a continued review of the private use portion of a facility correlated directly to its funding sources.

Private Loans

There is an additional test to determine private activity bonds relating to private loans from the bond proceeds. Private loans for this purpose may be absent any private business use, like a consumer loan, and follow general Federal income tax guidance purposes.

Naming Rights

The Service has indicated that it is currently in the process of releasing Private Letter Rulings addressing the question of whether or not the naming of a tax-exempt financed facility constitutes additional private use. The initial indications are very restrictive as the Service has attempted to establish a value in connection with the naming of a facility. Future guidance on point is anticipated as multiple participants

in the municipal market address this issue with the Service.

Penalties for Non-Compliance

If the Internal Revenue Service were to audit and find private use in excess of the limits allowed, the penalty imposed could be very expensive. The Service has the ability to impose a penalty of 47% of the face amount of the issue multiplied by the amount of excess private use. Any settlement made in this fashion would only address the private use of the issue at that point in time. A requirement to continue monitoring the private use for the remaining life of the issue would continue.

Remediation Possibilities

There are options available within the Regulations to remedy a situation where there has been a change in use of a facility, which causes excess private use. These include: (a) bond redemption within 90 days after the change in use, with the portion of the bond issue defeased correlated directly to the private use, and a notification to the Service of the defeasance within 90 days of the completion of the transaction; (b) acceptable alternative use of the disposition proceeds; (c) acceptable alternative use of the facility; or (d) payment to the Internal Revenue Service for lost taxes.



President's Message

Craig Bjerke

As we look towards Spring 2003, our chapter has many things planned. Chapter officers are planning an educational event at the end of April as well as our annual Spring Golf Outing at Highlands Golf Club on Tuesday, May 27th. Additionally, the chapter officers will be traveling to Chicago for the annual HFMA Leadership Training Conference. This conference gives the officers a good chance to network with other chapters and plan the upcoming Central Ohio chapter year. Chapter officers will also be attending the annual HFMA Annual National Institute & Idea Exchange in Baltimore in June.

I am happy to announce that two of our members have completed the requirements necessary to achieve certified status. Margaret Callender has been declared a Certified Healthcare Financial Professional and Douglas Lewis has been declared a Fellow of HFMA. Please join me in congratulating Margaret and Douglas.

The Chapter continues to look for members who are interested in volunteering their time to assist chapter activities. We have many committees who would appreciate new ideas and input. Please contact chapter officers or myself if you are interested. We hope to see all of you this Spring.

Craig Bjerke
Chapter President

President's Message

The Twelve Missing Links (cont'd)

Sin #8 – A computer system that doesn't collect

What to do: Get the most mileage from your computer in terms of accurate reporting, creative exception reporting for good decision-making and in productive collection notices. Pay close

attention to cycles and color coding of your notices as well as use of automated collection system.

Sin #9 – Don't take time to analyze

What to do: Perform the kind of analysis of your collection system

receivables that will tell you what has to be done for cash flow improvement.

Sin #10 – Forget good public relations

What to do: Maintain favorable public relations through employee awareness, training and constant procedure/policy review.

Sin #11 – Never mind staff motivation

What to do: Use individual and team goal setting to provide direction, thrust and motivation. Set up brainstorming meetings, encourage employee involvement and provide report feedback to staff. Restructure jobs so they are more self-motivating.

Sin #12 – Don't make your collection agencies pay-off dividends

What to do: Get the most from your collection agency by proper choice, evaluation, monitoring and auditing. Consider the most effective use of agencies in conjunction with your collection system.

This article is reprinted from the February 2003 Revenue Cycle Manager newsletter published by Zimmerman & Associates, a leader in healthcare revenue cycle management. If you would like further information call 800-525-0133 or newsletters@zimm-assoc.com

Leases

Leases of unused space to private doctors, other exempt organizations, or for-profit organizations to run clinics constitute private use, which may mitigate the value of entering into the leases. Many institutions around the country currently have too many beds allocated to them, and perceive that a leased floor or wing could potentially address cash flow needs. Be certain that such leases are analyzed in light of total private use. Additional services to a tenant as an adjunct to leases, including cost of living increases, can be an additional source of private use.

Management Contracts

All contracts are reviewed in light of actual facts and circumstances. Any contract that provides for compensation in whole or in part, on net profits of the facility causes private use. In general, incidental service contracts, contracts granting doctors admitting privileges, and contracts that share direct expenses are NOT a source of private use.

Research

In general, research grants funded by private companies can be a source of private use if the research is conducted in a portion of the facility originally funded with tax-exempt bonds. General research for

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Are You Tracking Private Use?

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Since private use is aggregated for purposes of determining the amount at any given point in time and the limitation so narrow, it is very easy for an institution to exceed the limitation inadvertently. The assumption that a service is compatible with the tax-exempt purpose of the health care facility, and therefore NOT private use is not a safe approach.

Coordination with Arbitrage Rebate

There is a requirement in the Regulations that project expenditures used to compute any

potential arbitrage rebate liability must be the same as those the institution maintains to track tax-exempt portions of a facility. In circumstances where a project is delayed and the interest environment encourages the avoidance of possible arbitrage liabilities, an expenditure of bond proceeds to fund a portion of a facility which will subsequently be used for private purposes can cause expensive surprises far beyond the possible rebate liability payment. (Please see Penalties for Non-Compliance below). To track equity expenditures, an official

intent must be evident, and must be made within 18 months after the last expenditure or the placed in service date. To comply with this requirement, careful planning and monitoring is essential. Absent a formal monitoring system, the Regulations require specific tracing of investments and expenditures. Subsequent sales of a portion of a facility originally financed with bond proceeds can cause rebate implications as well as private use implications. Identification of the potential impact prior to completing a transaction helps avoid surprises.

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9. HFMA's Patient Friendly Billing Initiative
10. Panel & Case Study: The Story of Becoming a "Best Practice" in Revenue Cycle Operations
11. Time of Service Collections – the Industry's Best Kept Secret
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Registration fees: First attendee: \$595, each additional attendee: \$475

For more information call 800-525-0133 or visit our website www.zimm-assoc.com/summit

Are You Tracking Private Use?

Margaret Purcell, Principal
Ernst & Young, Jacksonville

Limitations on private use allowed in facilities built with tax-exempt financing have always existed. In May of 1997, enhancements to the Tax Regulations included the issuance of several sections of Final Regulations addressing private business use. These Regulations provided additional guidance, and include a link between the accounting and allocation of bond proceeds for purposes of arbitrage compliance through rebate or spend-down calculations and private use monitoring. This enhancement in regulatory guidance has significant implications for organizations that use the municipal market to finance all or portions of facilities.

Limitations

The limitation of private use that is allowed in a 501(c)(3) facility financed with tax-exempt bond proceeds is five per cent of the face amount of the issue. Further, the five percent allowance is immediately reduced by the cost of issuance paid with bond proceeds,

usually about two percent of the face amount of the issue. This effectively means that for the life of the issue, only three percent of the issue proceeds may be used to finance space that is used for private purposes.

The Plan and Continued Monitoring

At the time of issuance, a plan is devised to determine anticipated use of a facility, including a careful correlation between funding sources and planned future use. Inherent to the plan is the premise that all private use portions of a facility will be financed with equity, thus avoiding the strict limitation imposed by the private use regulations. The debt is then structured taking anticipated use and activity into consideration. There is an implied assumption that after the bonds are delivered each institution is monitoring private use on a bond issue basis, and able to prove private use on an annual basis to show actual compliance is consistent with anticipated compliance. Part of the post-issuance compliance monitoring includes a requirement to make a Formal Allocation or designation of private use. Such allocation may be

made the later of the date the bonds are issued, the property is put in service, or when an arbitrage rebate filing is made.

Sources of Private Use

For purpose of aggregating private use the definition of private business includes (a) the Federal Government, (b) 501(c)(3) organizations, and (c) other persons or entities, whether incorporated or not, that conduct a business at a facility. The use is measured as average annual use over the life of the bond issue. This is calculated based on a ratio of actual private use to total use, disregarding periods of non-use of the facility. For those facilities that have different use at different times (like a parking garage), the ratio is computed based on the time of private use compared to the total time the facility is used. For any discrete portions of a facility that have a significantly higher fair market value than the rest of the facility, the comparison must be done based on market value rather than average use of time. Any private use governed by a contract signed after the bonds are issued commences when the contract is signed, rather than when the portion of the facility is available for use.

Are You Tracking Private Use?