Budgeting: Principles and Pitfalls*

2019 ADFM Winter Meeting
February 15, 2017

Myra Muramoto, MD, MPH
Dept. of Family and Community Medicine
University of Arizona, College of Medicine - Tucson

*Stolen with permission from: Budgeting Principles, Alan K. David, MD

Medical School Revenue

1. Medical Services / Professional Billing – now largest source of medical school revenue (50-60%)
   - 2500 % ↑ in 30 years (9.3%/yr)
   - Others sources – much more modest growth
   - Private medical schools rely on clinical income more than public schools
2. NIH overall funding – nearly flat for last 10 years
3. Tuition/Fees - ↑ 3-4% compound annual growth rate

Know the source of Dean's Funds

- No Clinical Practice Plan – limited resources or fixed
- Practice Plan → Dean's tax – Chair packages / flexibility
- Share in Hospital Margin → more resources (usually)
- University allocation – usually limited or fixed

Budgeting Principles

1. Know all your sources of revenue well – what is stable and what is likely to change and why
2. Revenues, expenses per segment of the department must be transparent
   - i.e. Clinical revenue more likely than not subsidizes teaching, administration, and research
3. Transparency → Trust
4. Spend allocated dollars first –> flexible dollars last
5. Learn to say ‘no’ or ‘not now’

Budgeting Principles (cont'd)

6. Expansion / New Ventures -> sustainable?
   - Approval of expanding an ongoing program or initiating a new effort:
     - What is measurable value?
     - How will it be sustained? (demonstration of incremental revenue – even if start-up packages used to start with).
   - Clinical programs: define measurable outcomes in addition to wRVUs (e.g. access, quality)

7. Productivity alignment with Compensation
   - Fair market value – clinically derived #
     - How to use this in faculty with .3 clinical FTE and .3 resident supervision FTE?
   - Beware of standards – MGMA/AAMC/UHC
     - (Know how they are derived – how similar they are to your situation)
   - Beware of % comp vs. % productivity benchmarks

Budgeting Principles (cont'd)

8. Research
   - Know institutional rules about return of indirects to – department/PI/% or not at all (rare source of flexible funds)
   - Budget for transition bridge funding
   - Research enterprise does not pay for itself – needs to be subsidized
     - Rule of thumb: 20% subsidy ($100,000 grant requires $120,000 to complete)

9. Define Position Duties and Concomitant % Effort
   - 1.0 Clinical FTE = # sessions, # shifts, # patients/session, etc.
   - Program Director – 0.3 clinical / 0.3 precepting/ 0.7 teaching administration
   - New Researcher – 0.6 research /0.2 clinical /0.2 teaching
   - Beware of undefined "protected time"
   - Clearly document expectations for % effort (comp agreement, contract, letter of offer, annual work plan)

Budgeting Principles (cont'd)

10. Understand P&L / Accrual budgeting vs Cash Budgeting
    - Accrual – budget for a year/comparisons to previous year 'actual' etc. Better for longer-term picture
    - Cash – Actual Revenue/Expense report with margin for a month or a quarter. Reflects current resources available

11. Define an incentive/bonus compensation plan for the department
    - Have a faculty committee do it with your Business Administrator's help
    - Don't chair it or be on it
    - Provide guidelines including a set aside as a chair discretionary fund
    - Make clear plan is subject to committee and overall approval (vote)
    - Subject to final approval by chair and probably the institution

Budgeting Principles (cont'd)

Hire a really smart, really trustworthy Business/ Department Administrator who has or can develop great credibility with institutional finance/business people.

Then, you will be financially successful!