



*Client Brief:*

## **Service Line Analysis**

**Key words:** Product line analysis, revenue and expense modeling

**Conundrum:** Small hospital was considering closing both its inpatient psychiatric care unit and the transitional care unit but unsure of the actual cost structure.

**Synopsis:** Hospital reimbursement from Medicare was projected to no longer be tied to a facility cost basis, and it was likely that revenue would be significantly below costs as calculated in the cost reports. At the time of the initial analysis, the proposed skilled nursing reimbursement was fairly well defined but the psychiatric care reimbursement was unclear.

Suzanne constructed an extensive and all-inclusive product line analysis that combined direct departmental expense reporting with additional overhead or shared costs. The model allocated appropriate costs by step-down statistics already captured in federal and state cost reports. These statistics and allocations were reviewed and evaluated, and in some cases the methodology for collection and reporting was revised.

The model did not require extensive new data identification and collection efforts to main the resulting analytical product. As it was an Excel model, staff was able to extract individual product lines to run sensitivity analyses on a variety of revenue and expense factors, for a variety of purposes.

The model utilized several years of service line data, allowing for trend analyses, and validation of key relationships between variables in the model over time.

The hospital was able to analyze several different approaches to cost structure and determined that the marginal revenues from keeping the inpatient psych unit open were beneficial because relatively few allocated costs would actually disappear if the unit were to close. Alternatively, the transitional care unit was very likely to lose substantial revenue with the reimbursement change, while the reduction in the direct expenses associated with closure of the unit were significant.

**Benefit/outcome:** The transitional care unit was closed, and the space reutilized for patient care, but the inpatient psych unit remained open and the hospital had a robust service line analysis. The hospital was able to more accurately assess the profitability of different revenue centers. Based on better data, Suzanne was able to renegotiate higher psychiatric rates with the state and major private payors.

**Client type:** community health system