PPD 510b
FINANCIAL STRATEGIES FOR SUCCESSFUL HEALTHCARE ORGANIZATIONS

Spring 2009

Instructor: Ellen G. Riley, MBA, Senior Vice President
Kaufman, Hall & Associates, Inc.
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Office hours by appointment.

Classes:  
Friday, January 30, 2009  1 p.m. to 9 p.m.
Saturday, January 31, 2009  9 a.m. to 5 p.m.
Friday, March 6, 2009  1 p.m. to 5 p.m.
Saturday, March 7, 2009  9 a.m. to 5 p.m.

A 45-minute to 1-hour break will be incorporated into each session as appropriate.

Location: Ralph and Goldy Lewis Hall (RGL), # 219

Credits: Two (2) Units

Course Description

This course provides students an overall understanding of Best Practices Financial Management and addresses current topics and issues facing healthcare executives today. The course will present an orientation to various principles and concepts critical to the effective financial management of healthcare organizations specifically addressing the following topics:

- The capital management cycle;
- Creditworthiness;
- Integrated strategic and financial planning;
- Facilities assessment and strategic planning;
- Healthcare real estate portfolio assessment;
- Capital allocation;
- Capital structure management; and
- Financial management leadership.
Lectures and case studies will be incorporated to provide a basic understanding of these topics and to provide a common language and approach to the financial issues that healthcare organizations must address to be successful.

**Course Objectives**

1. Impart a common language critical for financial and non-financial managers, providers, and trustees of all types of healthcare organizations to be effective participants and leaders in understanding the principles of financial management.

2. Given the challenges in this highly competitive business, demonstrate and impart the tools and techniques necessary to ensure that healthcare executives understand how the mission and vision of healthcare organizations can be fulfilled through sound business principles and practices.

3. Expose students to contemporary financial topics and issues facing healthcare organizations today, and provide a set of consistent methodologies and approaches to guide strategic decision making.

**Course Requirements, Expectations, and Grading**

**Class Participation (10%)** – Students are expected to prepare for and attend all classes and actively participate in discussion related to course lecture materials, group discussion and other class activities.

**Group Case Study Discussion and Presentation (35%)** – There will be a case study practicum on Saturday, January 31st and a second case study on March 6th. The case studies will encompass information from the text and handouts, plus materials covered in class. Students will be broken into small working groups (three to four per group) for an actual client case involving issues identification and the development of recommended strategies and approaches appropriate to the organization’s situation and challenges. The groups will be expected to prepare and present a 10 to 15 minute in-class report of their findings, recommendations and answers to questions posed, as appropriate.

**Issues Summaries and Class Discussion (10%)** – Students are expected to have thoroughly read all assigned readings prior to each class session. Students will select one topic of interest from the reading and provide and provide a written discussion (one page in length) in which the student will provide his/her opinion and perspective relative to the principles supported in the readings, including pros and cons to substantiate your position and or conclusions. The issue(s) or topic(s) you select to discuss are to be handed in at the start of class in which the selected topic is to be discussed.

**Individual Final Project: Rating Analysis (45%)** – For the final project, data and other information on a healthcare organization will be distributed during the first weekend of class. Each student will be responsible for preparing a thoughtful analysis and *rating summary report* based on the organization’s financial resources, governance/management, medical staff, services, market and strategic position. The analysis and report will be used to recommend and justify a bond rating to be assigned for the organization. Students will be expected to develop a
PowerPoint presentation to summarize their analyses for presentation to the class on the last day of class.

The rating analysis paper is to be approximately five to seven double-spaced pages in length. An electronic version of both the paper and PowerPoint presentation are to be transmitted to the professor via Blackboard on or before 9:00 a.m. on Saturday March 7th. Two hardcopies of both documents are to be provided to the professor at the start of the class session. The Chief Financial Officer of the healthcare organization will be present for the final presentations to facilitate a discussion following all of the presentations. Therefore, no late papers will be accepted for this assignment without prior arrangement with the professor.

Readings


Further required readings are assigned for each module/weekend as appropriate. Additional readings may be provided by the instructor or guest lecturers and will be noted as required or recommended. Non-textbook readings will be posted on Blackboard, as available.

Course Outline

Day 1: Friday, January 30

Overview

Following an overview of the course, text and subject matter, we will delve right into the Financial Management Cycle, addressing why healthcare executives and board members need to be concerned with concepts of corporate finance. We will introduce Managing the Capital Management Cycle.

Key concepts and topics that will be presented include:

- Integrated strategic and financial planning;
- Capital markets perspective;
- The concept of creditworthiness;
- Overview of financing concepts and access to capital; and
- Capital market’s crisis of 2008 overview and update.

Case studies will be presented to underscore real life examples and the application of the critical concepts.
Logistics related to the final course paper and presentation will be discussed and reviewed with relevant materials to be distributed. Additional concepts related to current trends with the capital markets, the capital markets crisis of 2008, financing alternatives with current trends and concepts will be presented by the course professor.

Required readings

- Kenneth Kaufman, *Best Practice Financial Management Six Key Concepts for Healthcare Leaders* – Preface, Concept (hereafter referred to as “Chapter”) One, Chapter Two, Three and Chapter Six


Optional readings

- Carole J. Bolster, “Planning During Turmoil Credit Challenges and Healthcare Finance”, *hfm magazine*, November 2008

**Day 2: Saturday, January 31**

Overview

Questions relative to the final project will be addressed. Follow up Q&A from day 1. Day 2 will further elaborate on the concepts presented on day 1 – include student turned-in perspective one page assignment as appropriate to the relevant topics of the day and include three guest lectures to address:

- The bond rating process and methodologies and the impact of the 2008 credit crises on the current healthcare industry sector;
- Capital allocation and strategic planning; and
- Facilities assessment/planning.

Required readings


✓ Moody’s Investors Service Municipal Credit Research, *Not-For-Profit Healthcare Sector Outlook Revised to Negative from Stable*, November 2008


✓ Standard and Poor’s, *Guide To Credit Rating Essentials*, 2008

Optional readings


✓ Kenneth Kaufman and Mark E. Grube, “Hospital Strategy in the Current Credit Crisis: 7 Must-Do Actions”, *Trustee*, November/December 2008


Deliverables

Student turned in perspective one-page assignment as appropriate to the topics presented in class and will also include guest lecturers:

- Mr. Keith Dickinson, CPA, CFA, from Standard & Poor’s and Mr. Mark Pascaris from Moody’s Investors Service; and
- Mr. Dan Majka, Ms. Kim Athmann King, and Mr. Dave Ennis, with Kaufman Hall.

Topics will include case study discussions (where relevant) with a 10-15 minute work group in-class presentation facilitated by the speakers.

**Keith Dickinson, CPA, CFA, Standard and Poor’s, and Mr. Mark Pascaris, Moody’s Investors Service** will provide an overview of their respective rating companies, Standard and Poor’s and Moody’s Investors Service to include the role of the bond rating agency in the healthcare arena and recent developments in the healthcare sector resulting from the credit crisis of 2008. Together, Mr. Pascaris and Mr. Dickinson will present current topics and issues that these two rating agencies have addressed and will provide students with a keen understanding of the importance of credit related issues, both quantitative and qualitative.

**Dan Majka, Senior Vice President, Kaufman Hall** (Los Angeles office), will address who should be responsible for the capital allocation process, the key steps involved and strategies to ensure successful implementation. Specific issues presented will include quantitative techniques that can be applied for evaluating a potential investment, including NPV analysis.
A case study will be presented to demonstrate the best practices capital allocation process and how one organization implemented a corporate finance-based capital allocation process.

Dave Ennis and Kim Athmann King, Senior Vice Presidents, Kaufman Hall (Chicago and Los Angeles offices) will discuss the critical relationship between strategy-related investments and financial capability. Together, they will provide case examples of integrated strategic and financial planning that connect market-based or operational strategy decisions to volume projections, capital needs, and future financial performance. They will discuss techniques for managing the magnitude of facility investments necessary to strategic initiatives and competitive market performance. Finally, they will demonstrate the use of sensitivity testing in the financial model to identify the risk related to assumptions about future volume, payment rates, market events, and operational efficiency.

Day 3: Friday, March 6

Overview

Student turned in perspective one page assignment as appropriate to the topics presented in class this day. This day will incorporate three guest lecturers. We will start out delving further into the growing area of mergers and acquisitions (“M&A”) – specifically fundamentals in M&A analyses, current trends and issues – with our first guest speaker, Mr. Mike Finnerty with Kaufman Hall. Mr. Finnerty will facilitate a case study with group presentations to follow and will demonstrate the application of the concepts presented.

Transitioning to expand on frontline issues related to the financial and capital management cycle, Mr. Joe Euphrat will provide an in-depth understanding of Healthcare Real Estate Portfolio Assessment: Concepts and Current Trends, continuing into the evening with a discussion and lecture provided by the course professor, Professor Riley and Ms. Jody Hill-Mischel to present and discuss concepts and issues related to Financial Management Leadership in the current Economic Crisis.

Required readings

- Kit Kamholz and Ryan Gish, Mergers and Acquisitions: A Seven-Step Process for Successful Planning and Execution, Kaufman Hall White Paper, 2006

- Michael Blaszyk and Jody Hill-Mischel, “Joint Ventures to Pursue or Not to Pursue”, hfm magazine, November 2007


- The Governance Institute, New Directions for Healthcare Leadership, June 2008

- Bulletin of the National Center for Leadership, Modern Healthcare Supplement, November 2008

- Corporate Finance: A New Management Paradigm for Hospitals, Kenneth Kaufman, Kaufman Hall White Paper
Deliverables

Issues include student turned in perspective one-page assignment as appropriate to the topics of the day and include three guest lectures including:

Michael Finnerty, Senior Vice President Kaufman Hall (Chicago) will provide an overview of the best practices approach to a merger and/or acquisition opportunity delving into strategic and financial considerations and methodologies to evaluate the business opportunity, identifying critical take-aways for evaluating business opportunities. Specific topics to be covered may include: policy development, business opportunity assessment, business plan development, transaction considerations, negotiations issues, and post transaction considerations. A case study will be incorporated to demonstrate critical concepts and applications and the class will break into small work groups to participate in the analysis and recommended approach to the case situation. Discussion related to group results will follow.

Joe Euphrat, Vice President Kaufman Hall (San Francisco) will provide an overview of the current trends in healthcare real estate sector and how healthcare providers are using real estate as a strategic source of capital within the framework of the organization’s overall business strategy and integrated strategic financial plan. Specific topics to be covered include assessing real estate assets and options, real estate monetization, and project development. Case studies will provide examples setting overall goals and objectives with respect to real estate assets and then assessing an organization’s real estate portfolio, and identifying and examining different types of real estate transactions that achieve identified goals and objectives.

Ellen Riley and Jody Hill-Mischel, Senior Vice President’s of Kaufman Hall (Los Angeles) will focus a discussion of the impact of recent economic crisis on healthcare providers and the critical issues facing healthcare leaders highlighting the importance of governance and leadership to navigate through this crisis.

Day 4: Saturday, March 7

Overview

This final day of class will start encompass the final project presentations. Mr. Steve Jacobs, CFO of Central Washington Hospital, located in Wenatchee, Washington, will be present for the individual presentations and will provide a follow-up discussion in connection with Professor Riley regarding the CWH situation.

Deliverables

Paper and PowerPoint presentations due on or before 9:00 a.m. Issues summary due at start of class and student led discussion to follow.

*If time permits, additional topics to be covered by the instructor may include financing topics continuation of prior lectures and further elaboration/update on the Capital Markets.*
Instructor Profile: Ellen G. Riley, Senior Vice President Kaufman Hall (Los Angeles office)

Ms. Riley is a Senior Vice President of Kaufman Hall and has worked out of the Los Angeles office since 1988. She has over 25 years of experience in the healthcare industry. Her experience and responsibilities include developing and providing senior level consulting in all aspects of financial and capital planning, development of capital allocation processes and providing financial advisory services in support of debt transactions and business valuations. Ms. Riley has worked with a diverse group of clients including healthcare systems, academic medical centers, specialty hospitals, community hospitals and children’s hospitals.

Ms. Riley is a regular speaker on healthcare finance topics at Healthcare Financial Management Association regional and local chapter educational programs, National Association of Children’s Hospitals and Related Institutions and National Council of Health Facilities Finance Authorities. Additionally, Ms. Riley has recently been a guest lecturer on healthcare finance topics at the University of California, Los Angeles School of Public Health to graduate students in the Masters of Public Health program. Ms. Riley is currently serving as a member of the USC School of Policy, Planning and Development’s Health Advisory Board and is an adjunct faculty member teaching for the School of Public Policy, Planning and Development, Masters of Health Administration graduate program.

Prior to joining Kaufman Hall, Ms. Riley was a Manager in the Los Angeles office of Ernst & Young in the firm's Western Region Healthcare Finance and Business Planning Group. During her six years at Ernst & Young, Ms. Riley directed consulting engagements for healthcare organizations in the areas including financial feasibility assessment, business evaluation and planning, capital planning and formation, acquisition valuation and Certificate of Need preparation.

Before joining the consulting practice at Ernst & Young, Ms. Riley was a Special Project Analyst in the Corporate Acquisitions and Development Department at National Medical Enterprises, Inc. in Santa Monica, California. In that capacity, she was responsible for financial analyses and due diligence related to hospital acquisition and development projects.

Ellen holds a Masters of Business Administration from the University of Southern California, Graduate School of Business Administration in finance and marketing and a Bachelor of Arts from the University of California at San Diego, graduating with high honors, *Magna Cum Laude.*
**Academic Integrity**

Violations of academic integrity standards will be treated seriously. The following is from section 10.0 of the USC publication *SCampus*:

> Because the functions of a university depend on honesty and integrity among members, the university expects from its students a higher standard of conduct than the minimum required to avoid disciplinary action.

Please refer to *SCampus* for more information: [http://www.usc.edu/dept/publications/SCAMPUS/gov/student_conduct_code.htm](http://www.usc.edu/dept/publications/SCAMPUS/gov/student_conduct_code.htm).

Examples of academic dishonesty include the following:

- Cheating on an exam
- Plagiarism
- Submitting a paper written by or obtained from others including prior students in a course
- Using a paper or essay in more than one class without the instructor’s express permission
- Changing academic records outside of normal procedures and/or petitions
- Using another person to complete homework assignments or take-home examination without the knowledge and consent of the instructor
- Resubmitting returned and corrected academic work under the pretense of grader evaluation error when, in fact, the work has been altered from its original form

Please note that the University has made an online software tool for detecting plagiarism available to faculty. The software, Turnitin, detects unoriginal or copied material based on comparison to internet sources, journals, other student papers and other documents stored in Turnitin’s worldwide database.

Section 11.00 in *SCampus* outlines behavior violating university standards and appropriate sanctions. [http://www.usc.edu/publication/SCAMPUS.gov/behavior.html](http://www.usc.edu/publication/SCAMPUS.gov/behavior.html)

Please review these policies and ensure that you understand them.

**Academic Accommodations Based on a Disability**

Any student requesting academic accommodations based on a disability must register with Disability Services and Program (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP, located in STU301, open 8:30 a.m. to 5:00 p.m. Monday-Friday, phone number (213) 740-0776. The letter must be given to the instructor as early in the semester as possible.

1/5/2009