

NAVIGATING THE BUSINESS OF MEDICAL PRACTICE

INDUSTRY DEVELOPMENTS, LEASING, PRACTICE
MANAGEMENT, AND LEGAL/FINANCIAL/TAX
INSIGHT FOR PRACTICE SUCCESS

Connecticut Medical Group Management Association



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INTRODUCTION



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TODAY'S AGENDA

- Annual Legal Housekeeping
- Lease and Landlord/Tenant Considerations
- Recent Developments and Risk Overviews
- Managing Accounts Receivable
- Staffing and Managing a Medical Practice
- Benchmarking Practice Results
- IT Security Considerations



ANNUAL LEGAL HOUSEKEEPING

ANNUAL LEGAL HOUSEKEEPING

1

File your annual report

- Report basic information about your business to the state
- \$80 for LLCs and LLPs. \$150 for corporations
- Remain in “legal existence” as an entity and avoid being dissolved

2

Annual Meeting and Minutes

- Comply with operating agreement and bylaws
- Show your entity is legitimate in the eyes of the law
- Preserve your limited liability

3

Checking on Data Security Practices

Leasing Considerations

Leasing Considerations

Unique Factors in Medical Leases

- Long build-outs, specialized infrastructure and heavy capital investment
- Limitations on use of space mean that not every location is zoned for medical use
- Moving a medical office is harder than moving other types of businesses – so lease terms, and renewal terms really matter

Leasing Considerations

What to Consider When Renewing (or Moving)?

- Define your needs: keeping rent low, expanding/contracting, updating space, longer term
- Do you need to update your space, and do you want to ask for tenant improvement (TI) allowance?
- Increase in rent at renewal vs. over the life of your renewal lease
- Exclusivity in use of space
- Do you need to expand? Negotiating rights of first refusal/offer for neighboring space

Leasing Considerations

Renewal Steps

- Consider engaging broker (at least to learn about comparable rent), attorney, lender and contractors if upgrades needed
- Open discussion with landlord and get a term sheet
- Negotiate a new lease (with attorney help)
- Plan any changes to the space, if needed

Leasing Considerations

Terms to Keep an Eye On

- Rent and rent increase – 3% is market, but sometimes pegged to CPI. Landlords see this as an opportunity to raise rent higher.
- Renewal options – how long do you want to be in the space. If the landlord won't agree, consider what their long-term plans are.
- CAM – are your current payments for operating expenses fair and reasonable, or do you want to renegotiate?
- Assignment – if there are ownership changes on the horizon, consider negotiating flexible assignment and/or subleasing terms.
- Repairs – are you satisfied with landlord's responsiveness? Consider edits around maintenance terms in lease.

Succession Planning

Succession Planning

Types of Succession Planning

- Bringing on new owners
- Retiring owners
- Selling to another owner
- Selling to a larger group

Succession Planning

Process for Ownership Changes

- Negotiating terms for buy-in or sale
- Determining retiring or selling owners' post-closing role
- Systems and staffing changes, if any
- Adapting to new management styles, processes and teammates

Succession Planning

Management Considerations When Onboarding a New Owner

- Credentialing and payer enrollment (start 90+ days early if possible)
- Updating NPIs and other registrations
- Securing malpractice coverage and tail coverage for departing practitioners
- Updating EHR and user roles, privileges and templates
- Marketing – site biographies, signage, materials

Succession Planning

Management Considerations in a Practice Transition

- Preparing exhibits: practice contracts, inventory, assets, financial reports, patient files
- Preparing reports: accounts receivable, work in progress, patient credits
- Informing staff
- Bringing new owners up to speed on practice operations and adapting to new owner vision
- Tracking A/R and other post-closing deliverables

RECENT DEVELOPMENTS & RISK OVERVIEW

RECENT DEVELOPEMENTS FOR

PRIMARY CARE AND SPECIALTY PRACTICES

IBISWorld is an organization that specializes in industry research. As they describe themselves, IBISWorld *“provides trusted industry research on thousands of industries worldwide. Our in-house analysts leverage economic, demographic and market data, then add analytical and forward-looking insight, to help organizations of all types make better business decisions.”*



IBISWorld

PRIMARY CARE PRACTICES

Competitive Forces

- **Many patients are choosing telehealth services.** These services are faster and more convenient, eliminating the need for travel and making them increasingly popular.
- **Alternative healthcare provides an alternative to primary care, often at a lower cost and using natural remedies.** Treatment includes treatments like acupuncture, chiropractic care and herbal medicine emphasizing holistic health and wellness approaches.

PRIMARY CARE PRACTICES

Financial Benchmarks

- **Physician wages remain high due to the advanced skills required for the profession.** Continued wage increases are necessary, and the ongoing shortage of physicians is pushing wages even higher.
- **Profit has declined as reimbursements and costs change.** Falling reimbursement rates, wage pressures and rising operating costs are reducing profit for primary care practices to varying degrees based on the practice's size, location, and patient demographics.

PRIMARY CARE PRACTICES

Performance

- **The country faces a physician shortage, which threatens healthcare access and quality.** This shortage is particularly concerning for the growing older adult demographic that requires more medical care.
- **The older adult demographic is growing and increasingly needs medical services.** This demographic shift boosts revenue opportunities for primary care doctors and geriatric specialists who provide medical services tailored to older patients' unique needs.

PRIMARY CARE PRACTICES IN THE US

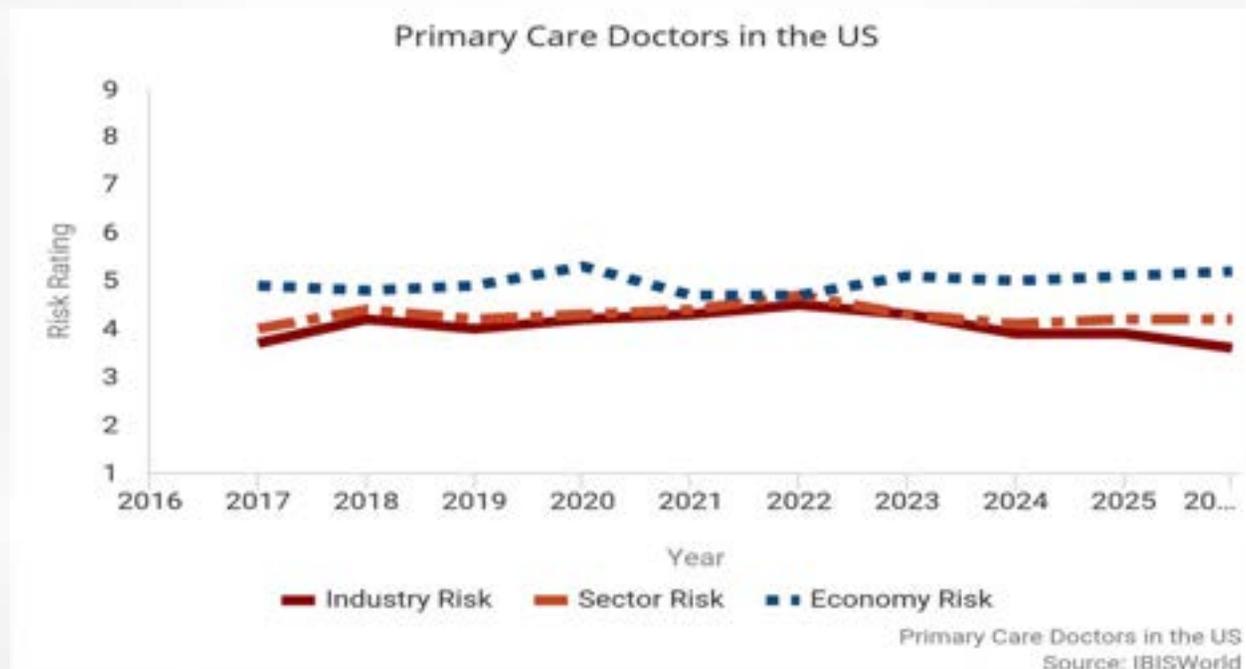
Industry Risk Score **Forecast Period: Ending December 31, 2026**

To calculate the overall risk score, IBISWorld assesses the risks pertaining to industry structure (**structural risk**), expected future performance (**growth risk**) and economic forces (**sensitivity risk**). Risk scores are based on a scale of 1 to 9, where 1 represents the lowest risk and 9 the highest. The three types of risk are scored separately, then weighted and combined to derive the overall risk score.

Risk component	Level	Weight	Score
Structural risk	Very Low	25%	2.13
Growth risk	Medium - Low	25%	4.52
Sensitivity risk	Low	50%	3.81
Overall risk	Low		3.57

PRIMARY CARE PRACTICES IN THE US

Risk Rating Analysis



PRIMARY CARE PRACTICES IN CT

Current Performance & Outlook

The Primary Care Doctors industry in Connecticut is expected to grow an annualized 2.4% to \$4.8 billion over the five years to 2025, while the national industry will likely grow at 2.2% during the same period. Industry establishments increased an annualized 0.7% to 2,162 locations. Industry employment has increased an annualized 2.5% to 16,929 workers, while industry wages have increased an annualized 1.5% to \$2.5 billion.

Over the five years to 2030, the industry is expected to grow an annualized 2.8% to \$5.5 billion, while the national industry is expected to grow 3.2%. Industry establishments are forecast to grow 0.9% to 2,261 locations. Industry employment is expected to increase an annualized 3.2% to 19,832 workers, while industry wages are forecast to increase 3% to \$2.8 billion.

SPECIALIST PRACTICES IN THE US

Competitive Forces

- **Differentiation is essential in saturated markets.** Specialty practices must stand out by enhancing services, building a solid reputation and adopting advanced technology, especially when patients have multiple options.
- **Specialist physicians face limited competition due to a lack of substitutes.** Their deep expertise in specific medical areas makes it difficult for other healthcare providers to pose a direct competitive threat.

SPECIALIST PRACTICES IN THE US

Performance

- **Specialist practices have benefited from an expanding role in the healthcare industry.** The growing medical needs of the older adults drive demand for specialized care, resulting in increased spending.
- **The increasing complexity of operating challenges is driving consolidation.** Specialty providers face cost pressures, prompting a shift toward group models and corporate or hospital ownership structures.

SPECIALIST PRACTICES IN THE US

- **Specialists have benefited from rising demand among the oldest population segment.** A significant portion of the population is reaching or has reached advanced age, contributing to a growing need for niche, specialized medical care.
- **Cost pressures dampened growth.** Despite demand rebounding after the pandemic, labor shortages, inflationary pressures, costly tech investments, and evolving regulations pose ongoing challenges for profit.

SPECIALIST PRACTICES IN THE US

Industry Risk Score **Forecast Period: Ending December 31, 2026**

To calculate the overall risk score, IBISWorld assesses the risks pertaining to industry structure (**structural risk**), expected future performance (**growth risk**) and economic forces (**sensitivity risk**). Risk scores are based on a scale of 1 to 9, where 1 represents the lowest risk and 9 the highest. The three types of risk are scored separately, then weighted and combined to derive the overall risk score.

Risk component	Level	Weight	Score
Structural risk	Low	25%	3.45
Growth risk	Medium - Low	25%	4.52
Sensitivity risk	Medium - Low	50%	4.64
Overall risk	Medium - Low		4.31

PRIMARY CARE PRACTICES IN THE US

Risk Rating Analysis



SPECIALIST PRACTICES IN CT

Current Performance & Outlook

The Specialist Practice industry in Connecticut is expected to grow an annualized 2.9% to \$7.7 billion over the five years to 2025, while the national industry will likely grow at 3.2% during the same period. Industry establishments decreased an annualized -2% to 4,094 locations. Industry employment has increased an annualized 2.2% to 33,573 workers, while industry wages have increased an annualized 0.8% to \$3.5 billion.

Over the five years to 2030, the industry is expected to grow an annualized 2.8% to \$8.8 billion, while the national industry is expected to grow 3.1%. Industry establishments are forecast to grow 0.3% to 4,159 locations. Industry employment is expected to increase an annualized 2.5% to 38,073 workers, while industry wages are forecast to increase 2% to \$3.9 billion.

WHAT TO LOOK FOR IN A BANK

IMPORTANT QUALITIES IN A LENDING PARTNER



- Most important – engage a bank that specializes in and understands the nuances of medical practice financing
- Traditional financing is 80% of purchase price. Banks that specialize in medical practices can finance up to 100%

TYPES OF FINANCING AVAILABLE



- Practice acquisition
- Partner buy-in
- Practice expansion
- Equipment financing
- Real estate financing
- Line of credit

THE BANK'S ANALYSIS



- Cash flow analysis
- Determine cash available to service debt
- Calculate proposed debt service
- Determine debt service coverage ratio
- Review practice management process, ensuring the practice is working well from a business perspective
- Underwrite the loan
- Complete necessary due diligence after approval

MANAGING A MEDICAL PRACTICE

MANAGING ACCOUNTS RECEIVABLE

Overall goal is to maximize collections & minimize bad debt

- Cash is king in any business...
- Very important for front desk to check insurance eligibility & collect from patient at time of treatment

Accounts Receivable Aging Report should be reviewed on a regular basis

- Biller, Office Manager, Associates & Owners should all be involved, since this area has a direct impact on their compensation
- Ask questions to show that you are paying attention
- Once accounts age of 90 days, chances of collecting decrease significantly
 - Consider utilizing a Collections Company specializing in the healthcare industry

MANAGING ACCOUNTS RECEIVABLE

Notify patients of any balances due at the time of confirming their appointment

Any non-contractual write-offs should be approved by doctor

- Patient
- Insurance

Resolve outstanding patient credits in a timely manner

HUMAN RESOURCES

Management of employees is a key area because they represent the biggest asset & related exposure for the practice

Employee roles should be defined & clearly communicated

- Delegate responsibilities, empower staff & hold them accountable
- Develop a team of quality people

An employee evaluation system should be identified and implemented to provide performance feedback to employees on a regular basis

Make sure you have an Employee Policy Manual that is up to date & reviewed periodically

- Legal document prepared by attorney

HUMAN RESOURCES

The number & rate of pay for employees should be monitored to ensure that the practice is running efficiently & in line with the market/competition

- MDC Internal Compensation Survey
- Salary.com

Retirement plan

- Many different plans available – Simple IRA, SEP, 401(k), defined benefit/cash balance plan
- Great retention tool for staff
- Owner can contribute significant amounts for themselves each year & defer income taxes
- Start saving early – compounding of interest

HUMAN RESOURCES

Employee benefits

- Health insurance (anywhere from 0-100% of an individual policy)
- Paid time off (work/life balance)
- Must not discriminate in favor of or against certain employee classes

Team efforts that successfully improve employee morale & practice results

- Company/division outing (holiday party, cookout, meals, entertainment)
- Teambuilding events & contests

Good to great employees have become increasingly difficult to find in the healthcare industry

- Essential for management to go above & beyond by treating them very well

KEY PERFORMANCE INDICATORS

Each specialty has certain indicators that gauge their performance within the industry

Should be monitored on a monthly basis to evaluate operations, pinpoint problems & make decisions in real-time

Many highlights are contained in the MDC monthly Financial Statements

- Cash Flow
- Unallowed charges percentage
- Collection percentage
- Overhead percentage

You can't manage what you can't measure...

BENCHMARKING PRACTICE RESULTS

Benchmark to MGMA/NSCHBC statistics based on specialty & expense category

- Members supply real practice data & Statistics Committee verifies information
 - Number of providers & staff
 - Income
 - Expenses by category
- There are significant differences between specialties in the medical field
- Should be done regularly to address potential issues & identify areas for improvement

FUNDAMENTAL PLAN

Practice profits drive value

- Maximize production & receipts
- Control costs
- Monitor efficiency & effectiveness
- Pay off debt

Continually innovate your practice to improve performance & results

- Identify potential issues that effect your practice
- Create a plan to address these issues
- Put the plan into action
- Obtain feedback on changes to assess their effectiveness

Integration of practice management, accounting, banking, legal, IT and other aspects of the business create synergies that provide for improved patient care & increased profit for the doctor

IT SECURITY CONSIDERATIONS

CAN YOU RECOVER FROM RANSOMWARE?

- If your systems were locked today, how quickly could you get back up and running?
- Many offices don't have a tested recovery plan.
- Daily offsite backups and a business continuity strategy are critical.

ARE YOUR STAFF TRAINED AGAINST PHISHING?

- Would your team know how to spot a suspicious email—or what to do if they click one?
- Human error is the #1 cause of breaches.
- Ongoing cybersecurity training and phishing simulations can drastically reduce risk.

WHO HAS ACCESS TO YOUR SYSTEMS?

- Do you know who's logging in, from where, and what happens if a laptop or tablet is lost?
- Protect PHI with strong access controls.
- Use device encryption and multi-factor authentication (MFA).

SOUTHRIDGE TECHNOLOGY

CYBERSECURITY ESSENTIALS

- Ransomware recovery readiness
- Phishing defense through training
- Strong system access management
- Ensure your organization is secure, compliant, and resilient.



Q&A

Any questions we
haven't covered?



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