Fees-for-Service Accounting in CILs: Budgeting and Setting Rates presented by Cara Steidel, May 20, 2015

>> TIM FUCHS: Good afternoon, everyone. Thanks for joining us today. I'm Tim Fuchs with the National Council On Independent Living. I want to welcome all of you to our newest webinar and teleconfor instance fees for service accounting and centers, budgeting and setting rates. Today's webinar is being presented by the knew community opportunity center, national training and technical assistance program of ILRU, Independent Living Research Utilization in Houston Texas, and this webinar was organized and facilitated by those of us here at the National Council On Independent Living. Support for the presentation was provided by RSA at the Department of Education. So today's call is being recorded like we always do so that we can archive it on ILRU's Web site. You can expect that archive to be available in 48 hours, usually much sooner. Also we'll take questions several times during the call today. There's a few ways you can do that and I'll remind you each time we have a Q&A
break. If on the phone you can press \*# to indicate you have a question. If you're on the webinar today of course you can use the chat box, and you can do that by typing your question in the white text box underneath the list of attendees and just remember to hit enter. We'll see them immediately. Just keep in mind that we will wait for the Q&A breaks to take your questions on content. If you have a technical issue feel free to let us know and we'll respond to you right away in the chat. Also, if any of you -- I'm sure you all see the CART captioning within the webinar screen, but if you prefer the full-page CART captioning that was sent to you in your confirmation email, I'm logged into the chat there, and you can ask your questions during our Q&A breaks there as well. So whichever way is easiest for you. Let's see. I also wanted to let you all know that you'll want to have the PowerPoint presentation handy for today's call. Of course, most of you are logged into the
webinar and those slides will change automatically for you. If you only on the phone or really paying attention to the full page of CART captioning you'll want to make sure to have that PowerPoint either open or printed out in front of you. That PowerPoint was sent to you in both PDF and plain text formats. If you don't have that handy for any reason you can email me at Tim@NCIL.org and I'll get a copy over to you. Also want to men chur our evaluation form today. I know a lot of you participate in these calls all the time and you know that at the end of the call we'll have a link to the evaluation form. Please do fill that out. It's very short. And we take your comments and advice really seriously. Also that link was included in the confirmation email as well.
As we've been doing lately, one lucky person that completes that evaluation form will be selected to receive a $25 Amazon gift card. There's some added incentive. It only takes a couple minutes to tell us what you thought and you might win a gift card. Just so you know the person selected to win will receive an email from staff at ILRU to complete some paperwork. Don't be surprised if that happens.
I want to mention one more thing before I introduce our presenter. Since today's call is part of the new community opportunity center I wanted to give another plug for the new century CIL BLOG. I know several of you have heard me talk about this before. New century CIL.org has a lot of information, cutting edge information, for centers. There's been a lot of great new content up there recently from Michelle Martin. She is an excellent advisor on increasing capacity at centers and other nonprofits. She has been doing that for a long time and I wanted to mention. I hope you all will check it out. It's newsnen cheaCIL.org. Check it out and let us know what you think.
That's the end of my housekeeping and I want to turn it on ever to our presenter for today, with us is car a steidel. She is the director of financial accounting for Lehigh. She has worked in finance for 1980 and prior to joining he lie Valley she worked as a cost analyst and controller, and we found Kara through an onsite training we did last year and were impressed with her experience helping to budget, set rates and manage all the accounting for fee for service programs at centers and invited her to do this and thankfully she said yes. Thanks so much and I'll turn it over to you.
>> You're very welcome, Tim. Thank you for joining us this afternoon. I do want to stress that this is a participatory type of webinar. Please send your questions in as we go from slide to slide because each slide builds upon the other that, and as we introduce each concept and talk about each concept, it does relate to the lights that were shown prior -- the slides are building up as we go along.
I'm now moving on to the next slide and we'll get started.
The first thing when -- first thing to do when thinking about starting to have a fee for service program in your organization, you have to ask some realistic questions. Is the fee for service something that's feasible for your organization? It may be something you're looking at completely different than you have ever looked at anything before. You might be totally budget based or totally grant based, I should say, and that this will be the if irs time you are actually doing a business that requires a different type of funding. So first thing to think about is, is that something we want to do? Is this feasible in our environment? And also you start to ask yourself is this service that we think that we're going to offer for people to purchase from us, are they really willing to pay for it? A lot of times we offer terrific services in the nonprofit area but once we put a price tag on it, that becomes difficult to sell. So you need to have -- you need to do your homework as far as
does this make sense? Does this fit in our environment? Is this something we really can sell? Because it is now your -- you're actually at looking at something completely different. This is a business, and the business becomes part of what your organization is. But once you decide to go fee for service and tz feesable, the benefits are enormous because you know when you're grant funded it locks you on what type of services you're able to provide or what type of income you are allowed to generate, which normally with a grant-based program you're not allowed to generate any type of income that may benefit the other part of your organization. Once you go fee for service, that opens up a lot of windows, a lot of doors because you can utilize the funds you're generating through fee for service to maybe accentuate the things you're already offering or maybe to start a new program or to put those funds into any program that you choose to do because it's all unrestricted. Now that
we're starting fee for service, we're saying this makes sense, we want to take advantage of fee for service, I would highly recommend if you -- if it's available to have a start-up grant that will -- that the intent is to offer this service when the grant is over as fee for service. Having a grant up front is a huge advantage. It can -- it just allows you to get your feet wet, allows I don't you to make errors without having a penalty of not getting paid. It allows you to develop your program. It allows you to create a program over a period of time so you can experience what it's like. So you can really make some decisions and you can fall on your face a little bit and get back up and say, I know we don't want to do that, and we'll be ready for fee for service when this grant is over. If a grant is not an opportunity, then you have to have ask yourselves, is there cash flow support in your organization that can support the start-up? Because you will need cash
up front. You will need some kind of income flow up front. So you can start this business. And it really is a business. I'm going to move on to the next slide now. So when we're setting rates, the first thing that you have to recognize is setting rates is not -- it is not the sole responsibility that your finance area. One of the worst things that can be -- can happen is you're thinking about setting your rates, thinking about establishing fee for service, and two weeks before you need that rate you walk into your director of finance's office and ask: Gee, can you tell me what the rate is going to be for this service that we need to roll out in two weeks? You'll get a rate, but it won't be a rate that's something that you can live with and maybe successful with for a long time. It will be a very short, quick, I'm not really sure this is the right kind of rate. It really requires a huge collaborative effort between all aspects of program participants from your Executive
Director, from your program managers, to your finance director. Each one of -- each part of that organization brings expertise to the rate. They're going to offer information that basically gets translated into a number to make sure that number is right. Also, expect to recalculate the rate multiple times before a final rate really works. By that I mean, you may determine what the rate is and come up with a rate your first go-through and look at it and say, that doesn't look quite right, what am I missing? So allow yourself time to generate that rate, and that goes back to, gosh, if you're lucky enough to have that grant up front to have a start-up grant and then you can cycle into a fee for service program, that is the ideal situation, because during that time you can start developing, okay, I'm familiar with this program, I'm an expert at this program now, I know what makes this program, so then we can convert that into a rate.
So there's three parts to the process when developing a rate and we will go through that process today. The first process will be calculate the total cost of the program. The next piece of the puses you will is to calculate the total hours you can possibly bill your clients, customers or consumers, however you call the people that use your service. And the third part is actually using the first two parts to develop the rate.
So we're going to go through each one of those and how to do each one of those -- each process, and then as we go through each slide, we can stop, ask questions, talk about your experiences and see where we go from there. But it is a rather methodical way to do this, but it requires a lot of information. So the process itself is simple. It's gathering the information to do that process that can be the most challenging.
I'm going -- let's look at the next slide. The first thing again, I'm really pushing, you can obtain a start-up grant, excellent. The day you get that grant and you are awarded that grant and you start working on this program that will eventually going to be fee for service, have that in the back of your mind on day one. I know this has to become fee for service. How do I have to do this? What should I be thinking of? And really that's where the collaborative effort comes in. You all talk about what kind of information we're going to need to establish fee for service. First thing you want to do is be successful at the program you're offering and grant allows you that time to do that. Second thing you have to start thinking about is what do I need? If you have that grant up front you have done that thinking already because you had to do a grant budget to get awarded the grant. So you have done a lot of that homework already. And as you are proceeding through the grant
period, or if you don't have a grant and you're getting ready to offer this program, start looking at the similar programs in the communities. Who offers something like -- like you offer. Or maybe no one does, which was an excellent position to be in. What is the prevalent rate for the service? That information available out there. That's critical information to have so that when you calculate your own rate you can compare it to the rates out there. What is the uniqueness of your program? Start bragging. There is nothing wrong with bragging. You are now selling something. It's no different than someone selling a new car, whatever. Get that information out there saying this is why you want to buy our product. And really concentrate on why you're so unique. Why can you do it differently? That may be able to charge you a higher rate. There is nothing wrong for charging for a higher rate for a program that's better and offers something even more. Then while you're in the
process of doing the grant, start thinking about, we've done this one time, or maybe we've done it two times hospital. How can we do it better? Adjust your thinking to say, hey, this worked okay, but we can do it even better this way. And that -- working with your grantor during the start-up grant, that allows -- will allow you to change -- maybe change your grant budget so that you can change your process during the grant period to see how it works during the fee for service program.
We're going to start talking about how do we convert our plans, ideas, assumptions into numbers. Believe it or not, every word that is spoken or every program objective that you have and every goal that you have for every grant or every -- of every program can in some ways be converted to a number. It's a process and it's a procedure, but when the operate -- I'll call it the operating staff versus the finance staff. The program managers, they're doing what they're doing. They really are developing a plan and program that can be converted to a number. When we sit down with the finances we can figure out what the number is for that amount. This is the time we're going to start thinking about revising the original grant budget based on experience. That is critical. I know when we write a grant here sometimes the grant budget is written up to two years prir to being awarded the money. A lot can change during that two years and a lot can change in the first six months of a grant.
But start looking at your grant budget. You will know how you're doing versus the grant budget because you're having that experience and you can start saying we need to adjust that budget. This didn't -- this didn't work that way. We can do it better this way. That is really, really important. This is the time for you to really fine tune what you're going to offer. And make intelligent assumptions. We really do that every day. When you're deciding could you can I do that better, when you're deciding how many people can we serve, make sure it's based on the information that you've gathered within your community and based on the experience of those you've already serving that, yes, I can truly do that. Make your best intelligent assumption. As long as there are facts behind it and you can support what you're saying, yes, we're going to do that, that makes it an -- an intelligent assumption and more than likely that will occur. If it doesn't, you have thought through that,
you have thought through the difference or variables that may show up that you have to make a change to what you're doing.
This slide is really -- I'm to the next slide. It's fixed costs and variable costs. This is really kind of a definition slide just for you to really use as a reference when we're talking about this. It's terminology that sometimes people in accounting use and you kind of need to know for your program what type of costs we're dealing with. I'm just going to go over this quickly to give an oversimplification of what this may be. An example I'll use is a car. Let's say you now purchased a car and we're going to pretend we purchased it a long time ago because this car only cost $5,000. This car is $5,000. That car cost you $5,000 up front. At this point the initial cost of the car isn't going to change. It's going to say the same forever. This car cost me $5,000. It doesn't matter how many years I own it. It doesn't matter how many miles I put on it. It still cost me $5,000 in the beginning. The variable costs for a car would be gasoline. If you are driving a thousand
miles you're going to spend more on gasoline -- gas than you would if you were driving 500 miles. So the amount of miles in this case might be the volume of something -- like the volume of services you're providing in a program where every time you use -- you use your car you have to put gas into it. So it adds to the cost. So variable costs is something that as things change during the program and maybe your volume goes up, your service becomes bigger, your costs will go up. Those are just two types of costed that are used. The description of those are used on an ongoing basis that with a he ma eye use as we go through this and this is just really to get us familiar with what those costs are.
Looking at the next slide, we're now talking about -- now we're actually going to start looking at numbers, and we talked about how to use the original grant budget as your starting point. That is the first column of numbers, or the middle clump appears on the slide. That was your original, original, original grant budget, and without a doubt you know after you experienced something that will probably -- will definitely change. We have never had a grant budget here that didn't get changed at least slightly as we went through the process, even if it wasn't a fee for service budget.
So we start with the original grant budget. Now, based on what you know, and based on what has happened during the grant, and based on what you want to do, modify that grant budget based on all those assumptions. For example, if you know, gosh, we provide this service to 80 people, now we want to provide to that 150 people, I'm going to need more staff to do that. So an example here, and this is a very simplified example, but this example here would be the original grant budget was 120,000 dollars. That's the second line on the slide. Program staff. The revised cost -- revised grant budget, I'll call it the revised grant budget, but it could even be called the revised actual cost budget too. It's a combination of all of them. It maybe even better to call it the future budget. This is what we expect the fee for service budget will look like. And now we're saying we're going to need more staff. So we have to add that cost in there. I'll take -- take your attention down to
start-up costs. That's sort of in the middle of the slide. Originally when we had the grant budget, which is the great thing about having the grant again, the start-up costs, these were the costs that maybe we had to buy all the office furniture. Maybe we had to buy all the computers that the staff may use. Or that -- or maybe licensing or legal fees or those type of things that we had that we had to set up this program. Well now that we're -- we've been set up, we may not need that cost now. Or again you may need more. In this particular example we're showing we need less. Supplies and travel. Look at those. What do I need? What do I really need? And travel -- now, this sort of makes logical sense. In travel our original budget was $9,000, and we're saying now for the future we're going to need $15,000. That makes logical sense because we are saying we need more staff. If we need more staff, more than likely they're going to have more travel expenses if this
program requires travel to participants. So that's where you go through each line item of your budget or your line item of your actual profit and loss statement for your whole organization to see what type of costs we're going to need for this new program. Don't forget your program support costs. Your director of finance should be in there. Your Executive Director should be in there. Maybe they're not in every part of that, but they are going to provide support for that grant. They are going to provide support for your staff. Make sure you recognize those costs that may not be directly related to providing the service for the individual that you're serving, but they are invaluable as far as what other type of services they need. So don't forget to add those. So in our particular example, we are saying now that we've reevaluated the wo whole program, we are saying the total cost is going to be $3 64,000. That is our best guess as we know right now -- I shouldn't use guess --
it's our best intellectual thought and forecast as far as what this fee for service program is going to cost knowing everything we know right now. So we've done part one. We've calculated what our total costs of the program are going to be. I believe the next slide we have some questions, and I would be glad to answer those because, please, this is going to build now. We're going to move -- remember that $364,000. We're going to move that into the slides that come up next.
>> TIM FUCHS: Great foundation. Thanks, Cara. As I said, you can ask questions by pressing \*# on your keypad if you're on the phone or you can type your questions in the chat. While we wait for questions to come in, I noticed during part one your audio would cut in and out. You're probably thinking, I didn't do anything. If you were looking away from your notes or something like that and your voice was moving -- or your mouth was moving from your microphone or handset, just to keep that in mind.
>> Okay. I will.
>> TIM FUCHS: First question comes from Sarah in Vermont. Sarah wants to know what fee for service programs do you have at your center?
>> We have a number that really we have just started in the last five years being able to provide those, and two of them were started -- we were able to start -- actually three of them we were able to start with start-up grants and one we started without that. The type of fee for service we offer, we offer vocational services for young adults with disabilities. We offer what we refer to as school-based services, which are individualized services for young adults during their transition from 18 to 21 time period while they're in public schools, offering them the additional services they need. We actually -- our customers are school districts in the area. We offer and have been for quite some time offering interpreter referral service where sign language interpreter referral service, where we are the middleman, in a way, if -- if an individual who is deaf needs an interpreter and they have an appointment at the doctor, the doctor is -- the doctor's office is responsible to contact
us to acquire an interpreter. Instead of doctor having to make 14 calls to find an interpreter, we actually do that for them. That was started -- we were able to do with that a start-up grant also. We also provide waiver supports organization for adults with autism and we supply waiver support coordination for the office of long-term living. And that really -- part of our agency has exploded in the last five years.
>> TIM FUCHS: Thches sort of unintended but we've had a series of these new community opportunity calls on fee for service for centers this year. So for those of you looking for additional ideas and information on starting them, I would really encourage you to check out the two-parter we did with Dennis Fitzgibbons early your this year. You can find that on the on demand training Section on ILRU's Web site.
I don't see any questions on the phone. Again, folks, we have plenty of time for Q&A. So please don't be shy. We have a good-size audience today. I hope you will all use this time. We'll wait about 20 more seconds just to make sure we don't miss anyone's question. This is a short Section. So if there aren't questions, that's fine, too.
>> TIM FUCHS: I don't see any more questions and I'll click to slide 9 for you.
>> We have done part one of part one. This is sort of Part II -- or I should say Section B of part one in determining your total costs. What we want to do next is determine what our minimum program costs are, and what we mean my minimum program costs are those costs that are required -- or that will be added to the whole organization to offer the program. Some costs you've already -- you already have and you're not going to add to them. For example maybe rent. If you have a large building and not utilizing the full building, you are not going to have to add any more property costs or building costs. But you are going to have to add staff time. So that would be what's referred to as an incremental cost. We want to determine what those -- the minimum amount of costs that you have to add to your program, because it's going to help you decide in the first year or two how much business we need to do. So while we're talking about that I'm going to go to the next slide and we're
going to look at how you can do that. Remember from page 7 we talked about the $364,000. That's our future budget. That's what we think the prom will cost. Now we want to look at, what are we -- what are really going to have to pay in addition to what we're already paying to offer this program? And this I will refer to as minimum costs or incremental costs. So at the top your program director, you have that in your budget, and you absolutely have to have a program director, and that program director doesn't exist without the program. So, yes, we're going to have to add that cost to what we're doing. Same with the program staff. You have to add that program staff to offer the program. They're not there yet. You're going to add them to it. So they have to be included. Some of them that may not have to be added to -- like let's look at supplies. We're saying our budget is 3,000, but maybe in the first year we're going to be extremely froog will our supplies because we know
we're not quite sure where we're going to go. We'll say we only really need to add $1500. Same with utilities. Maybe we're not going to turn the air conditioning on because we're trying to minimize our costs. We're saying that's only going to be 3,000. But the big part of it is the program support costs. Think of it this way, your Executive Director, you're probably not going to add another Executive Director because you're adding this program. That Executive Director exists whether you have this program or not. So for the first few years maybe we don't hold the new program responsible for or have them have to fund the Executive Director. It's a very short-term thing. It's not something that we -- that you can do long term, but for the first year this is a good thing to know, just in case you have to make some decisions, which will make more sense as we get into the next slide.
These two, -- the two slides that follow after this, I will call these reminder slides again. Make sure when you're looking at what the costs are specific to your staff and to your operating, which is the in exslide, make sure you are recognizing every cost for that staff member. A staff member's cost is not just their salary. There -- as an employer you have a whole lot of responsibility for your staff, and they are your primary asset. And you want to make sure that you look at each thing. My suggestion would be to look at what you're actually paying your current staff and see what all those costs are to make sure you don't miss any. One thing I always do is I look at, and I did switch slides so we can talk about non-staff related things, I look at -- I go through the whole income statement of our whole organization and say, what are these costed for? Is this new program going to need any of those costs before I go ahead? Because now is the time where you want to include
everything. If you forget something, it could come back later and you say, my gosh, that's going to affect our rate and I completely forget about our retirement benefits for our staff. So you have to make sure you go through every line item, every cost there could possibly be to make sure those are included.
So we've done part one. We know what our total costed are and we know what our incremental are or what I've heard is the absolute minimum costs of the program are. The next thing we need to do is we need to calculate how many billable hours are out there, and this is a whole different concept sometimes when we're so used to working in a grant environment where you're not billing for your time. You're being provided that money up front to provide deliverables. You still have to reach your goals, but it's a different type of thing where you don't have to say I worked 15 hours on this, so now you have to pay me whatever it is based on that hourly rate. So this is a whole new way of looking at things. So we need to look at what our staff -- you're going to bill for your staff time. How do we calculate what they are? So we looked at our total costs already. We've looked at our absolute minimum costs for the year. Going to the next slide, to calculate what our available hours are
you have to look at each staff member individually. Each staff member in our organization works seven-and-a-half hours a day. So they work 37 1/2 hours a week. It's 7.5 times 5. There are 52 weeks in a year. In theory if someone worked every hour they're available to work they potentially would work 1950 hours. Be careful here. That's not the total time that's have aible to bill. Because people will be sick. They are entitled to vacation. They are entitled to holidays. And other benefit time that may be you have. You need to deduct that benefit time from the hours that your employee will have, and in this particular case, in this example, it's 270 hours a year. So if you take the 1950 total hours available for one employee, if they never got sick and they worked every single minute of every day, that's how many hours they would be available to you and your customer and available to bill, subtract the 270, and you get 1680 hours. That's a number that we're
going to carry forward. So we're going to go to the next slide. Now we have the 1680 hours per employee that's available. So each staff member brings to them 1680 hours that they potentially could bill somebody for. And in this particular example we said we were going to have five program staff, and the next item is huge. This percent of time available to bill, this is one of the most critical numbers that you have to plop in there, and that is something that you have to determine what that percentage will be, and what that is is that's saying for every hour someone is available to bill, how much theoretically could they possibly bill? We would love to be able to say 100%, that every time they're in the office they can be billing for every single minute of the day. The reality of that is it's not the case. In some fee for services I know with some of ours we're not allowed to bill for administrative time as far as doing case notes. That's not included in the billable time.
What's also not included is when you're having a meeting. You have to have a staff meeting. So to keep this organization well informed. There are other items. Just being able to share information with each other is not billable time. 70% is usually a good billable time percentage, but that really has to be determined by your experts. Based on what we're seeing and what we're allowed to bill for, how much of our staff time theoretically could we really bill for? If you approach 80% you're really getting in the critical line of impossibility. It probably will not happen. So be extremely careful with that. Even 75% is tough to attain. There's all those hours that we're just kind of unaware of unless we start keeping track of them that will not be billable. So in this particular example we said we feel comfortable that we can bill 70% of the time that they are here. If we're taking 1680 per person, times five people, times 70%, the number of hours available for program staff
to bill each year is 5,880. That we feel -- we are now saying we think we will actually invoice somebody for -- all our invoicing will total to 5,880 hours a year. What we also have to do is you have to look at your program director, too. That is something very different than your direct staff. In the beginning, I know in the beginning with our fee for service programs, the program director had to have some billable time, but to assume that they can bill at the same rate as the direct staff is really unrealistic. We really want our program director to be able to do those administrative type things and promote the program as much as possible to possibly grow the program, and that can't be done when they're providing a direct service all the time. So in this particular example we used 50%. And this is really kind of a start-up 50%. We're saying, we're going to have to have the program director at least in the beginning provide some billable hours, but ultimately, long-term-wise
you really want that to be zero. If you can get that to the point that you're zero because your volume of business has increased so ch that what you are -- the income you're generating can actually pay for this person without doing direct time, without doing billable time, that's ideal. But in the beginning it may be unreal its particular. So that's a number you can play with back and forth. But that requires some intelligent assumptions and there are some big ones. I did did say times you have to recalculate your rate over and over again. Those are two numbers, that percentage of billable time, sometimes forces you to recalculate sometimes. Maybe if you are your rate ends up being too high, you night have to say in the beginning we're going to have to bill at 75% for our direct staff. It's not ideal, but that's what we're going to have to do. But long-term-wise we hope to get that to 70%. Those are the things you have to start thinking about after you start looking at a
rate you have calculated.
Let's for a moment think that we've done this correctly and it is all correct. The number of hours for program staff is 5,880. Add to that the supervisor of 840 hours a week -- a year. So the total will be 6,720 hours. That is the number, the total hours available to bill. Remember we talked about there was part one that we had a to calculate our total costs, and then part two we had to calculate total hours. This is part two. We have calculated that we need to bill -- the most we can bill is 6,720 hours. Now I believe we have another question moment.
>> TIM FUCHS: That's right. So we'll open up this up for questions again. Again, it's \*# to ask a question if you're on the phone. Or you can always type your question out in the chat.
The first question came in while you were talking from Michael. Michael is wondering, so many grantors now require that staff already be in place to demonstrate existing capacity, and his concern is that those staff are already committed time-wise and that's led to them not applying for those grants. Are they missing something in the opportunity? Is there something they could be doing to show capacity from the staff who are already committed to other projects?
>> That's an interesting thing because we have never experienced that. All our start-up grants have been brand-new, recognize that this is needed in the community, and they're willing to provide the funds to start up. I find that interesting that they're looking for capacity already. I guess the one suggestion I would make is that, take that current staff that already exists, that you do have the capacity, and then plan on adding to that when you're awarded the grant in a way that maybe when you say you have the capacity, let's say Kara is now an employee of your organization and she is working for you right now and she is included as part of that capacity. Well, then when I'm awarded the granted, when you are awarded that grant for that work, then I would move into the new grant and I would have to be replaced by somebody in the old area. So you're proving -- you are proving to them I do have the capacity and we do have the staff to be able to do that, but obviously if you're
going to be awarded the grant, you're going to have to do something different. All of a sudden now you have two programs instead of one.
>> TIM FUCHS: Good.
>> Not sure that's what he was looking for.
>> TIM FUCHS: We have some other people typing here.
He says that is helpful. Thank you.
>> Okay.
>> TIM FUCHS: Again, \*# to ask a question on the phone. Heather is wondering if you have ever tried billing for services instead of hourly?
>> We have. We do have a summer program that we bill for -- it's a six-week program so we bill whore for the whole six week program at the same time. You would kind of go through the same process except you don't need the hours. You would have to go through the -- this is what the program is going to cost us, this is what it costs us for the year, and we're going to have -- I'll make this up, 20 participants. So you would take that total cost of, divided by the number of participants, to determine what theoretically your rate can be for that program. So we do provide for non-hourly things, but the process is very similar to determine what to charge for that.
>> TIM FUCHS: Okay. Good. Thank you. I don't believe there are any questions on the phone, but I'll wait just 10 or 15 more seconds.
All right. I don't see anyone typing, so I will go ahead to slide 17 and turn it back over to you.
>> Thank you. Before I -- before we go any further with this, a lot of times I get a sense when I'm dealing with my program managers, et cetera, especially in the beginning before they were used to working with me and we were all used to working with each other, there was a bit of fear as far as I'm never going to be able to put these numbers together. I know she is asking for this information but I don't know where to begin. That's what your finance person really is there for you, kind of like to translate your words to numbers. Tell them all you can about your program, and they eventually can translate into that a number and they can help you do that. So that's where that collaborative effort comes in again as far as working with each other on an ongoing basis to be able to say, okay, I get it. To meet this objective of this program, I am going to require this amount of money because this is what I need to do because they -- the finance person and the program manager have
worked together to translate program activities and words into numbers. So it really can happen, but it's always a scary thing. I used to see some of my staff members eyes glaze over when we started talking about the numbers. They really know more than they're giving themselves credit for but it's my obligation to translate the words words into numbers to make it make sense. So it exists out there. Don't be afraid about having that conversation because it's really a conversation that needs to be done.
Let's move on to really now this is the culmination of -- you did all the hard work. The hard part has been done in many, many ways. Now what is our rate going to be? So we talked about part one, one -- part one was determining our total costs, part two was determining what our billable hours were going to be, now part 3 is the rate. So we take our total program cost, which goes back to a previous slide, and it's actually Page number 7 and Page number 10. I'm not sure that's the same slide. It's 364,000 dollars. We said this is what we think the program will cost us every year. The hours determined to be available were from page 15, and that 6,720. If you take the 364 and divide by ep 6720 you get $54.17. So you are first pass through is I should charge $54.17 for this program based on all that information. That's when you stop and say, does this make sense? What are the rates that the community is already charging? Are we doing something different than the community is
doing? Are we going to be able to sell this? Is this acceptable? And if you come up with, no, we can't sell it, we have to go back and look at our costs, makes it's too high, what could we do to lower that rate. The total hours won't change because there are so many hours a staff member can give you. But I will add you can raise that billable rate, but -- above 70% but after a while you'll burn people out if you go too high. So the part where you can have the most impact and long-term impact is looking at program costs, or maybe if you're lucky this rate is a little low and if it's too low, maybe you made an error, because sometimes it's too good to be tree. But if you are offering something really unique that isn't offered anywhere else, this is the time period where you start to say, could we charge more than this? Because now is your opportunity. Don't waste that opportunity. You may not be able to change your rate for a number of years. So you want to make sure
that's right. But the basic procedure of how to do that is you calculate your program costs, and you calculate your billable hours, and then you get your program rate. Now we said, okay, we're good to go. We're going to use that rate. But how -- how are we going -- what are we going to do the first few years of the program? Let's look at something else while we're talking about the first year. I'm going to say let's calculate our minimum billable hours. This is the least amount of hours that you have to bill to cover those minimum costs. Remember when we talked about back on page 10, we talked about those minimum costs, the absolute minimum costs you to have to add to your organization for this program. And we determined that was $279,500. That's the absolute minimum. Divide that by the rate that we just determined on page 17, the prior slide, and you divide that, the 279,500 divided by the 54.17, and you get I have to bill at least 5,150 hours a year, at least for the
first year, just to cover my minimum costs. You may say, well, why do I need to know that? Because you kind of need to know are we on track? The first year more than likely you're not going to bill at your full potential. It's going to take some time to get this off the ground. There is going to be interest you have to develop. There's going to be things you just have to work out that you may not be able to bill everything that you're hoping to bill. But at least you know for the first year or two that if I bill 5100 hours, I will be okay. And just to give you -- it is about -- it's about 76% of -- in this example -- about 76% of what -- of what we said were our maximum billable hours. Think of it this way, there are four hours available to bill but we have to bill at least three of them to make this work as the year goes on. Again, this is really short term. This can't be a long-term decision but it's helpful in the first year or two where maybe the rest of your
organization is supporting the program by not requiring you pay some overhead costs or fixed costs like your program support staff but at least this gets you off the ground. If we can do that you're at least paying for all the costed you had to add to offer this program. So that is critical to know, and actually in some ways it's kind of a stress reliever because you don't have to meet you don't have to originally planned for as available to bill. So this is just an additional piece of information that is helpful especially for your staff when they're freaking out they're not meeting their billable time. Pf so now you have your rate, you're ready to go, you're ready to sell it, but one part of -- when you go fee for service, and I am going to the next slide, you have to start thinking about your cash flow. When you have a grant, if you're lucky enough, your grant is going to pay you up front and you spend the money and as you spend down you asked for more money and they give you
more money. A fee for service thing is sort of the same thing, but it's reversed. Instead of getting your money up front you get your money after you provide the service. So it's almost like when you're using your personal credit card and you charge something, you purchase clothing or whatever, you're not paying for it for 30 days later. That's what's going to happen to your agency. You're not going to see that funding for maybe 30, 60 or 90 days. So you have to be prepared to have the cash on hand to pay your staff during that time until you get into a cycle where the cash starts coming in. When you're examining, am I going to get paid for service, well, I'm just going to top for a second. Fee for service doesn't work if you don't get paid. You have to -- you have to get paid, and it's my least favorite part about having fee for service, is making sure you get paid. But that is the reality of it. You're providing a great service, and people want that service, but if they
don't pay for it, it all falls apart. Sewed when you're thinking about your cash flow, it is something we have to think about. We prefer not but we have to think about it. Look at the type of customer that utilizes the services. Some of our customers are private individuals. We may have a different payment plan for private individuals versus the state. We know we're going to get paid by the state if we follow the terms of our agreement, terms of the agreement. We may not get paid for 60 days but eventually we will get paid. Maybe for some private individuals we may be -- may require them to pay for a block of service up front so that we know they have that commitment a that they're paying up front before we provide the service. It doesn't mean everyone has to do that or method will work for everybody, but at least it has to be thought about. Other cash flow considerations, it's not going to all happen at once. You're not going to hit the ground running and say, wow, we just
filled 100 hours this week and it's our first week. The reality is it may take you two months to start billing. So you have to have some of that cash flow up front. Some of the other items to be aware of is you're going to have to have some legal and accounting up front. That's where the grant is terrific, is they can take care of some of that. And other type of items you may have to pay for up front that necessarily you won't have the cash to pay for until later. One of the most important things you can do before fee for service and hopefully this is being done while you have the grant is obtain a line of credit from the bank. That would be huge. And it was hard for -- it's hard for nonprofits to obtain lines of credits from banks because our biggest asset, which banks evaluate and base how much money they're going to loan you is people. Nonprofits, that is our biggest asset. And unfortunately, banks can't value our biggest asset. So sometimes it takes some time to
establish that raw port to have a line of credit where they believe if I loan them this money up front I will get paid for that. So that's something you need to start working on before you -- during the grant and before fee for service starts. If you're able to do that, do that up front.
I'm going to go on to the next slide now. Still talking about cash flow, but it does relate to collections. Unfortunately we do have to ramp up part of the finance area to make sure we are paid and sometimes when you're invoicing people you're not -- most times when you're invoicing people if they haven't paid you it's usually just a mix-up. They lost the invoice. They didn't get it. They didn't have it. They're not sure about a charge. And they're not as inclined to call you to pay you without you calling them and asking to be paid. So no right up front and have a plan in your finance area that they will have to do follow up on some of these and that's just called collections. Like I said before, it's everyone's least favorite part of having a fee for service but it is something that you have to do. Establish your policy before providing a service. We had some bumps in the road where we had some private individuals were never paid for and that was something we
learned from and now we have changed that method of how we charge for a private individuals. What is your customer's cash source? We have many of our services are provided and we're paid by the state or federal agencies. So we're relatively secure, but they're going to have the finances to pay us. Now there is a budget crisis in the state, that's when we would fall back on our line of credit to help us through that while the state is waiting to get paid and once they get paid we can get paid. Plan on having bad debts. Somebody won't pay you. So the rally tea is -- you're just going to have to accept that. Hopefully it will be lower than anticipated and we've been fortunate we haven't had too many because of the type of customers that we have. Again, your receivables should be tracked. This person owes me this money. They haven't paid me. I need to call them. What's up. Let's work with you. Let's get paid. And collection issues -- the reality is you grow this fee for
service and you -- hopefully you're going to grow it because the service you're providing is great and you're going to start billing more people and have more collections. As you grow that and you start to benefit from that fee for service and start generating some income, make sure when you're targeting your income forecasts that you think about I'm going to have a delay in this. Somebody is not always going to pay me on time. Am I going to be able to pay my staff. That's the most important thing you have to worry about, is am I going to be able to pay the staff to provide the service. Plan on that. Collections is not fun, but it is -- it is a necessary factor of putting it -- of putting a fee for service together.
So now it's kind of all together. We have our rate. We have our organizational structure for how we want to handle it. We have our collections procedure set up. And I don't mean a formal procedure written. I mean you're thinking about it. Everybody is together on what needs to be done. Sometimes the formal process procedural writing may come later but at least you have thought about it. Sometimes when you're doing fee for service it's total chaos but you have at least made all these intelligent assumptions. If things don't go as you anticipated, you can go back to your key assumptions and say what's different. When we refer to having outside eyes look at the financial and operational picture, when we did one of our fee for service for our vocational services we were fortunate enough to have our contact with the state really be able to review our rate and look at it to see if that made sense from their perspective so that we could be assured it made sense from our
perspective. And, again, taking it to the bank, ideally do that up front before you start. But sometimes you have to do that in the middle where you say, look, we have this portion of our business, it is successful, we are providing this service on a fee for service basis, and we will pay you. So please allow us to draw from your line of credit when the opportunity arises or when the necessity arises in that aspect. So that's really -- I mean, it's -- the actual process of putting a rate together is a simplified process, but there are tons of decisions to be made before you can really say, okay, we're ready to go. And I would love to answer any questions you have at this point.
>> TIM FUCHS: Thanks. You all know the drill by now. You can press \*# if you're on the phone. Or type your question in the chat. Had a couple good questions come in. So I'll start with Ann's. Ann is wondering when you got to the end of the numbers and we came up with $54.17. That's a break-even point. Wouldn't you want to make a profit to support other knee for service programs?
>> Absolutely. That's a great question. And the perfect -- in the perfect world you're absolutely right. That is a break-even point but what we're hopeful is when you establish what that break-even point is you have that conversation and say, this is break even, can we increase the rate? Or should -- and we know if you lower it now you're at a loss. But at that break-even point can we increase the rate? Or sometimes your volume of invoicing is going to allow you to start generating income also. For example, if $54.17 is your rate and you're planning on billing whatever the number was we said we were going to bill, and you go over that, what's going to happen is that is going to generate income because in that rate are all those fixed costs that are just going to stay the same. So you'll actually be earning more per hour when you go over those as your volume increases. But that is an excellent -- it really is -- truly is a break-even point, and sometimes -- and we use that
method with one of our -- we actually had to present a break-even number with one of our organizations because they were examining our costs also, and they were -- we were actually not allowed to have income generation in this particular one, but what will allow that income to be generated is volume, or making that decision, okay, 54.17, this is the rate if everything is perfect, this is cover all -- we'll cover our minimum costs plus we'll contribute to the other parts of the organization, but if we want to generate more income, obviously you would raise that rate.
>> TIM FUCHS: Okay. Good guidance. Keith is wondering if you -- if you have used or would recommend a collection agency for difficult receivables?
>> We have never had to use a collection agency. I would have to say that rm depends on what the amount is and -- I would utilize other resources first. I would try to utilize maybe the contacts you have on your board, is there an attorney possibly on your board that would be willing to put his name on a collection letter? I would try to use everything else before I would use a collection agency.
>> TIM FUCHS: Okay.
>> Usually they really react on volume and hopefully you don't have enough volume of collections to have to utilize their service.
>> TIM FUCHS: Great. We've got plenty of time left for questions. So please take advantage. We'll give time for you to enter your questions that's \*# on the phone or you can type them in the chat on either the CART screen or the webinar platform. I know some of you have questions. I know for a fact some of you have questions. Probably really good ones. So don't be shy. Teuk Mike says Cara is being quite clear, maybe that's why there are no questions.
>> Thank you. I will offer one thing that sometimes we have to remind ourselves of is once a rate is established, and Ann had a great question about being break even, if you can go higher than the rate you calculate, do that. Absolutely do that. Because you may not have the opportunity to adjust your rate for a number of years. But with that said, depending on the environment, like one of our rates is with the state, and it's called a letter of understanding, and that is actually good for five years, and that can be quite a challenge because you know -- especially your staff costs can change dramatically over five years with healthcare insurance, et cetera. So that's a really challenge -- a challenge to have that rate be realistic for five years. But maybe you don't have to have that a five-year thing. You really should ask yourselves, and I know it's exhausting and nobody wants to keep changing the rate, but at the end of every year, or at least every 12 months, or even six
months, is there an opportunity to increase the rate? I know that's completely counterintuitive for a nonprofit organization to do that, but realistically if you are selling, and that's what you're doing, you're selling your service, if you are selling something that people really want and is valuable and is really unique, and you're able to charge more for it, charge more for it. Take that advantage. You'll know when you're charging too much. Either somebody -- a competition will come in and start offering a lower rate, or you'll get pushback from your customers. Whatever the reason is. There is nothing wrong with charging more but look at that year. Look at you are costs, your hours. We probably err on that side as nonprofits more than we should.
>> TIM FUCHS: We'll wait a little bit longer before I begin to wrap up. Like I said, I know there are more questions, and hopefully they'll start rolling in here.
I was at an event last night and I was impressed with facilitator she waited for the final questions and waited for a full minute very intentionally with a silent room and sure enough some people that had been silent started to chime in and it got the conversation going there at the end. It was nice. I see a few people typing. So I think that will happen here, too.
While we're waiting for that, I'll give a little plug for another upcoming webinar that we're hosting through new community opportunities on fee for service, and that's expanding CIL capacity through the use of technology. So that's on June 10th, and you can find registration information on NCIL and ILRU's Web site.
Okay. Sarah is wondering if you make sure that the fee for service program, any of your particular fee for service programs, are within your CIL's mission, and if so, how do you do that?
>> We absolutely do that. Everything we do is within our mission, and that's evaluated before we would even pursue something. So that it's actually extremely critical that we stay within our mission, and what is beneficial, if you have a successful fee for service, it does generate the income that can accentuate parts of your organization that is also fulfilling your mission but maybe funders aren't choosing to fund it right now. So you're self-funding a need with the income that's being generated by that fee for service. But that is always our primary decision-making, does this make sense, does this fit into what we do?
>> TIM FUCHS: Okay. Great.
You've talked about setting rates. What about situations where centers might consider or use a sliding scale? Have you all done that or do you have any tips?
>> We haven't used sliding scale, but my tip would be you would start with a rate that we have -- I'm just going to say $55 because it's easier to say, and let's say we're going to establish a sliding scale basis, and just for simplicity sake let's say we're going to charge 10% of our customers $45. We're making the assumption 10% of our customers are going to fall within the parameters that allow us to bill them at $45. Well, if we're doing that, we have to make sure we recapture the income that we're losing by providing that discount some other way. So we'd have to raise -- we'd have to charge somebody else $65 an hour to capture that -- the $10 an hour we're basically giving away to the other customer. So if a sliding scale fee is going to be utilized, you have to figure out the percentage of customers -- I'm not sure what kind of word to use because that's so nonintuitive as far as when it comes to nonprofit, but I'm going to call them customers, and look at it and say, okay,
20% we feel can pay this rate, 30% can pay this rate, and 20% will pay the lower rate. Whatever that percentage is, you just have to make sure that you're covering your costs again, like how many hours are we going to bill at the top rate, how many hours are we going to bill at the discounted rate and how many hours are we going to bill at the even more discounted rate. Then calculate that to make sure you're covering your costs plus a little bit more because you do want to generate income. So it's just an expansion of what we've already done. And if someone is looking to have an example of that, if it's sometimes looking at the number itself makes it more clear, I would be glad to email an example of that to anybody who would need.
>> TIM FUCHS: Thank you. We've had some good questions come in. I'll wait just about 30 more seconds before we begin to wrap up.
Michael asks: Some consumers need services that exceed the CIL state grant requirements. I have proposed doing something like a sliding scale for services beyond the traditional. Do you have any recommendations on that?
>> You would need something to support that sliding scale because you're still going to need some type of funding to generate the service that you're providing. So, again, I'm not sure if you're referring to the sliding scale we were just talking about or -- I'm not quite sure I understand the question completely. I'm not sure where the funding is coming from.
I see he is typing, so I'm waiting.
>> TIM FUCHS: As you can see, Michael said, for clarification, a consumer needs assistance in housing that real eats up staff time reducing service capacity to other consumers. How might we set that up? Would it be the same process as fee for service?
>> I'm concerned there isn't a funding source for that person. Like I'm not sure how that person -- even if a fee for service would be established, I'm not sure how that person or some thing would pay for that. But it would really be the same decision-making process. If you did decide to set that up as a fee for service, the process would be the same. But my initial gut reaction is, I don't know -- I think you would need an investor or a grantor to be able to provide that service. I don't know how that -- the consumer would be able to pay for that, or how they would Fay for that.
>> TIM FUCHS: Okay. All right. We'll wait a few more seconds. Just to see if any final questions come in and then we'll give you some final resources before we close today.
Since we have time left, if I see questions come in while we're wrapping up, I'll certainly address them. I'm going ahead to slide 23 where carar has been generous enough to provide her contact information and I would like to offer my own, too, just as a reminder, mine is very simple, just Tim@NCIL org, and we're happy to take your questions afterwards. Cara volunteered to do that. For the rest of us at NCIL and ILRU, that's our job to help you out. So if you have questions, implementing or operating fee for service programs, whether it's later today or in six months or six years, I hope you'll reach out to us. Thanks, Cara, being willing to do that. Here on slide 24, as I mentioned, is the link to the evaluation form. And just realize, please, that unless you hold the control key down it will take you away from the webinar when it opens. So -- but when you're red and when the re sentation is over I hope you'll click that and share your thoughts. Like I said, we really do
take your comments seriously.
And I hope you will also visit the new century CIL.org BLOG and check out that fee for service technology training we have coming up. You're getting kudos from the audience in the chat box.
>> Thank you, everybody.
>> TIM FUCHS: We're a little bit early today, but just a really outstanding straightforward presentation. I really appreciate it. To all of you, I know it's not easy to find time in your days for these events, and I really do appreciate you all signing up for this. Let us know how we can help you going forward. I hope everyone has a wonderful afternoon. Bye-bye.
>> Thank you, everyone.
Event is not active