

VISION & VIABILITY

Sound Solutions for Health Care Organizations

April 2005

Financially-Driven Facilities Planning

“It’s a great facilities plan—we just can’t afford it.”

When you’ve made an investment in facilities planning, it’s the last thing you want to hear. Yet it’s a very real risk. As pent-up demand for critical facility renovations and replacement runs head-on into capital constraints, hospitals and health systems need to approach facilities planning in a new way.

The traditional master facility planning process is complex and detailed. Program plans drive space plans, which in turn drive facilities strategies and finally, complete facilities plans. A careful assessment of the extent to which the project is financially feasible usually occurs only after the facilities plan is completed.

We recommend a facilities planning approach that incorporates financial considerations at every stage of the planning process. This financially-driven approach helps assure that facilities plans are feasible, and ultimately successful.

Here are some key elements of financially-driven facilities planning:

- **Look at debt capacity first.** Determine the limit on additional borrowing and what level of building program this debt will support—*before* facilities planning starts. This gives you an up-front reality check on whether your organization has the capacity to fund the contemplated project or will need to find additional funding sources to accomplish its goals.
- **Use ROI analysis to guide master facility plan development strategies and phasing priorities.** Few health care organizations will have sufficient debt capacity to finance full facilities renovation and replacement. By introducing return on investment analysis early in the planning process, you can evaluate sequencing alternatives and set development priorities to provide growing room for revenue-generating services early in the building program. Those services then generate revenue to support other non-revenue generating department needs. Rigorous modeling of cash flow and building expense under different sequencing scenarios lets you determine your capacity for financing construction with cash.
- **Pay attention to the impact of inpatient to outpatient service reorganization.** Technology advances, consumer demand and reimbursement economics continue to push care to lower cost distributed settings. Projections will show higher outpatient volumes, but more is required

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DGA Profile:

H.J. “Jeff”
Simmons, III,
Principal



Jeff Simmons views his 35+ years of healthcare experience “in the trenches” as his strongest asset in serving clients.

“I build on my experience as hospital executive, senior corporate officer and management consultant in developing new approaches for clients,” he says. “It powers my intuition and problem solving skills.” Simmons has applied that intuition to assist health care organizations with just about every kind of planning, finance, and organization issue.

Before joining DGA Partners, Simmons was president and CEO of a boutique health care consulting and executive search firm. Prior to that he led Medicon, Inc. through its transition from consulting to hospital development, ownership and management. He also developed a diversified national health care consulting practice for Laventhol & Horwath.

When he’s not helping clients, you can find Jeff jogging or golfing. He loves to travel and has a passion for art history.

Simmons has published numerous articles and served on the governing bodies of health care and community organizations. He holds a Masters in Hospital Administration from The George Washington University, and is a diplomate of the ACHE. ■

for credibility. Financial models also need to look at how that increase will draw from current inpatient volumes, and how much of the resulting decline in inpatient volume (if any) can realistically be offset.

- **Explore off-balance-sheet alternatives for facilities financing.** Off-balance-sheet financing of ambulatory care and related services allows a hospital to use limited capital to focus on inpatient needs. Ambulatory care and medical office buildings can be financed with private capital, with developers financing the facility and leasing the space to the hospital. The hospital incurs an operating expense rather than a capital expenditure. Development of joint ventures with physicians and other groups that take an investment stake is another option. Both alternatives require in-depth financial analysis, either to ensure that revenues will support lease commitments, or to demonstrate venture financial performance sufficiently attractive to secure investor interest.
- **Create a long-range road map.** Unless your institution is one of the lucky few that can finance their entire comprehensive renovation and replacement program at once, you will be phasing projects over a period of years. By creating a master facility plan that spells out all future facility and campus requirements and the timing of each project, you have a long-range road map for achieving facilities goals.

Taking these steps to build financial analysis into the early stages of facilities planning will assure that your plans for facilities renovation or replacement are firmly rooted in economic realities. ■

When Facility Financing Holds the Key to Viability

The client: Full service community hospital with a health system sponsor, serving a rapidly growing community near a major metropolitan area.

The situation: The hospital was threatened by a significant, newly built competitor facility. Young, well-trained physicians were already shifting admissions to the competitor. The hospital was looking at relocating to a more accessible location near a major highway.

The solution: An assessment of facility and program options in a financial context. Projected costs for a new, relocated hospital were compared with debt capacity for the hospital and the health system. The system could not fund the full \$350 million for hospital relocation. Yet it was found that the hospital was not viable at its current site because even the highest feasible level of improvement at that site would not improve its competitive position.

DGA developed a program that divided the proposed new hospital into a core inpatient facility and a separate ambulatory care building. The hospital can focus the capital commitment from the parent organization on inpatient construction. The ambulatory care facility will be developed using outside private development funding.

Bottom line benefits: The hospital is now proceeding with detailed planning and has tentative approval to move into construction within a year. ■

DGA News:

DGA's H.J. Simmons and John Harris recently published an article revisiting community need methodologies: "Community-based Physician Need Planning Methodologies Evolve," *Health Care Strategic Management*, December 2004.

Jonathan Pearce, a DGA Director, is presenting, "Bringing Large Databases to User Desktops - A Case Study" at the 9th Annual Decision Support Seminar sponsored by HFMA and the Delaware Valley Healthcare Council, April 19, 2005, at Crozer-Chester Medical Center in Upland, PA.

About DGA Partners:

DGA Partners has been providing management consulting services to hospitals and health systems, other health services organizations, health plans and contracting entities for over 10 years. Our services include:

- Strategic Planning
- Financial Planning and Modeling
- Master Facility Planning and Programming
- Medical Staff Planning and Compensation Analysis
- Medical Management Programs
- Payer Contract Modeling and Support

DGA also provides highly sophisticated data management and reporting services that transform transactional data to healthcare business intelligence.

DGA's seasoned professional team average 20 years experience in health care consulting and operations. We have the knowledge, insight and skills to address your complex business problems.

Let's talk about how we can help your organization.

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Healthcare Strategy • Finance • Data

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