

# Planning for Growth

NPA PACE Growth Summit

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**DGAPARTNERS**  
*Healthcare Strategy • Finance • Data*

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# Introductions

- DGA Partners
  - Health care strategy, finance, and data consulting firm
  - Advise a wide range of health care providers and managed care organizations
  - Specialty area – Provider-based managed care organizations
- PACE Participants

# Profile of PACE Programs

## PACE Statistics as of December 2003

<b>Total Census</b>	<b>9,397</b>
<b>Mean Census</b>	<b>324</b>
<b>Median Census</b>	<b>242</b>
<b>Number of Programs</b>	<b>29</b>
<b>Mean Years in Existence</b>	<b>7.1</b>
<b>Median Years in Existence</b>	<b>5.2</b>

# Planning for Growth

- Strategic Considerations
  - Who are we now?
  - Are we ready to grow?
  - Risks and Rewards
- Market Considerations
  - Are there enough potential clients?
  - Distribution channels and barriers
- Financial Considerations
  - Issues/Challenges
  - How are you doing?
  - Financial Projections
  - Balance Sheet Strength
  - Access to Capital

# Strategic Considerations Wisdom from Yogi Berra

"You've got to be very careful if you don't know where you're going, because you might not get there."

## Strategic Considerations Who are we now?

- Innovator or pilot program vs. established provider of care
- Provider of social and medical services vs. managed care organization
- “Mom-and-pop” operation vs. sophisticated organization
- One site, one team vs. multiple sites with “corporate” office

## Strategic Considerations Are we ready to grow?

- Opening a second fully capitated center is different from opening the first pre-PACE center
- PACE programs are managed care organizations
- There are important lessons from managed care organizations about growth

# Strategic Considerations Managed Care - Key Growth Issues

- Medical management infrastructure
  - Successfully managing now
  - Can pursue additional cost-saving opportunities in the future
- Financial management infrastructure
  - Contracts, controls, AR, AP, IBNR
  - Claims payment process
- Information technology
  - Ideally integrating financial and clinical data
  - Reliable reporting & analysis including accurate IBNR estimates
  - Member level reporting system (Stop-loss, Medical Management)
- Financial Resources
  - Profitability and trends
  - Financial Position

# Strategic Considerations Risks and Rewards

- Risks
  - Cuts in government payment levels
  - Weakened government support of future growth
  - Leadership distraction from operations reduces successfulness of existing operation
- Rewards
  - More fully fulfill mission – serving community
  - Spread fixed costs increasing profitability
  - Opportunity for increased sophistication in operations (IT, quality improvement, etc.)
  - Momentum: market visibility may improve ability to attract new clients

## Market Considerations

# Are there enough potential clients?

- Several Methodologies for sizing the market
  - NPA start-up needs assessment
  - Eventual market share of long term care patients
  - Government agency targets
- Triangulating provides most reliable market estimates

# Market Considerations Sample Results of Market Analysis

- NPA start-up needs assessment at 10% market penetration:  
300 to 600
- Eventual market share of long term care patients at 25% of long term care patients:  
500
- Government agency targets:  
400 to 450
- Combined estimated market size:  
400 to 500

# Market Considerations Distribution Channels and Barriers

- Government goals
- Hospital referral preferences
- Eligibility process
- Nursing facility competition and political strength

# Financial Considerations Issues/Challenges

- Profitability
- Financial Position (Balance Sheet)
- Access to capital
  - Reserves
  - Start-up capital
  - Working capital

# Financial Considerations Profitability

- Are you currently profitable?
- Do you project to continue to be profitable at current size?
  - Revenue and expense trends
- Do you project to be profitable enough to support financing of growth?
  - Added burden of financing costs
  - Benefit of spreading fixed costs

# Financial Considerations Financial Projections

- Build from assumptions  
(census, utilization/1000, unit cost)
- Unlike start-up financials, base on your actual results
- Estimate trends in operating costs
  - “Fixed” based on current total costs plus specific additional expenditures (e.g., IT systems, leases, management staff)
  - “Variable” based on census or other factor, current experience, and trends
- It may be helpful to present a no-growth and a growth scenario to assist in board decision-making
  - Develop a project budget for a new facility, and feed project costs into the financial estimates

# Financial Considerations Financial Projections

Description of Expense	Type	Driver	Factor	Startup	Year 1	Year 2
<b>EMPLOYEE BENEFITS</b>	<b>Variable</b>	<b>% of Salaries</b>	<b>25.00%</b>			
<b>TRANSPORTATION EXPENSES</b>						
Purchased Service Indicator (Yes/No)		Y/N		Y	Y	N
Purchased Service	Variable	Per Attendance Day	\$17.00			
Other Expense (Maintenance, etc.)	Variable	Per Attendance Day	\$5.00			
Other Expense (Adjustment Factor)		Adjustment Factor		0	0	1
<b>NURSING EXPENSES</b>						
Purchased Service Indicator (Yes/No)		Yes/No		N	N	N
Purchased Service	Variable	Per Attendance Day	\$0.00			
Other Expense (Supplies, Equip., Misc.)	Variable	Per Attendance Day	\$1.00			
<b>PRIMARY CARE</b>						
Purchased Service Indicator (Yes/No)		Yes/No		N	N	N
Purchased Service (Adjustment Factor)		Adjustment Factor		1	1	1
Purchased Service	Fixed	Per Month	\$0.00			
Other Expense (Supplies, Travel, Misc.)	Variable	Per Member Month	\$30.00			

Source: NPA

# Financial Considerations

## Costs - Capital vs. Operating

- Operating Costs
  - Repetitive
  - Incur as consumed
  - Revenue arrives close to time expense incurred
- Capital Costs
  - One-time
  - Costs incurred before consumed
  - Revenue arrives well after cost incurred
- Some costs can be selected to be operating or capital
  - Facility: leasing space vs. owning
  - Leasing reduces the need for capital, but also eats into profitability and operating cash flow
  - Some organizations can raise charitable funds, increasing the attractiveness of owning

# Financial Considerations Operations vs. Growth

- For operations
  - Profit and loss is most relevant
    - Cash flow too
  - Capital costs are distributed over time through depreciation and amortization
  - “Statement of Operations” or “P&L”
- For growth and development
  - Need for capital drives considerations
  - Cash needs increase too
    - Profitable growing businesses can go bankrupt
  - Profitability is still critical
  - Financial position becomes more important
  - “Balance Sheet”

# Financial Considerations Balance Sheet Strength

- More/Higher is Good
  - Cash
  - Reserve coverage
  - Current Ratio
  - Quick Ratio
- Less/Lower is Good
  - Debt
  - Debt to Equity Ratio
  - Liabilities
  - IBNR
  - Days in payable (Is IBNR under control?)

# Financial Considerations Growth Increases Capital Needs

- Reserves
  - Regulatory requirements
  - Additional reserves
- Start-up capital
  - Project related capital expenditures
- Working capital
  - Just from growth in organization's budget
  - Relative inefficiency as volume builds

# Access to Capital - Critical for Growth

- Potential Sources of Capital
  - Funding growth through operations and savings
  - “Loans” from parent/affiliated organization
  - Bank loans
  - Issuing Equity (for-profits)
- A note from another healthcare segment
  - For-profit access to capital is driving the sale of not-for-profit hospitals