

**Business Planning Considerations
for Integrated Care**

*June 12, 2007
Burlington, Vermont*

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**Developing Financial
Forecast Projections
for PACE**

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Session Topics

- What are key operational, clinical and financial variables for PACE viability?
- How can do you capture this data and express it in a financial model (“pro forma”)?
- What are the financial implications due to variability across these key variables?

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Financial Pro Forma Models

- Synthesizes multiple variables that are critical to understanding how successful PACE programs are built...
- ...and does this in order to estimate start-up costs, cash and other capital needs, staffing/ administrative needs, positive cash flow, break-even., etc.
- Annual/Monthly financial statements (balance sheets, cash flows, depreciation schedules, P&L, etc.)



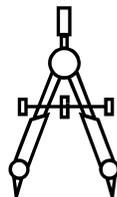
The Most Important Step: Develop Thorough Understanding of Model

- Through understanding care and service delivery model, gain understanding of how the "moving parts" of PACE work together.
- Begin to consider how service delivery and care management model might be tailored to specific organizational/market needs



Major assumptions/variables organized around:

1. Census, Revenue and Facility
2. Personnel
3. Direct Service and Administrative Costs



Critical Financial Assumptions

Medicaid PMPM Revenue

- Extremely variable by state ('06 PMPM range: \$1690-\$4250 or ≈250%)
- Benefit eligibility of enrollees will impact revenue model (e.g., dual vs. MA-only)
- Inflationary and Long-Term Care policy/budget concerns



Medicare PMPM Revenue

- Parts A, B and D
 - HCC Risk Adjusted Model means program revenue is variable according to:
 - Age, Medicaid Status, Institutionalized
 - Disability
 - Diagnoses of enrolled beneficiaries
 - Overall program frailty
 - Less inflationary concern; more stable payor
- Other Revenue Sources: Private Pay



Critical Finance Assumptions

CENSUS, CENSUS, CENSUS!!!!!!

- Can have the highest PACE rates but it's meaningless without customer base/program enrollment
- Market capacity estimates developed as a result of business planning efforts
 - Demographic analysis
 - Brand equity/liability
- Enrollment pipeline and stream needs to be built effectively



Critical Clinical/Operations Assumptions

Personnel

- Administration
 - Program Director
 - Medical Direction
 - Finance
 - QA
- Direct Care
 - Varies according to staffing model
 - FTE vs. Contract/Purchased Care Services



| DEPARTMENT | POSITION NAME | Base Hourly Rate | Annual Salary | Staffing Basis | Staffing Ratio | | | | |
|-----------------|----------------------------|------------------|-----------------|-------------------|----------------|-----------|--------|--------|--------|
| | | | | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Transportation | Director of Transportation | \$14.50 | \$30,160 | Fixed Per Program | 1 | | | | |
| Transportation | Assistant | \$10.00 | \$20,800 | ADA | 1: | 100 | | | |
| Transportation | Van Driver | \$10.00 | \$20,800 | ADA | 1: | 13 | | | |
| Transportation | Other | \$0.00 | \$0 | ADA | 1: | 0 | | | |
| Nursing | RN Supvr | \$22.00 | \$45,760 | Census | 1: | 230 | 230 | 230 | 230 |
| Nursing | LPN | \$15.00 | \$31,200 | Census | 1: | 50 | | | |
| Nursing | RN Case Mgr | \$21.00 | \$43,680 | Census | 1: | 40 | | | |
| Nutrition | Dietician | \$24.00 | \$49,920 | Census | 1: | 230 | 230 | 230 | 230 |
| Nutrition | Dietary Aide | \$8.25 | \$17,160 | Census | 1: | 75 | | | |
| Nutrition | Other | \$0.00 | \$0 | Census | 1: | 0 | | | |
| Social Services | Social Worker | \$18.23 | \$39,998 | Census | 1: | 45 | | | |
| Administration | Chief Executive Officer | \$36.00 | \$74,880 | Fixed Per Program | 1.0 | | | | |

Critical Clinical/Operations Assumptions

Facility and Related Costs

- Historically has housed clinical and social functions

PACE Center=
Adult Day Health+Rehabilitation+Clinical Services



| FACILITY ASSUMPTIONS | | | |
|---------------------------------|-------------|-----------------|---------|
| Day Center Attendees Per Van | 8 | | |
| Square Feet | | | |
| Total Square Feet - Center #1 | 15,000 | | |
| Total Square Feet - Center #2 | 8,000 | | |
| Total Square Feet - Center #3 | 5,500 | | |
| CAPITAL REQUIREMENTS | | | |
| | Cost | Useful Life | |
| Buildings and Improvements | \$900,000 | 10 | |
| Computers | \$200,000 | 5 | |
| Equipment | \$250,000 | 7 | |
| Total Facility Development Cost | \$1,350,000 | | |
| Vans | \$58,000 | 5 | |
| Working Capital | \$1,850,000 | | |
| PLANT OPERATIONS | | | |
| Rent, Facility, and Maintenance | Variable | Per Square Foot | \$18.00 |

Five Key Statistics to Predicting Bottom Line

1. Number of normal business days (15% variance between 20-23 business days)
2. Number of capitated clients
3. Percent of PACE center attendance (staffing and ancillaries-transportation, meals, labs, etc.)
4. Inpatient hospital admissions
5. Nursing and Supported Living Utilization

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So, why are these assumptions important?

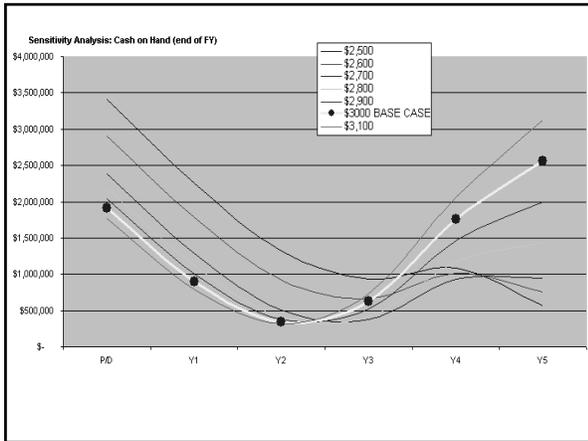
- Expenses spread across relatively small number of covered lives
- Small variability in any variable=Large impact on...
 - P&L
 - Cash Needs/Cash Flow
 - Debt
 - Working Capital

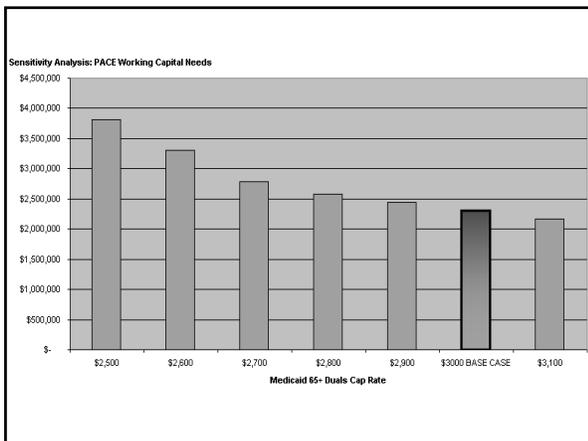
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For example...

- Medicaid Rate Variation analysis
- Develop Base Case analysis based on Medicaid rate estimate
- +/- \$100 PMPM from base case Medicaid Dual PMPM
- Cash Needs and Working Capital Estimates

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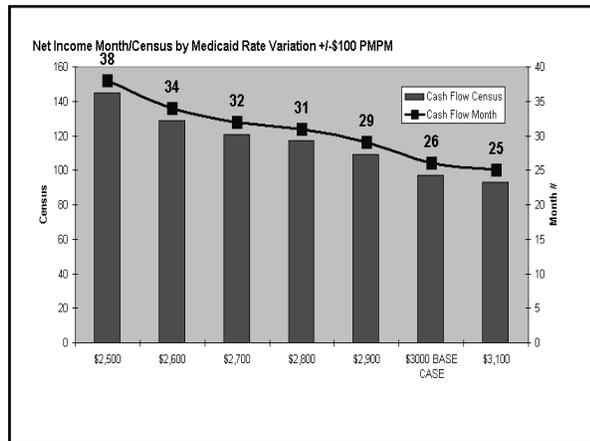




Every +/- \$100 PMPM from the Base Case Medicaid Dual rate

- Average of +/- \$273,000 to working capital needs (to achieve positive cash flow)
- +/- average of 9 members and 2.2 months to achieve positive cash flow





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