

The Times Are Changing: Is Your Organization Ready?

Aging Services Minnesota
February 5, 2014



CliftonLarsonAllen

CLAAconnect.com

Presented by:
Cory Rutledge, Principal
Kathryn Brod, Director



Topics for Today...

- New revenue sources for senior living and why
- Eyes wide open – readiness decision tools
 - Market and financial feasibility
 - Target market
 - Financial investment and return
 - Level of difficulty
 - Critical success factors
 - Assessing organizational readiness



Why Consider Community Based Services?

Why Consider Home Services?

- Growth strategy - diversification
- Manage quality of services delivered on campus
- Difficult to access capital – HCBS often require little up-front capital
- Consumer and government trends
- Leverage management expertise and expense
- Increase brand awareness
- Prepare for health care reform



New Revenue Sources for Senior Living

Traditional and Innovative HCBS Options

Home & Community Based Models

- Traditional offerings
 - Home health care
 - Home care/private duty
 - Hospice
 - Adult day care
 - Care management
 - Outpatient therapy
- Non-traditional initiatives
 - Membership/club/village model
 - Free club model
 - PACE
 - Life care at home
 - Senior center
 - Cafe
 - Consumer technology

Offering Options Broadens a Narrow Market



- Prefer to stay at home
- Will move to a CCRC

MOVE FORWARD WITH EYES WIDE OPEN!!!!



Organizational Decision Tools

Who Does Your Organization Want to Serve?

Target	Private Duty	Hospice	Home Health	Life Care	Adult Day
--------	--------------	---------	-------------	-----------	-----------

Clients who live in:

Home/Housing					
CCRC - IL					
Assisted Living					
Skilled Nursing					

Clients who are:

Low Income					
Moderate Income					
High Income					

Payor Source:

Medicaid					
Medicare					
Insurance					
Private Pay					

Investment and Return

Type of Program	Start-Up Costs	Operating Capital	Breakeven (Cash Flow)	Operating Margin
Private Duty	\$100,000	\$150,000	Year 3	10% – 15%
Hospice	\$100,000	\$200,000	Year 2	10% -15%*
Home Health	\$200,000	\$300,000	Year 2	10% - 15%*
Life Care at Home	\$100,000	\$150,000	Year 1**	5% – 10%
Adult Day	variable	\$200,000	Year 1 - 2	1% - 5%

*These reflect ACA related reductions.

**Breakeven on an accounting basis in years 4 or 5.

Program Development/Operating Challenge Ranking

	Private Duty	Hospice	Home Health	Life Care at Home	Adult Day
Regulatory Oversight	1	4	5	1	4
Management Staff Expertise Needed	2	5	5	3	3
Direct Care Staff Recruitment	3	3	4	1	2
Billing, Service Delivery, Compliance	2	4	5	1	3
Financial Risk (Cost)	3	3	4	1	3
Financial Reward	3	1	1	1	5
Health Care Reform	1	4	5	1	2
TOTAL SCORE	15	24	29	9	22



Market and Financial Feasibility

Market Study Components

- Define service area and target market
- Analyze demographics
- Analyze the competition
 - Price
 - Services offered
 - Volume
 - Wages
- Interview key informants (aging professionals and possible referral sources)
- Determine market need/demand – internal and external
- Consumer research

Financial Feasibility

- Project census growth and cap
 - Internal and external
- Determine price
- Estimate
 - Hours/episodes of service
 - Staffing productivity and needs
 - Salaries, benefits and operating expenses
 - Operating performance
 - Investment capital needed



Assessing Organizational Readiness

Organizational Readiness Assessment

- Do we have the start-up capital to invest?
- Who will our competitors be and will there be any negative or positive impact on our current business?
- Do we have (or need) the support of our current residents? How will we inform our residents or involve them?

Organizational Readiness Assessment

- Do we have the management resources to focus on a new venture?
- Do we have the expertise in the new service or do we need to recruit?
- Do we want to serve residents living on campus only or those living both on and off campus?
- If we decide to serve campus residents only, will there be enough business to support the new entity?
- What impact will assisting residents to age in place have on the organization?

Organizational Readiness Assessment

- Will the new entity be non-profit or for-profit?
- What socio-economic group do we want to serve?
- Do we want to separately incorporate or develop the new entity as a department within our current corporate structure?
- Can we leverage our current infrastructure and support this program (e.g. human resources, finance, billing, etc.)?
- Do we want the program to be financially self-sufficient or are we willing to subsidize the program as a loss leader?

Organizational Readiness Assessment

- Do we need/want to serve an age group other than seniors?
- Will this program help position us for Health Care Reform?
- Will Health Care Reform have a positive or negative impact on this program?
- Do we want to develop a new entity, purchase a going concern and/or purchase a franchise?



Critical Success Factors or Lessons Learned

Critical Success Factors

Private Duty

- Entrepreneurial manager/owner
- Manager is salaried plus bonus
- Software to support a lean management structure
- Per diem work force – no benefits
- Flexibility to provide what consumers want, when they want it
- 24/7 cases

Hospice

- Experienced Manager
- Ability to compete with hospice ‘institutions’
- Physician relationships
- Palliative care and ‘bridge’ programs
- Don’t over estimate the internal opportunity
- Be prepared for future cuts in reimbursement

Critical Success Factors

Home Health

- Experienced management
- Market share on campus and off
- Ability to get insurance contracts – preferably with a margin
- Careful not to compete with your referral sources
- Ability to become part of bundled payment groups
- Outcomes data

Life Care at Home

- Large and densely populated market area (unless dept of CCRC)
- Sponsor and consumer familiarity with life care
- Array of pricing options
- Full complement of staff in beginning
- Marketing and sales budget
- Admissions process
- No service creep

Critical Success Factors

Care Management

- Loss leader
- Can't absorb large corporate allocation
- Care pathways

Outpatient Therapy

- Location
- Insurance contracts
- Ability to serve all ages
- State-of-the-art facility and modalities

Critical Success Factors

Adult Day

- Economies, e.g. food service, location, etc.
- Medicaid
- Transportation
- Home-like environment
- Ability to get clients up and in the van in the morning

Consumer Technologies

- Part of larger program of services
- Price
- Understanding that consumer doesn't understand!
- Don't become 'Big Brother'
- Beware of data that requires medical follow-up



Market Entry Options

Market Entry Options

- Green field start-up
- Acquisition
- Franchise
- Joint venture

Greenfield Start-Up

- **Advantages**

- Complete decision making control
- Management chosen instead of inherited
- Don't inherit problems
- Initial start-up capital may be lower than acquisition price
- Can develop unique corporate culture and identity
- Can grow slowly

- **Disadvantages**

- May take longer to establish – no market presence
- Heavy start-up activities include hiring, establishing office developing policies, procedures and processes
- Little initial revenue to offset expense - must grow revenue over time
- Will fail without entrepreneurial management

Franchise

- **Advantages**

- Brand awareness
- Central advertising
- Corporate infrastructure and ongoing assistance/training

- **Disadvantages**

- Ongoing costs
- For profit venture
- Limited service area
- Corporate branding – can't capitalize on your organization's reputation
- Share management control

Acquisition

- **Advantages**

- Immediate market presence with operations, staff, customers and market share
- May be only option to enter market (CON)
- Existing infrastructure
- Immediate revenue to offset initial investment
- Experienced management
- Eliminates a competitor
- Inherit an existing pool of caregivers

- **Disadvantages**

- Acquisition may require large capital investment – higher financial risk
- The organization may not have been valued correctly
- Must overcome existing market perceptions
- Inherit existing corporate culture

Joint Venture

- **Advantages**

- Can share in the start-up costs and management oversight
- Can leverage both organizations' management expertise
- May have a larger referral base

- **Disadvantages**

- New bureaucracy may not have the flexibility required to succeed
- Must blend two or more corporate cultures
- May have differing goals for the program, e.g. financial success, mission
- Must share in earnings



Case Studies



Messiah Lifeways

Mechanicsburg, Pennsylvania

History

- CCRC located in Mechanicsburg, PA (central PA)
- Providing housing and services for over 100 years
- Operates two residential communities; services including: home care, adult day, rehab and respite
- Offers lifelong learning program through Pathways Institute throughout region
- Additional programming includes speakers bureau, life coaching and wellness programming
- Interested in developing network of Villages in the Greater Harrisburg, PA area.

Services

- Lifelong Learning (Pathways Institute)
- Wellness Center
- Home Care
- Adult Day Services
- Rehabilitation
- Respite Care
- Support Groups
- Restaurants
- Coffee Shops
- Gift Shops

The Program: Connections

- Membership
- Neighborhood based
- Reliable, objective information and support when needed
- Source for referrals, services, and social opportunities to support people to successfully at home.
- Neighbor helping neighbor philosophy
- Two membership levels – basic and enhanced
- Annual Fee: \$240 (basic); \$1,200 (enhanced)
- Began operations January 2013; approximately 150 members

Lessons Learned

- Provided an opportunity to partner with local area hospitals and insurers
- Financial sustainability via these partnerships, not membership fees
- Have decided to reduce the membership fee to increase membership



Surrey Services for Seniors

Berwyn, Pennsylvania (suburban Philadelphia)

History

- Established in 1981
- Mission: To help older adults live in their homes with independence and dignity and to continue as active members of the community
- In 2010, CliftonLarsonAllen facilitated a partnership between Surrey and The Hickman, an independent living facility to provide affordable aging in place services
- In 2011, awarded management contract for three senior centers in Delaware County

The Organization

- Operates five locations throughout suburban Philadelphia
- Serves part of Chester, Delaware, Montgomery, and Philadelphia counties
- Employs 17 full time and 113 part time staff
- As of early 2012 budget is approximately \$3.7 million
 - 70% of income from program revenue
 - 19% from individuals and grants
 - 11% from government contracts
- Serve over 4,500 senior members plus other non-members at each location

Programming

- Berwyn location serves as an administrative and programming hub similar to a senior center
 - Dining
 - Fitness
 - Theatre and music programming
- Volunteer network
 - Engages over 700 community members annually many of whom are older adults
- Mental Health Support
- Crisis Intervention

Services

- Home Care
- Transportation (volunteer and paid)
- Money management
- Home maintenance
- Meal programs (dining at Berwyn and home delivered meals)
- Health and wellness
- Tax and Medicare consulting
- Support Groups
- The Shops at Surrey (2 locations consignment and thrift stores)

Questions?



Cory Rutledge, CPA Principal
(612) 376-4524
cory.rutledge@claconnect.com

Kathryn Brod, Director
(630) 954-8144
kathryn.brod@claconnect.com