Rural Health Capital Readiness Webinar Series

Strategic Capital Planning and Capital Budgeting

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November 17, 2015

Sponsored by the National Rural Health Resource Center and the Federal Office of Rural Health Policy

About this Webinar Series

- Offered and developed by Capital Link through support from the National Rural Health Resource Center (NRHRC) and in cooperation with the Federal Office of Rural Health Policy
- Capital Link has 15+ years of experience with community health capital project planning and financing
- April 2015, NRHRC released a capital needs assessment prepared by Capital Link:
  - 41% of Critical Access Hospitals and 100% of Rural Health Clinics have plans to expand or replace existing sites
  - Raising equity/cash reserves most common project barrier (56%)
  - Other challenges: grant funding, fundraising, staff time, cash fluctuations

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About this Webinar Series

- The response:
  - Capital Project Readiness Manual and Toolkit
  - Webinar Series:
    - **November 17** - Strategic Capital Planning and Capital Budgeting
    - **November 24** - Operational Considerations for Facility Planning, and Capital Project Management
    - **December 1** - Laying the Groundwork for a Capital Campaign
    - **December 3** - Business Planning and Financial Projections for Capital Projects

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Strategic Capital Planning

Terry Glasscock, Senior Project Consultant, Capital Link

Strategic **Capital** Planning

- Capital Planning cannot take place in a silo
- Every aspect of what you do must be taken into consideration.
- Capital investments must be earned…before and after you complete them
- Strategic Planning is critical for strategic managing
- And strategic management is essential!
- *At no time in our history has it been so important to manage strategically!*

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Why Now?

- Congress' own Commission on Entitlement Reform reported that SS, Medicare, Medicaid and interest on the national debt will exceed all federal income by 2030!
- International Monetary Fund: The United States must either decrease benefits for Medicare and Medicaid by 50% or increase taxes by 60% to maintain solvency of those programs.

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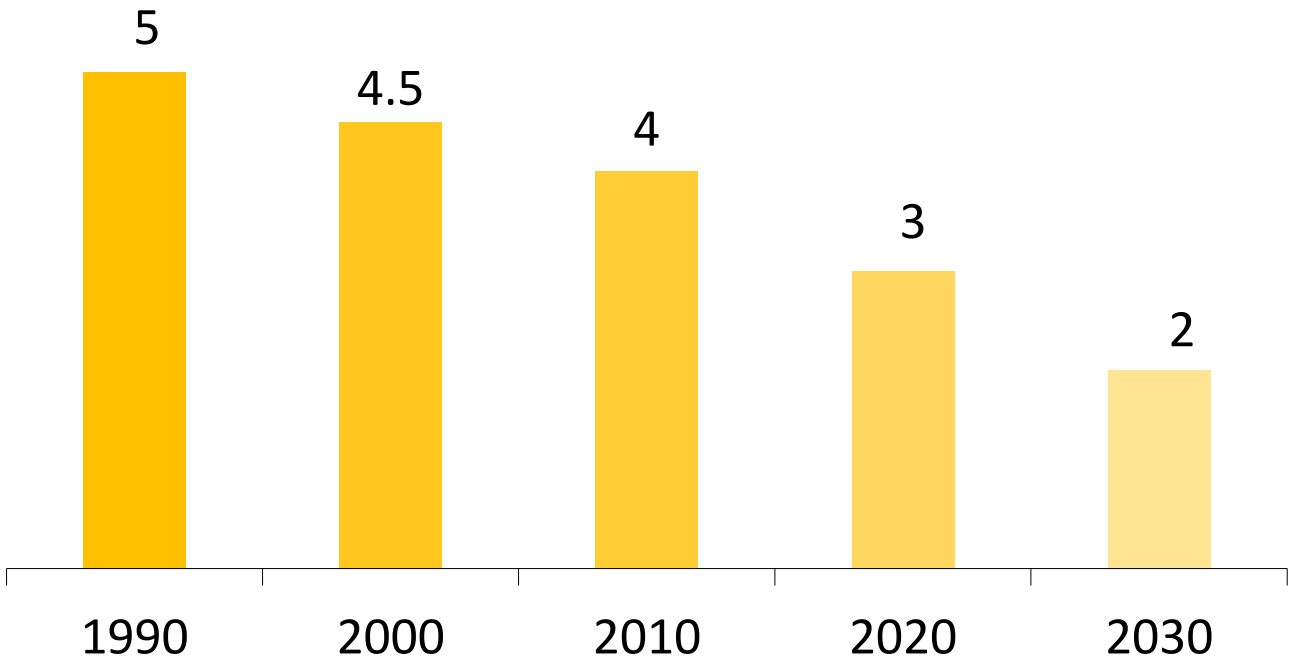
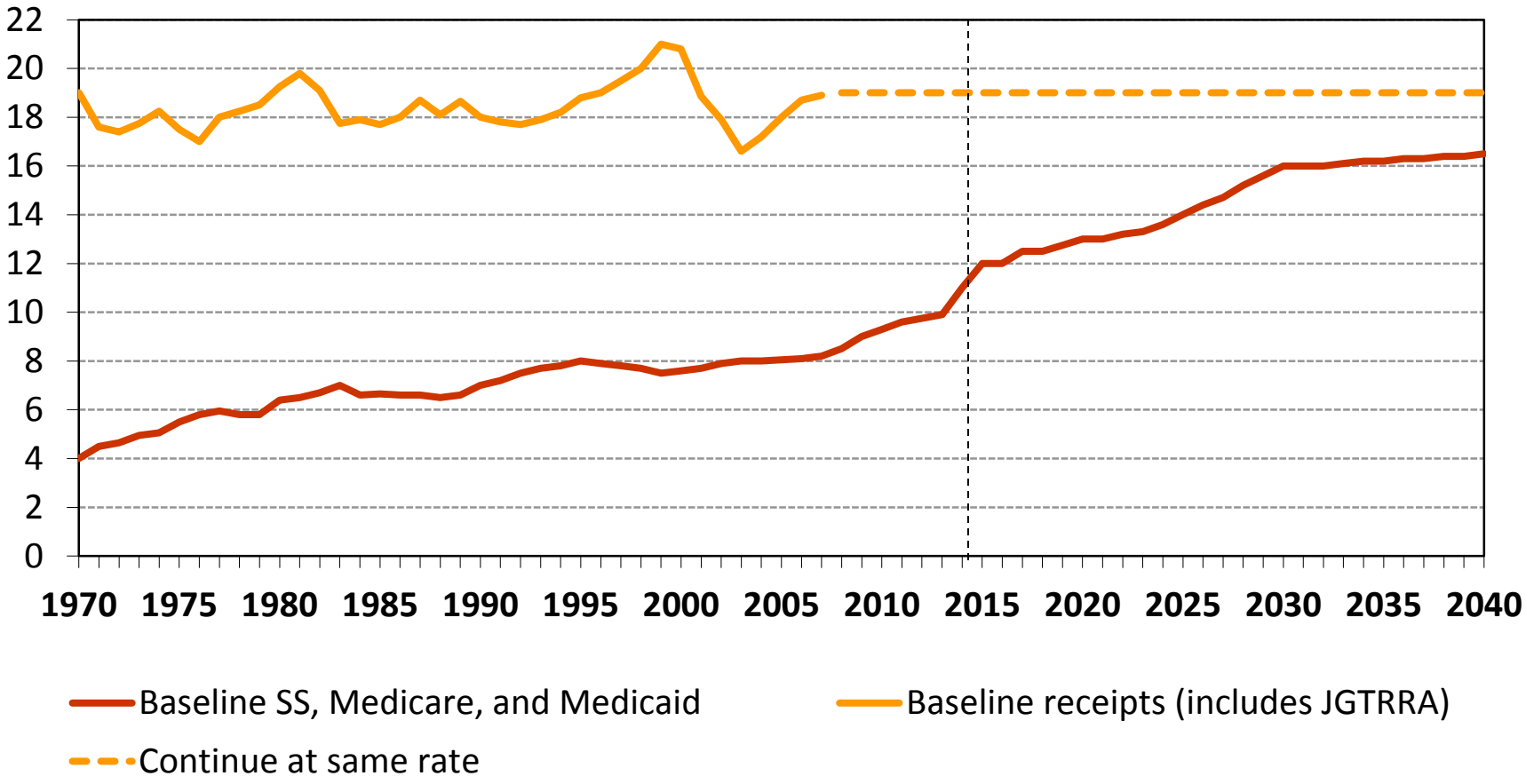
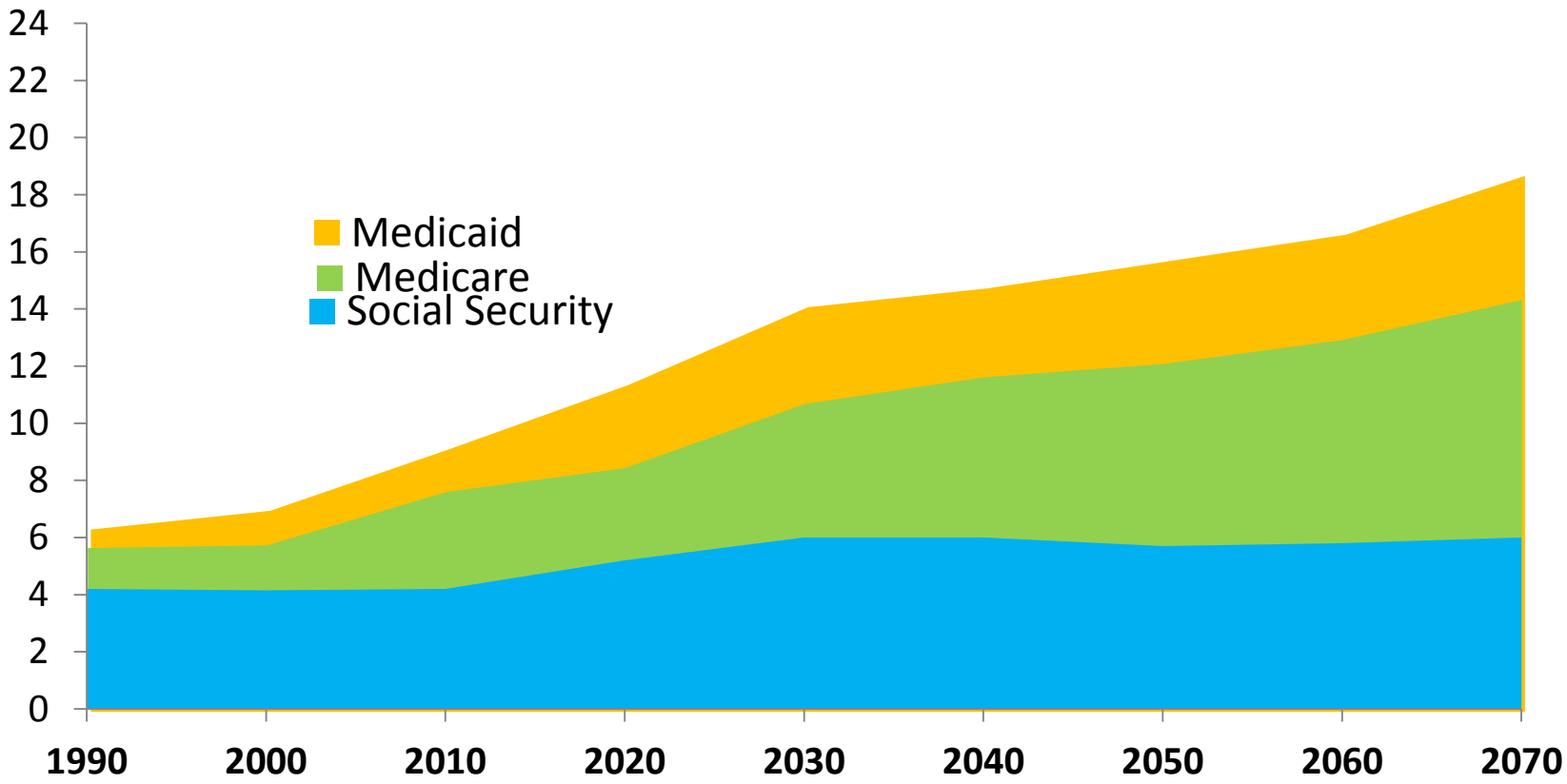
Number of Workers Per Retiree



Federal Receipts vs. Entitlements



Social Security, Medicare & Medicaid Outlays as a Percentage of GDP 1990-2075



Source: C. Eugene Steurle and Adam Carasso, (*Budget Crisis at the Door*), The Urban Institute, 2003. Based on data from the Congressional Budget Office, "A 125Year Picture of the Federal Government's Share of the Economy, 1950-2075," July 3, 2002, table 2.

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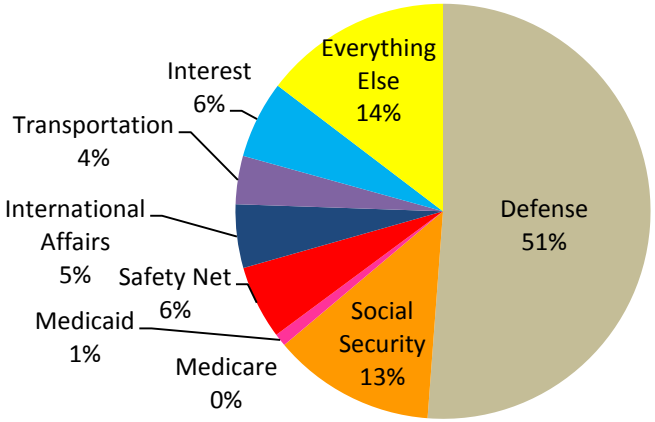
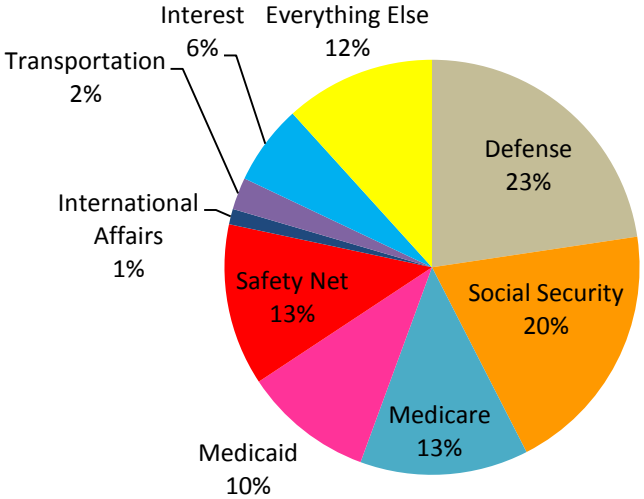
Federal Government Spending

1962



Safety Net
S.S.
20%

2011



Medicaid
Medicare
S.S.
43%

Healthcare Costs

- 1900 – 3% GDP (Gross Domestic Product).
- 1964 – 6% GDP.
- 1994 – 15% GDP.
- 2020 – 25% GDP.

<u>Per person expenditure for healthcare:</u>

- 1965 - $205
- 2000 - $4637
- 2010 - $8233

Mostly Business
by Ted Goff
"This plan will be much easier not to implement than the last plan we didn't implement."

First - A Word on Systems and Change

- Why do 70% of change initiatives fail?
- Because we <u>try to put new ideas into the old system.</u>
- The old system is designed to strangle innovation – <u>ideas die of starvation.</u>
- Some aren't comfortable thinking "outside of the box"…
- Understand how systems work…or don't work
- Xerox

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Key Strategic Planning Components

Self-Assessment

- What you do
- Why you do it
- How you do it
- What you do well
- What you could do better
- Operational capacity
- Financial capacity
- Physical capacity
- Irony of Strategic Planning: most effort needed

Environmental Scan

- You can't manage what you don't know
- What lies ahead (environmental scan)
- Demographic shift (overwhelming)
- Government healthcare policy
- Government fiscal policy
- National and global economy
- Local economy
- Invite stakeholders to provide input
  - Community
  - Patients, Providers, staff
  - Government: local, state, federal
  - Other social services
- There is no "future" there are possible "futures"

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Impact Evaluation

- What possibilities did we find in landscaping
- What are the operating and financial implications of each of those possibilities.
- Listing the possibilities and the impacts on the CHC of each one
- Prioritizing the probabilities
- Analyzing the impact on each possibility
- Capital Needs, human resources, connections

Goal Setting

- Specific
- Measurable
- Attainable
- Realistic
- Timely

Action Plan

- "What if" planning
- Contingent Action Plan
- "Back-to-the-Future" planning
- Immediate Action Plan
- Maximizing positive possibilities
- Minimizing negative possibilities
- Timeline estimates for intervention
- Community Activation

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*Now…back to **Capital** planning.*

Master Capital Plan – Long Term

- Determine expansion priorities (based on market/community/policy/environment analysis)
- Facility inventories:
  - Capacity
  - Effectiveness
  - Maintenance needs (often overlooked after expanding)
  - Financial sustainability
- Prioritize and set capital budgeting goals: operational and financial

Work with What Capital You've Got – Near Term

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- Facility Maximization Plan:
  - Define new organizational program plan (and site-specific as applicable)
  - Select most effective/efficient method of delivery for each program
  - Define staffing plan (for each site as applicable)
  - Identify adjustments or reorganization needed within existing physical space to meet new program goals

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The Board's Role in Strategic Capital Planning*

- Board involvement suggested in capital planning issues:
  - Establishing capital budgeting process (existing facilities and expansions)
  - Finalizing expansion priorities
- For planning a new project:
  - Project scope, Budget, Timeline
  - Architect, site selection and final design option
  - Loans/financing structure

*NACHC Publication, 2006

Community Support

- Identify resources
  - People
  - Institutions
  - Businesses
  - Organizations
- Process plan
  - Objective
  - Priority
  - Action needed
  - Community person
  - Who will make contact

Giving the Needed Time

- Not being trapped in a room for a week but an iterative process
- Set a timeline
- Identify teams (and outside help) for information gathering and development of various action plans
  - meet as group to discuss implications and prioritize
- Talk as full group when considering mission and vision – all should buy in – ownership is truly critical

The Capital Budgeting Process

Rick Breuer, CEO, Community Memoria Hospital and Sunnyside Health Care Center

For Profit, Corporate World

- Maximize Shareholder Wealth
- Return on Investment
  - Multiple tools

Non Profit, Healthcare World

- Still care about returns, if measurable
- Ties to mission and strategy

Timing

- Concurrent with Operating Budget
  - Target Operating Budget leads to:
    - Budgeted Cash Flow Statement
    - Budgeted Balance Sheet
    - Goals for $$ Balance, others as applicable
    - Backs you into a max Capital spend
      - » Can obviously go lower – this is a backstop
  - Committing Funds for Next Year
    - Identify Potential Needs for next 3-5 Years

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Type of Need

- New
- Replace
- Replace if…
- Departmentally prioritized, with explanations

First Review

- Senior Management
  - Ensure someone on team understands every item listed
  - Already on prior 3-5 year lists?
  - Fits in to support strategic initiatives?
  - Funding sources available specific to item?
  - Compute return on investment, if applicable
  - Create initially prioritized list
  - Develop estimate of cutoff

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Second Review

- Medical Staff
  - Entire prioritized list, with estimated cutoff
  - Include explanations and request for feedback
    - Items to add
    - Items not felt necessary
    - Items to reprioritize
  - Importance of follow up with MD and department
  - Make any changes to list based on feedback

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Third Review (if applicable)

- Building Committee
  - Focus on building and fixtures
- Strategic Planning Committee
  - Tie to strategic initiatives
- Finance Committee
  - Focus on evaluating returns where available

Final Review

- Senior Management
  - Makes all changes based on feedback from previous stakeholders
  - Presents to applicable governance group(s) for approval
  - Usually in tandem with Operating Budget

- Flex Options Mid-Year

Back to Timing

- Timing of Strategic Planning Sessions related to Budget
  - Ability to influence budgets based on info from planning sessions
  - Ability to tweak planning based on realities seen in budget projections
  - Ability to use 3-5 year needs in both directions

Capital Budgets & Strategic Planning

- Essential to the Plan
- Common flaw in planning process – not devoting the resources necessary to carry out agreed upon plan
- Domino effect

Capital Budgeting

- Not just an annual exercise
- Will help build a stronger Balance Sheet
- Will help build relationship with lenders
- Key part of overall financial planning
- Key part of strategic planning

Questions?

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