Rural Health Capital Readiness Webinar Series

Strategic Capital Planning and Capital Budgeting

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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
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
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!*
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.
Federal Receipts vs. Entitlements

Baseline SS, Medicare, and Medicaid
Baseline receipts (includes JGTRRA)
- Continue at same rate
Social Security, Medicare & Medicaid
Outlays as a Percentage of GDP 1990-2075

Federal Government Spending

1962

- Defense: 51%
- Social Security: 13%
- Medicare: 0%
- Medicaid: 1%
- Safety Net: 6%
- International Affairs: 5%
- Transportation: 4%
- Interest: 6%
- Everything Else: 14%

2011

- Defense: 23%
- Social Security: 20%
- Medicare: 13%
- Medicaid: 13%
- Safety Net: 13%
- International Affairs: 1%
- Transportation: 2%
- Interest: 6%
- Everything Else: 12%

Safety Net
S.S.
20%

Medicaid
Medicare
S.S.
43%
Healthcare Costs

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

Per person expenditure for healthcare:
- 1965 - $205
- 2000 - $4637
- 2010 - $8233
“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 try to put new ideas into the old system.
- The old system is designed to strangle innovation – ideas die of starvation.
- Some aren’t comfortable thinking “outside of the box”...
- Understand how systems work...or don’t work
- Xerox
Key Strategic Planning Components

Mission and Values

- What are our possible “futures”?
- How might these “futures” impact us?

Goal Setting

- What must we achieve for success?

Action Plan

- What are the steps to take?
- Measures of success?

Mission Reaffirmation and Sustainability

Impact Evaluation

- What conditions are affecting us now?
- What about the future?

Environmental Scan

- Who are we?
- What do we want to be?
- Are we ready?

Self-Assessment
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”
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
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

• 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
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
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
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
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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