Preparing for a Capital Project: Are You Ready?

A Guide for Health Center Staff and Boards

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Capital Link

With the goal of doubling the Community Health Center patient base by 2015, the pressure to build and expand now is stronger than ever. However, even with good, efficient planning, the capital development process can take more than two years (and often as long as three years) from initial project concept to completion.

The length and complexity of the process speaks to the importance of pre-planning to develop a clear, well thought out concept. Your project concept must be clear to the entire organization and Board or you will be unsuccessful in telling your story to the community and potential funders. Project ideas that have not been vetted through or accepted by the community can get derailed early in the community review process. Also, capital projects that are overbuilt for the demand for care in the service area can result in financial destabilization.

Poorly planned project concepts often go through fits and starts through the design phase, thereby escalating design costs and pushing the construction timeline back. Architects like to refer to the Rule of Tens: changes that costs one dollar during the planning phase of a project can cost thousands or even tens of thousands during construction. A strong planning process pays for itself many times over!

The purpose of this document is to provide a tool-kit to evaluate health center readiness to begin the capital project development process, with the goal of helping your organization avoid the pitfalls that insufficiently planned projects can encounter. Each question assesses a different aspect of pre-planning activities that should be completed before you consider contacting an architect, a lender or a project manager to get started on your capital project. The questions are presented in a checklist format, along with context describing why the question is being asked, and advice for next planning steps if the answer is no to any question.

Rule *of* Tens

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Is this capital project the result of proactive planning or reaction to outside pressures or opportunities?

Strategic planning can ensure that your plans for efficient ongoing operations and capital planning are informed by the changing environment in which your health center operates, as well as make everyone on staff and the Board aware and supportive of a proposed capital project. There is a saying that "luck favors the prepared"— a strategic capital planning process will also help your health center be more proactive and ready to take advantage should a capital grant opportunity come along. To begin thinking critically about the preparedness of your organization, consider a few probing questions.

THE QUESTIONS TO ASK	WHY?	WHAT TO DO NEXT
Is your health center capital project incorporated in your strategic plan? Is your Board of Directors aware and supportive of the project?	If the answer is no to either question, this is an indication that the entire organization is not aware of or on-board with the project. Support of the Board of Directors is especially essential because they represent the community, therefore they can be valuable in building community support. In addition, they often provide connections to resources and contacts relevant to fundraising dollars.	Take a step back and talk to your board about why the project is needed. This may entail additional strategic planning in order to get everyone in the organization on the same page.
		Be sure that your strategic plan incorporates analysis that is both external (looking at trends in the funding environment or the market) *and* internal (such as evaluating the efficiency of your health center's operations).
		In light of your analysis, evaluate or reevaluate whether a capital project makes sense for your organization at this time.
In two sentences or less, can you explain why your organization wants to take on this capital project? Does your organization have a capital planning process in place?	Any member of your management team or Board should be able to articulate in a few sentences the goals of the capital project (and they should all be saying the same thing!). If you are taking on a capital project, it will be vital for everyone on the management team and Board to be on the same page as you reach out to your many external stakeholders, including the community and potential funders and lenders, but also as you communicate to your staff your plans for a capital project.	If you identified a number of facility needs based on your strategic objectives, place them in priority order. A multi-phased capital plan will help your organization avoid taking on too much at once.
		Begin an organization-wide process to develop and refine your capital project concept. Make sure the vision for your project is shared across your organization.
		Develop an "elevator pitch" that can be used to describe the capital project concept to community members and funders.
Are there members of your Board who have capital project experience? Financing experience? Political connections in the community?	Health centers are fortunate in that the community is well-represented on the Board of Directors. In addition to community awareness and support, when considering a capital project, other skill-sets will be required to ensure that the board is providing the benefit of experience to the planning of the project, and approving the capital project with its eyes open.	Consider developing a board recruitment plan to round out the skill-set of your board.
		Alternatively, additional skills could be added through the establishment of an Advisory Board.

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Does your project respond to changes in your health center's environment from the perspectives of policy? Funding? Financing?	If you have a capital project concept already formed but have not looked outward to understand trends in your strategic environment, you may be caught off guard. For example, at the time of this publication, interest rates are beginning to rise; this change to the interest rate environment may affect your health center's debt capacity— and therefore the amount of the project that can be financed may change. A policy-related example is the requirement for environmental review for federally funded projects (NEPA, http://nepa.energy.gov/). This activity requires a long lead time—health center management should have an awareness of how the requirements of different funding sources will affect the project timeline.	Take inventory of the changes in your operating environment as well as your challenges internally as an organization.
		Complete a capital campaign feasibility assessment to understand community funders' "appetite" for a health center capital project.
		Consider the implications of health reform and other national, state and local policy changes, including (1) State or Federal budget pressures that could limit or reduce Section 330 and/or Medicaid funding. What is your state's commitment to Medicaid? (2) Development of state-based health insurance exchanges which are required to pay health centers no less than their Medicaid PPS rates. (3) Dramatically expanded investmetns in National Health Service Corps programs.
Has your health center assembled an internal project team? Does your organization have a clear internal decision-making process?	A capital project will test your organization in different ways than daily operations do. If a clear decision-making structure is not in place at the start, the project could get held up in the design or construction phases with much back-and-forth that gets expensive (remember the Rule of Tens!). It is especially important that a point-person be established to ensure a clear decision-making process.	Create internal project team of 5-7 members that includes a mix of Board members as well as administrative and clinical staff. The team should represent all aspects of what you do as a health center.
		Consider hiring a project manager who can execute your plans and adds value with their design/construction experience.
		Most importantly, establish a point-person to head up the capital project pre-development process.

Strategic planning generally provides the board and staff with a short-term set of action steps as well as the overarching goals for the next 5-10 years. The consideration of capital planning within the strategic plan should accomplish similar results outlining specific action steps with regard to improvements to operational efficiencies, good financial condition, and pre-development planning along with long-range facility expansion and/or improvement. Another key component of strong planning is the consideration of whether existing programs meet the short- and long-term needs of the existing patient population while addressing the unmet needs of the larger market—keeping in mind a constantly changing policy environment. For more information on strategic planning read NACHC's publication *The Board's Role in Strategic and Capital Planning*, which can be found at: http://iweb.nachc.com/Purchase/CatalogSearchResults.aspx?Option=2&Topic=strategic+planning.

Can you describe your patient population both now and five years from now?

Knowing your patient base and your community provides a foundation for executing your capital plan. This information allows your organization to offer culturally relevant programs that meet the demand for services, helping your health center meet its mission of accessible care. Understanding patient trends will help you plan for your facility and reduce the chances of over- or underestimating the future need for services (and therefore over- or under-building).

THE QUESTIONS TO ASK	WHY?	WHAT TO DO NEXT
Does your project respond to today's unmet demand? Can you quantify your unmet demand five years from now?	Planning for your capital project should include defining the unmet demand for services, not just today but five years down the line. A thorough understanding of the size and nature of your market will better allow your health center to offer essential, culturally relevant programs in your expanded facility.	Prepare a market analysis that utilizes current Census data as well as population projection data to understand the demographic make-up and payer mix both now and in the future.
Have you considered the affect of demographic changes that lie ahead?	As baby boomers age, will you be prepared to accommodate chronic illness as well as acute illness? What will be the effect of more reliance on Medicare for reimbursement?	Examine the financial repercussions of a shift from Medicaid reimbursement to Medicare.
Do you know whether your competition is already meeting the demand you have identified?	In addition to understanding the market potential of those whom your health center is not currently seeing, it is important to understand the competitive environment in which your health center operates. If planning for your capital project does not take into account what other providers are available to your potential patient base (as well as what their capacity is), your health center runs the risk of overbuilding.	Use the market analysis to study similar primary care providers in the area, not only FQHCs but look-alikes, Rural Health Centers, Critical Access Hospitals, and independent primary care providers who accept Medicaid.
If you are expanding, do you know what programs your new market will need?	Consider how changes (demographic, economic, and cultural) occurring in your region may determine what new programs your health center should offer.	In addition to market analysis, reach out to your community through your board and staff to assess what needs your center could meet by offering new programs.
If you are offering new programs, have you confirmed that your community will respond positively to the changes?	Although you may have identified a market need, if a new program is announced or rolled out without being sufficiently vetted, it could result in negative feedback from the community. This possibility can be avoided with a bit of proactive outreach.	Before announcing a new program, engage the community to ensure that your plans will be well-received. Seek out community leaders through connections on your Board and staff.

The results of your market analysis are essential to true capital planning and knowledge of your community needs. Your current facility may provide well for the existing needs of the community or could be insufficient. Either way, the short-term focus for your organization should be to maximize the efficiencies of the facility to help determine what lies ahead for the long-term. While some market data can only be gathered by conducting primary research such as surveys and focus groups with current or potential patients, a wealth of information on demographic trends can be found at the Census website, www.census.gov.

Are you sure that your health center has maximized its current facility?

Before you look to a new facility, a thorough analysis of your current operations will help in two ways: (1) Ensure that your new facility has the most efficient layout and effective program delivery, and 2. Confirm if you need to move at all! Below are some questions that any health center should ask before it finalizes a project concept.

THE QUESTIONS TO ASK	WHY?	WHAT TO DO NEXT
Do you know if your center is operating efficiently?	While your organization may be feeling cramped in its current facility or like it simply cannot take in any additional new patients, there may be a few aspects of your operations you could address in the short-term that would either give you more time or perhaps eliminate your need for an entirely new facility.	Complete an operational analysis, looking closely at provider productivity and evaluating how productivity could be improved in your current space.
		Talk to a facilities expert to assess how your current space could be better laid out to allow for more productive operations.
		Evaluate your scheduling template to ensure that it is the best fit for your program delivery strategy/provider style.
		Consider expanding hours of operations.
Do you know if your center is operating effectively?	Especially if you are considering adding new programs, it is important to know your organization before you attempt to redefine it. A program assessment will help your health center understand which programs are meeting their financial and mission-driven goals and which programs may need to be revamped or discontinued.	Prepare an objective analysis of all of your current programs. Ask which program is effective and which if any are not? Which programs are covering their own costs?
Is your model of care delivery the best fit?	Planning for a capital project is an ideal time to bring in a new model of care if your current one is not as effective it could be. It is worth taking time to work with your providers to ensure you are working with the best model, whether or not you proceed with developing a new building.	Work with your provider group to evaluate the effectiveness of your current care-delivery model. Develop the most effective model of care given the needs of your patient population.
Is your current referral network effective in meeting the needs of patients?	Whether you stay put or build a new facility, a careful evaluation of your referral network may help you see new opportunities for collaboration, joint ventures and co-locating with other services and/or providers.	Evaluate types and volume of referrals not meeting the needs of patients (e.g. referred service provider too far away); consider incorporating services into your future program plan.

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Is your health center as productive as it could be?	If you want to expand your facilities because you are currently not profitable, it may pay to take an honest look at your operations to understand whether the facility is the key issue or whether any operational improvements could be made. This exercise will also ensure that when you are ready to expand your operating model is as strong as possible.	Compare your medical and dental provider productivity to the UDS state and national roll-up reports.
		Work with your providers and an operations expert to determine whether low productivity is the result of facility constraints or other factors.

Operating an effective and efficient health center should result in a strong financial condition, which allows your organization to weather the impacts of a constantly changing political, economic and funding environment over time. A continuous focus on fiscal strength will allow the health center to provide services to its patient population even during the most difficult economic periods. For information on health center effectiveness and guidelines for the Patient-Centered Medical Home model, visit the PCMH page of the National Committee for Quality Assurance website: http://www.ncqa.org/tabid/631/Default.aspx. To access the UDS State Roll-Up Reports for benchmark comparison visit http://www.hrsa.gov/data-statistics/health-center-data/StateData/index.html.

Does your Board of Directors know what it means to be financially sound? Do you communicate regularly to your Board regarding your health center's financial health? Below are some recommended assessments and financial benchmarks your health center can use to determine financial soundness (and therefore project readiness). Lenders and funders are more likely to be responsive to a health center with strong financial statements.

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Is the project right-sized to your health center's debt capacity?	Understanding your health center's debt capacity is key to knowing what your fundraising target will be for any amount in the project budget that cannot be financed.	Do a financial analysis that measures your debt capacity. Debt capacity is estimated by first determining the funds available for debt service and discounting this amount to reflect a standard debt coverage ratio requirement of 1.25, which provides a safety cushion for usual variations.
Does your health center have a history of positive operating margins?	Positive operating margins enable an organization to build cash or expand operations. Capital Link recommends that community health centers strive to achieve a minimum operating margin of 1-3 percent. If your health center has a history of negative or fluctuating operating margins, lenders and funders may not be willing to invest in your project unless you have a compelling case for why your income statement will be strengthened in the new building.	Start a financial analysis that compares your proportion of personnel-related expenses to national benchmarks. If your personnel-related expenses as a percentage of total operating revenue is greater than 75%, is this sustainable going forward?
		Look at provider productivity as it is tightly linked to profitability.
		Examine your center's expense structure over the past few years to see if any non-personnel items have increased disproportionately.
		Look carefully at your operations to assess whether low productivity could be the reason for fluctuating margins.
Is your health center's payer mix optimized?	It is a given that limited capacity in a facility may be an issue that constrains profitability. However, whether you are staying put in a current facility or expanding it can be helpful to evaluate your health center's payer mix to ensure that you are maximizing revenues from your patient base.	Compare your payer mix to the UDS state roll-up report.
		Evaluate whether there are any improvements to be made in your Medicaid and Medicare enrollment processes.

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Do your health center's financials report a current ratio greater than 1?	The Current Ratio divides the total current assets by the total current liabilities and is a measure of the health center's ability to meet its current obligations with its current assets. Capital Link recommends that the Current Ratio be at least 1.25x, and anything below 1.0 is a red flag signal to lenders and funders.	Conduct a longitudinal financial analysis to compare your current ratio from one year to the next.
		Look closely at your current liabilities to see what could be reduced to bring your current ratio closer to the target in future years. Lengthening payables and shortening receivables turnover will improve the current ratio.
Does your health center have at least 30 days of cash on hand?	Cash position measures a health center's available cash at a given point in time, and Days Cash on Hand is a liquidity measure that shows the number of days the health center can cover its daily operating expenses with its current level of cash and investments. A health center should strive to maintain at least 30 - 60 days cash to fund ongoing operations.	Conduct a financial analysis that compares your days cash on hand ratio to national CHC benchmarks.
		If your cash is low, develop a plan for how your cash position will improve and communicate that to lenders and funders. If possible, lengthening payables and shortening receivables turnover can help.

Strong financial measures are the result of strong operations. A fiscally sound health center organization is able to achieve excellent measures through good provider productivity, properly coding patient visits and a strong outreach and enrollment program to match patients with the best programs for which they are eligible. Sharing this information with management and the board is essential for good decision-making and planning for the organization. Additionally, it is imperative that a health center operates well in its existing organizational make-up so that when an opportunity or pressure to expand is presented, it will be in the best condition to accept the challenge. For a description of financial benchmarks and the Board's role in financial oversight, refer to the NACHC publication *Financial Information Needed by Health Center Boards for Effective Oversight*,at http://iweb.nachc.com/Purchase/ProductDetail.aspx?Product_code=FM_8_07.

Conclusion

There has never been more pressure for health centers to build than there is today. However, it is a reality that capital projects are going to be more difficult to do in future years, given the changes in funding opportunities and financing. A health center should make capital project decisions independent of opportunities (or pressure), and instead base decisions on the facts and realities of their own internal operations as well as their external environment. A proactive organization is one that sets goals independent of opportunities, but a wonderful by-product of this mindset is that this type of organization will be ready to build should an opportunity arise. Luck favors the prepared!

About Capital Link

Capital Link is a national, non-profi t organization dedicated to assisting community health centers in accessing capital for building and equipment projects. From market feasibility and program, staff and facility plans to comprehensive financing assistance, Capital Link provides extensive technical assistance to health centers to assist in strengthening their abilities to plan and carry out successful capital projects. Additionally, Capital Link provides targeted loans to assist health centers in leveraging other sources of capital and works in partnership with primary care associations, consultants and other entities interested in improving access to capital for health centers.

Capital Link works nationally out of its main office in Massachusetts and satelite offices in California, the District of Columbia, Louisiana, Maryland, Missouri, Washington and West Virginia. For more information, visit www.caplink.org.

CAPITAL LINK
40 Court Street 10th Floor
Boston, MA 02108
Phone: 617-422-0350
Fax: 617-542-0191
www.caplink.org

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