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# Strategic Financial Planning and Decision Making

Greater Heartland HFMA Conference

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# Learning Objectives

- Understand the core principles and methodologies that drive successful strategic capital planning.
- Learn how to craft and convey financial narratives that resonate with stakeholders, ensuring alignment and buy-in.
- Apply strategic planning concepts through interactive workshops and real-world scenarios to enhance decision-making processes







## INFORMATION 20 YEARS AGO



## INFORMATION TODAY



# Where Are We?!?



# Poll Everywhere Log In

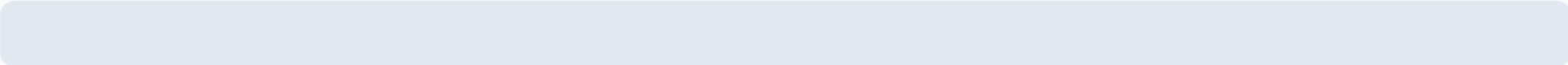
[pollev.com/matthewborchardt534](https://pollev.com/matthewborchardt534)





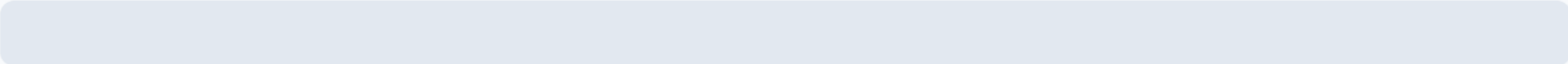
# What best describes your fiscal performance in FYE 2024?

Net profit of 1-5%



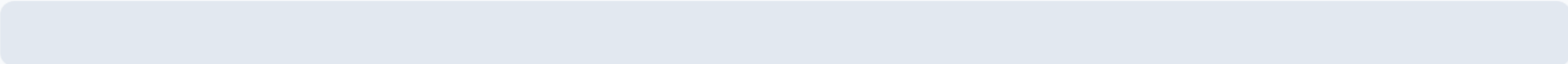
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Net profit over 5%



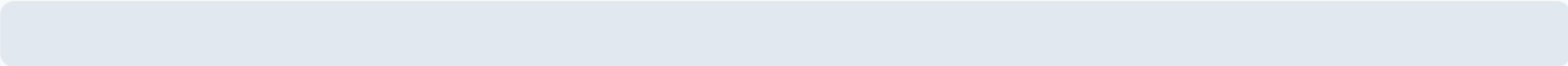
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Net loss 1-5%



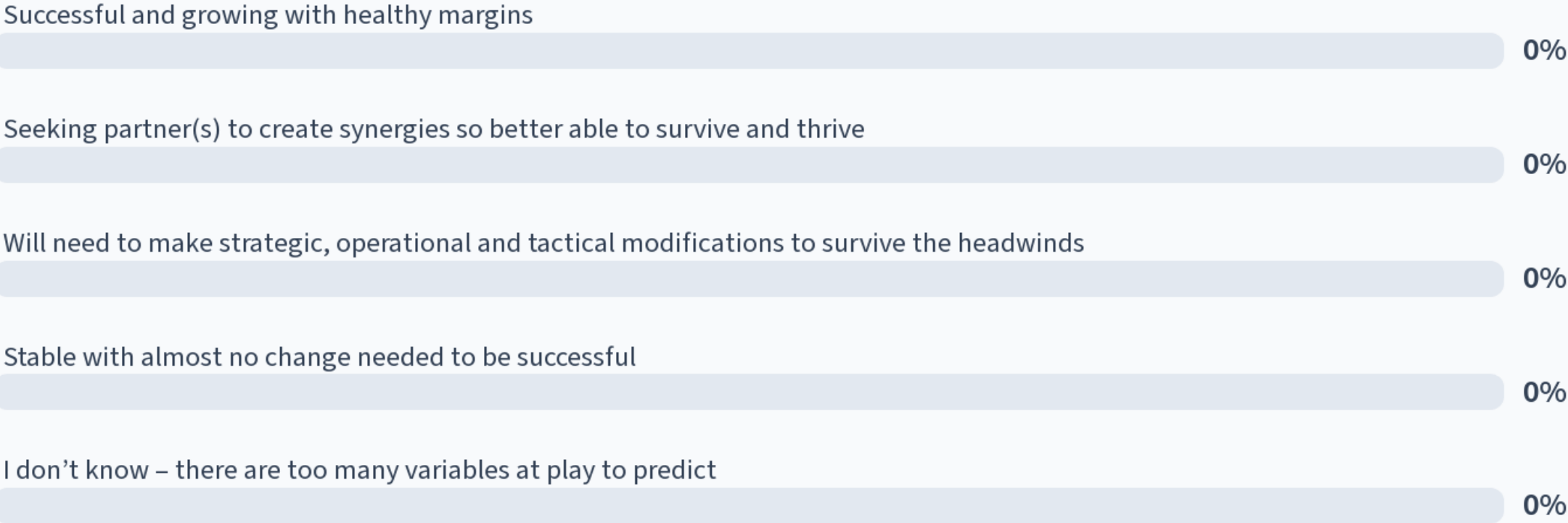
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Net loss over 5%

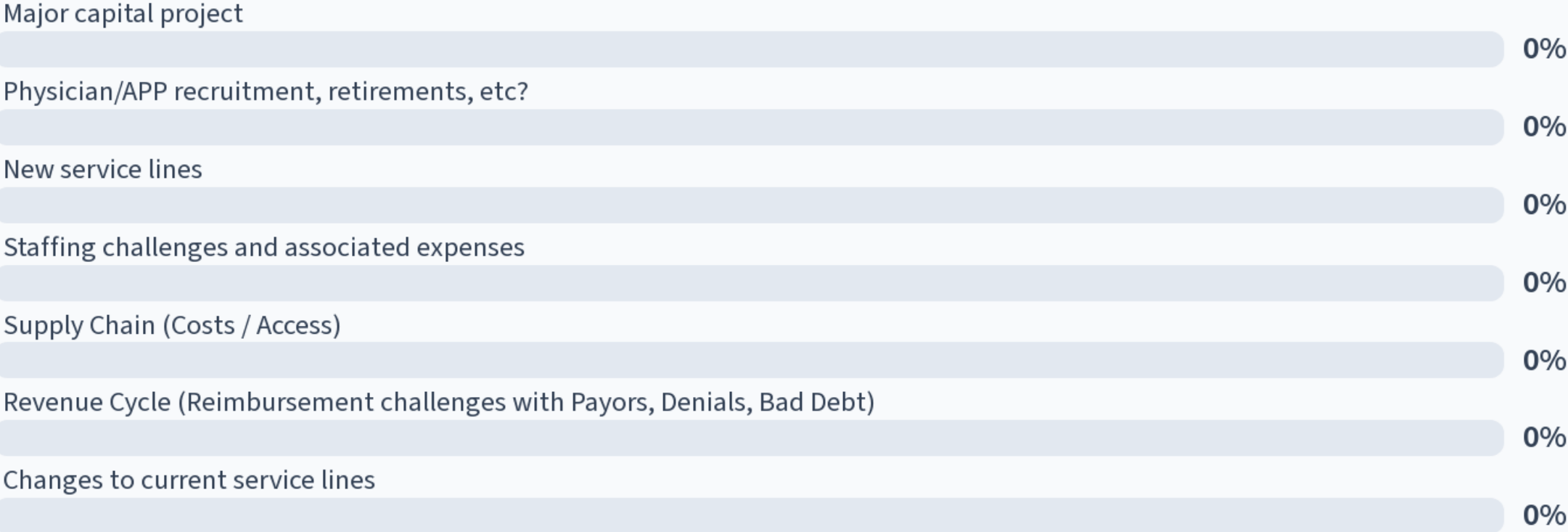


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# What do you predict for your organization over the next 3-5 years?



# What are the greatest financial impacts to your organization over the next 3 - 5 years? (select all that apply)



# How are Business Decisions Being Made In Your Organizations?



- Gut feel
- Wind direction of the day
- Influence

- DATA
- Financial Information
- Operational KPI's



# What is the Cost of Not Getting the Most Out of Your Data?

Problem?



Result?



“No Margin No Mission”

# Strategic Financial Planning



# Strategic vs Tactical Financial Management



**Quicker &  
Better  
Decisions**

**Drive  
Consensus**

**Create a path  
to financial  
success**

## Financial Empowerment



**Ease of  
Use**

**Sensitivity  
Testing**

**Actionable  
Financial  
Intelligence**

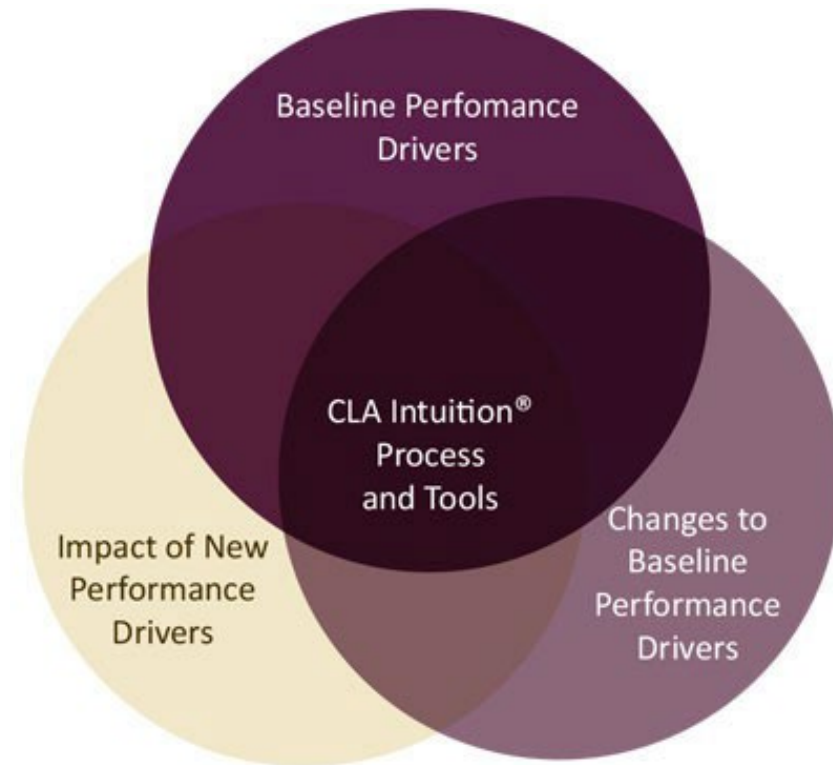




# Elements of Successful Long Range Financial Plan

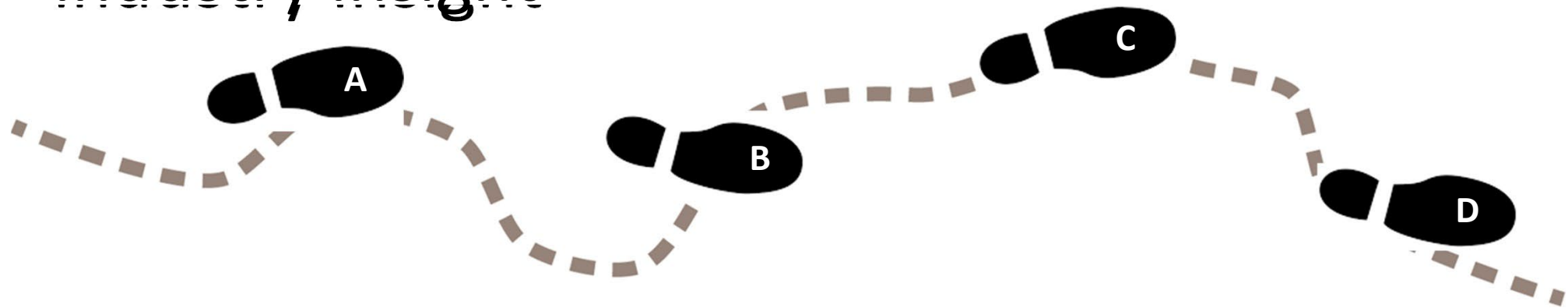
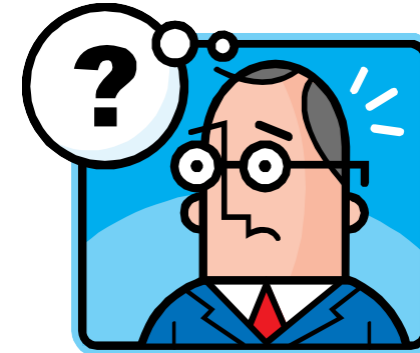
Based on our experience in developing hundreds of long range financial plans, we believe the following are key elements of a successful long range financial model development process:

- Identify **baseline performance drivers** and expected changes
- Identify **new performance drivers** and incorporate potential impacts
- Engage Planning team in an **interactive** financial conversation
  - C Suite
  - Key Operators
- Identify critical elements of **financial “Success”** plan
- **Assess risks** to financial “success”
- Track key success metrics
- Adjust trajectory and plan as necessary



# How would you create a projection???

A ***process*** which identifies and models key financial performance drivers using industry insight



# Critical Success Factors of Modeling Strategic Decisions

## Interactive

- Allows “If, if, if...” Scenarios
- Impactful Real Time Analysis

## Easy of Use

- Easily Modified
- User Friendly

## High Level

- Insight Instead of Detail
- CEO / Board / Management Level



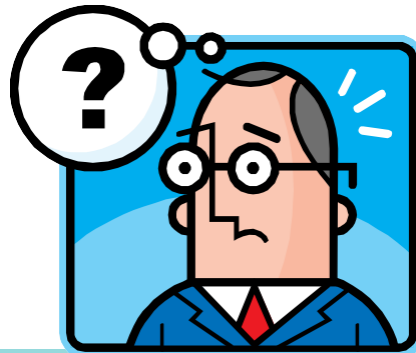
# Financial Modeling Basics

From the Process --->

- Understand the organization
- Know key performance drivers
- Assess the environment
- Determine Strategies

...to the Financial Model

- Baseline financial inputs
- Establish baseline assumptions
- Estimate future impact
- Scope impact of strategies



What are two traits you need to succeed in the future?

- + **The ability to deal with ambiguity**
- + **The ability to calculate and take risks**



# Basics of the Process ( + + )

Baseline



Environment



Strategy

- Assess Current Performance
- Scope Inflation & Volume Trend

- Reimbursement Changes
- Demographic Shifts

- What if we change patient access?
- Build a new clinic?



# Examples of Baseline Inputs to Model



- Current financial performance
- Inflationary growth:
  - Revenue sources
  - Cost of living
  - Capital expenses
- Volume growth:
  - Increased market share
  - Incremental financial impact



# Examples of Environment Impacts to Model



- Changes in demographics:
  - Shifting population based on the Baby Boomer generation
- Change in Economy:
  - Decrease in philanthropy
  - Increased need for service
- Changes in Payment Rates
  - Decrease in Commercial payments
- New technologies



# Examples of Strategies to Model



- Changes in Operations:
  - Add/subtract service lines
  - Efficiencies
  - Provider Development
- Changes in Revenue Structure
- Future Fundraising Plans
- New relationships





# We Believe...

...the current environment poses great threats and potential opportunities

...strong financial indicators are becoming more critical by the day

...understanding where you have been is critical in determining where you are going

...organizations create their own financial success



# Bringing it All Together With a Story



# The Vision

DATA



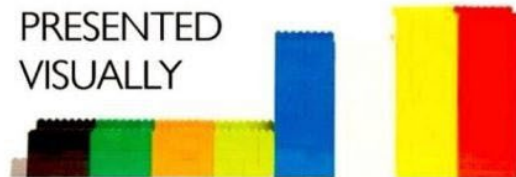
SORTED



ARRANGED



PRESENTED VISUALLY



EXPLAINED WITH A STORY



# The Challenge

Many hospitals struggle to access and organize the information they need to make timely decisions.

## Software Sprawl

Best in breed software, mountains of data, how to take advantage?

## Pressure to do more with less

Short staffed, budget constrained, need “good enough” solution  
Competition for resources and talent makes digital capability a cost of entry

## Everything is Manual

Multiple disparate systems, murky process, requires “reinventing the wheel” every time anyone needs data  
Seemingly endless cycle of manual reporting exhausts staff

## Lack of Clarity About What Data Matters

Translating the vision of your strategic plan into simple, measurable, and consistent KPI's.



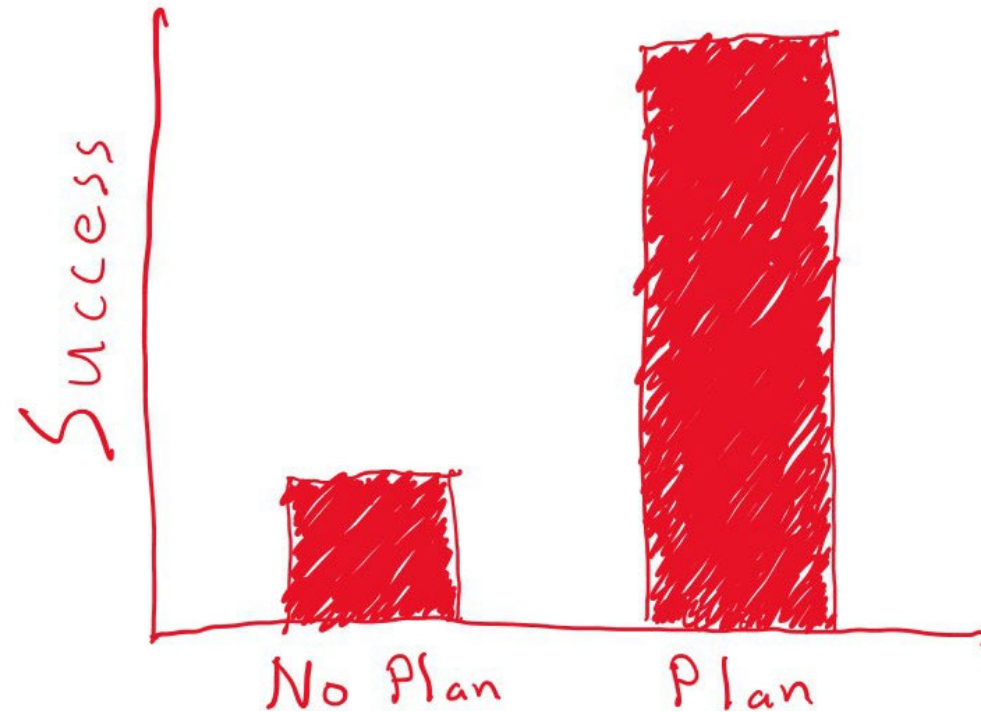


Source: <http://priceisright.wikia.com/wiki/Plinko>

# Why we plan

We believe success  
is **CREATED!**

Disclaimer: Goal is not to actually “predict”  
the future, just understands the possibilities

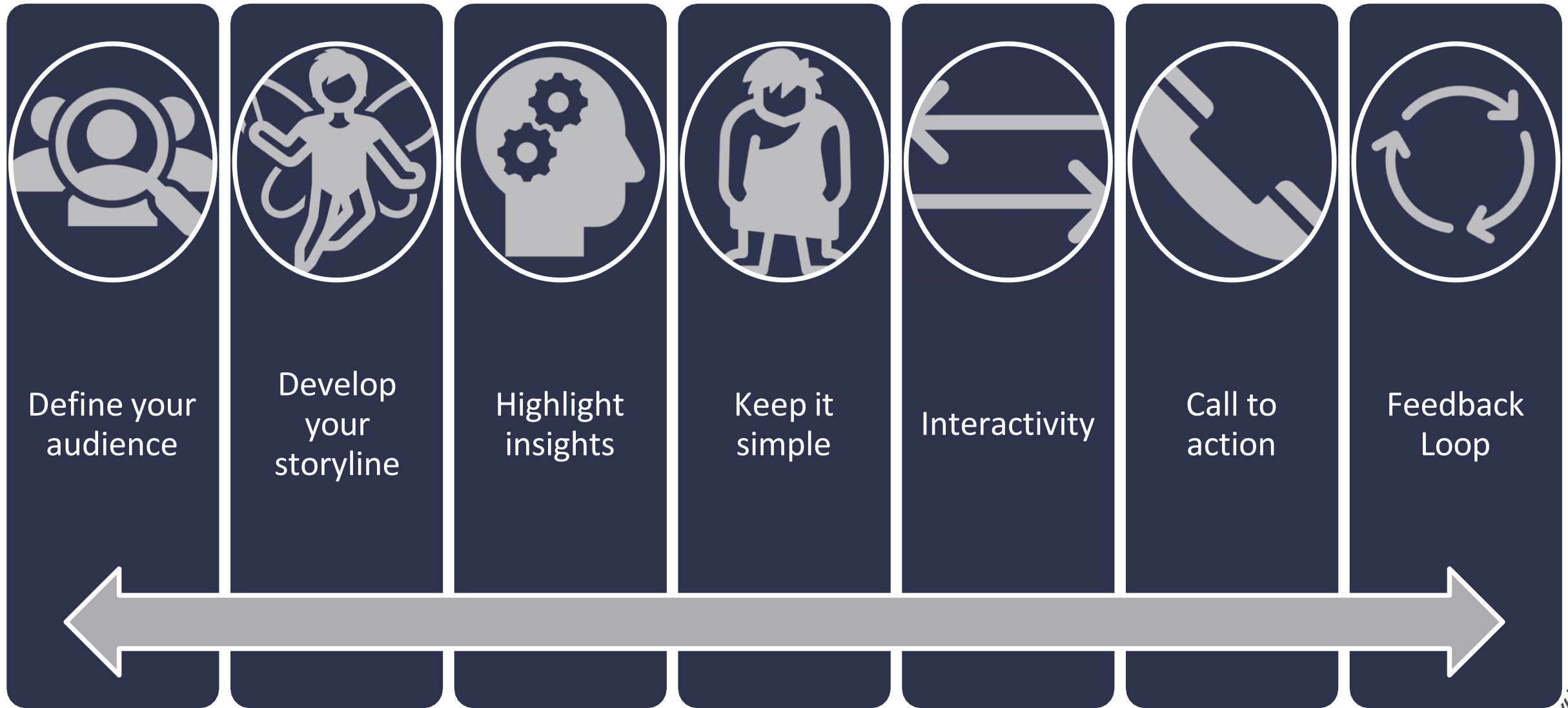


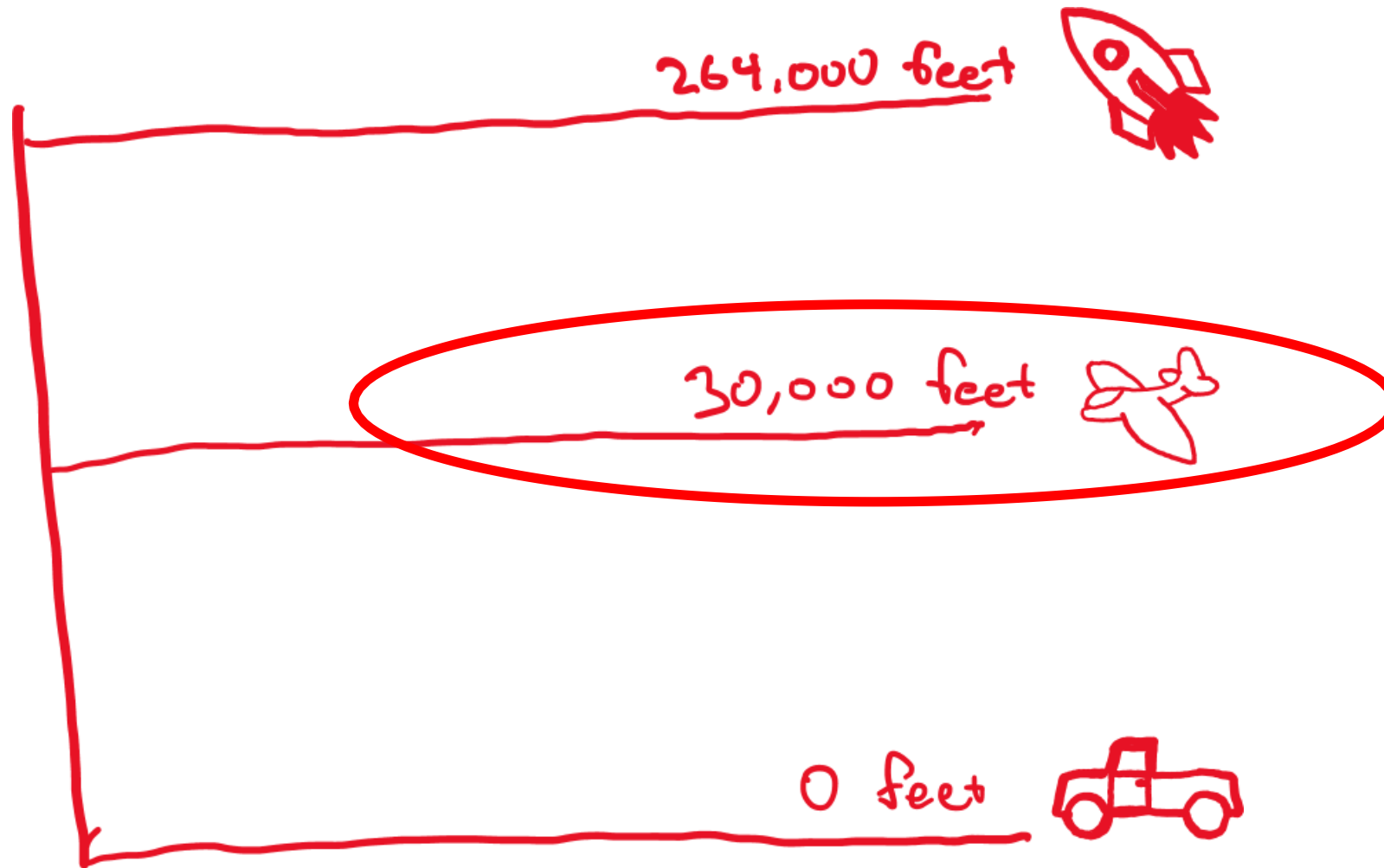
No one ever made  
a decision because  
of a number. They  
need a story.

Daniel Kahneman



# Key Area of Focus For Decisions





**A discipline process  
at the right level**

**“Not too high, not  
too low, just right”  
Goldilocks**

**Not to Scale – No Assurance  
Provided**

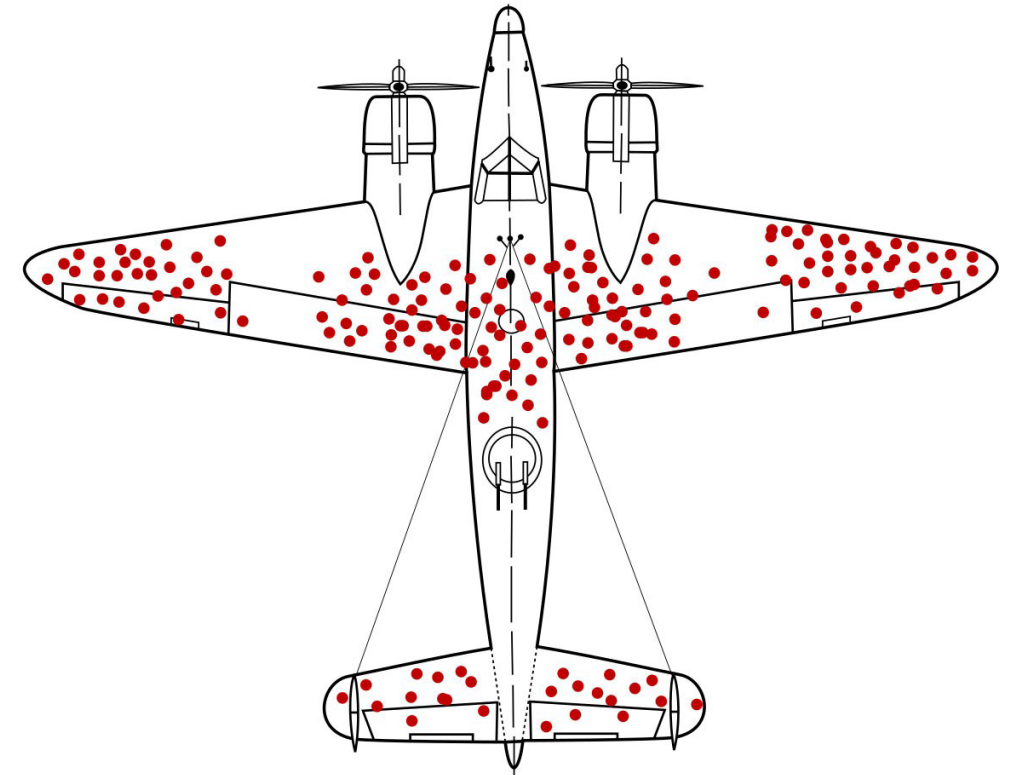




# Why is a Story Important?

The dots on the right are an example of where returning planes were getting shot

- Do you want to increase armor on the spots with or without bullet holes?



# Strategic Capital Planning Case Study Example



# What is Strategic Capital Planning?

Strategic Capital Planning is defined as the process of **linking** capital investment to your strategic and operational plans.

1. Understanding your strategic initiatives
2. Clarifying key issues required to build financial performance targets
3. Driving change throughout the organization
4. Preparing a financial analysis with goals and outcomes



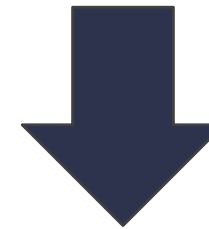
# My Sample Medical Center

- \$200M Operating Revenues
- Performance Indicators
  - 3.3% Operating Margin (stable)
  - 4.0% Total Margin
- Liquidity and Reserves
  - \$113M Cash & Reserves
  - 224 Days Cash on Hand
- Debt and Capital Structure
  - \$18M LTD
  - 7% Debt to Cap
  - 618% Cash to Debt

## Credit Rating

Moody's:

A2 Stable

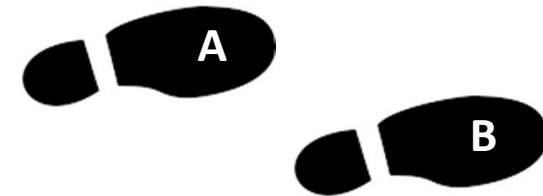


**Basis for "Affordable"  
Financial Targets**



# Key Baseline Environmental Assumptions

- Rates
  - Includes “Known” Medicare Reform Cuts
  - Flat Medicaid and Self Pay
  - 3% Commercial Inflation
- Expense Inflation (COLA)
  - 3% Labor
  - 3% Non-Labor
- Net Rate / Expense Inflation Spread = -0.7% / Year
- \$2.5M Future UPL Payments
- Potential \$5.0M Decrease in Commercial Payments



# Key Strategic Opportunities



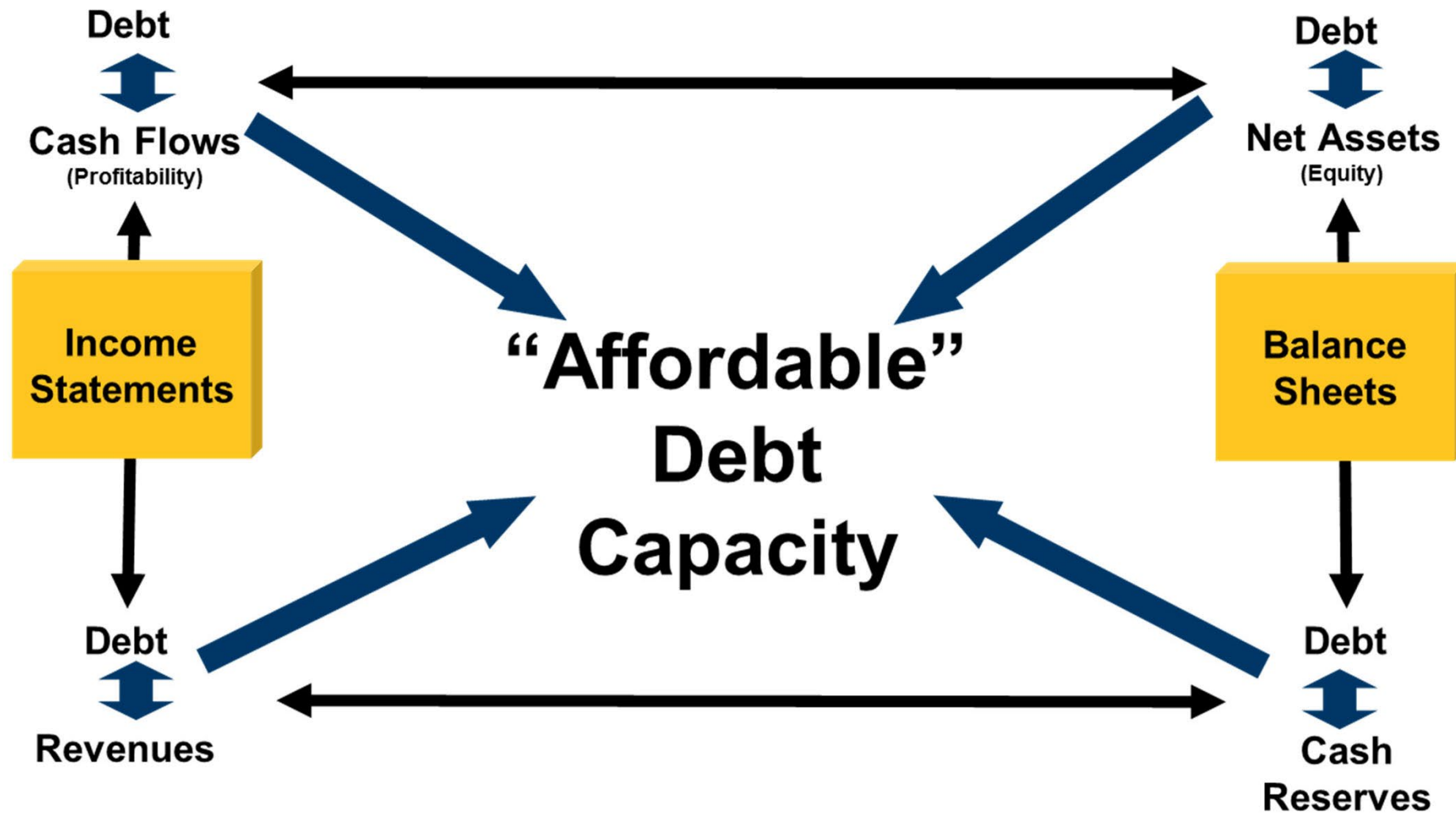
- Acquire Physicians
- Acquire Local Competing Hospital
- Merge in Local CAH Hospitals
- Purchase Outpatient Radiology Group
- Acquire Primary Care Practice
- Hopefully Many Future Capital Projects

# Financial Performance Target Setting Considerations

- Industry Standards
  - Rating Agencies ==> Credit Quality
- Current Performance
- Capital “Lifecycle” Considerations
  - New Facility Replacement
- Financial Performance Targets need Executive and Board level buy-in to optimize value of process

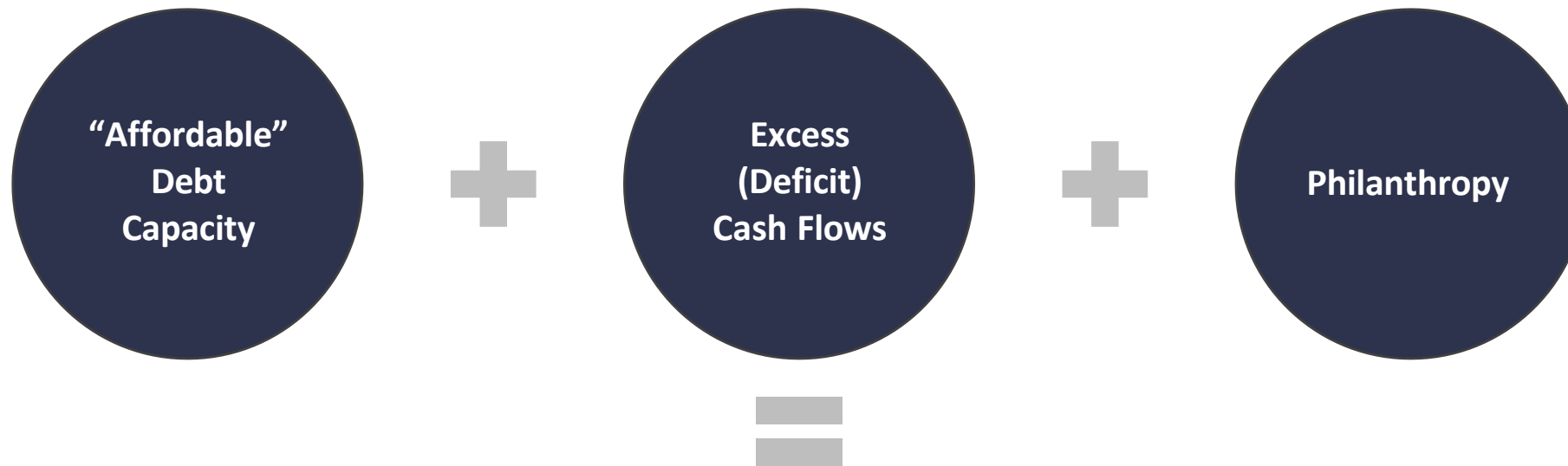


# Fundamentals of Debt Capacity





# “Affordable” Capital Capacity Defined



**“Affordable” Capital Capacity**

# Key Ratios Defined

<u>Ratio</u>	<u>How Calculated</u>
<ul style="list-style-type: none"> <li>■ <b>Debt Service Coverage Ratio (MADS = Maximum Annual Debt Service)</b></li> </ul>	$\frac{\text{Net Income} + \text{Depreciation} + \text{Interest Expense}}{\text{Maximum Principal Payments} + \text{Interest Expense}}$
<ul style="list-style-type: none"> <li>■ <b>Debt to Total Capitalization</b></li> </ul>	$\frac{\text{Long-Term Debt}}{\text{Long-Term Debt} + \text{Net Assets}}$
<ul style="list-style-type: none"> <li>■ <b>Cash to Debt</b></li> </ul>	$\frac{\text{Unrestricted Cash \& Investments}}{\text{Total Long Term Debt}}$
<ul style="list-style-type: none"> <li>■ <b>Debt Service % of Revenues</b></li> </ul>	$\frac{\text{Principal Payments} + \text{Interest Expense}}{\text{Operating Revenues}}$
<ul style="list-style-type: none"> <li>■ <b>Days Cash on Hand</b></li> </ul>	$\frac{\text{Unrestricted Cash \& Investments}}{\text{Average Daily Cash Expenses} \times 365}$



# Future “Affordable” Debt and Capital Capacity Baseline Scenario

This would be called the Ostrich or “Head in the Sand” scenario with no management action that highlights the importance of focusing on improving financial performance

Through 2029 ...

- 1) \$30M incremental new debt capacity, and
- 2) \$71M (8.2% of revenues) of total capital spending capacity



Sample Medical Center

### BASELINE OPERATING PERFORMANCE

2024 Baseline Performance = 2024 Budget

- No UPL Impact
- No Decrease in Commercial Rates
- No Competitive Volume Losses
- No Labor Performance Improvement
- No Non Labor Performance Improvement

### PHYSICIAN ACQUISITIONS

- No Acquired MDs

### HOSPITAL ACQUISITIONS

- No Acquisition of a Comp Hospital
- No CAH Mergers

### OTHER ACQUISITIONS

- No Outpatient Radiology Purchase
- No Primary Care Practice Purchase

### JOR PROJECT CAPITAL NEEDS

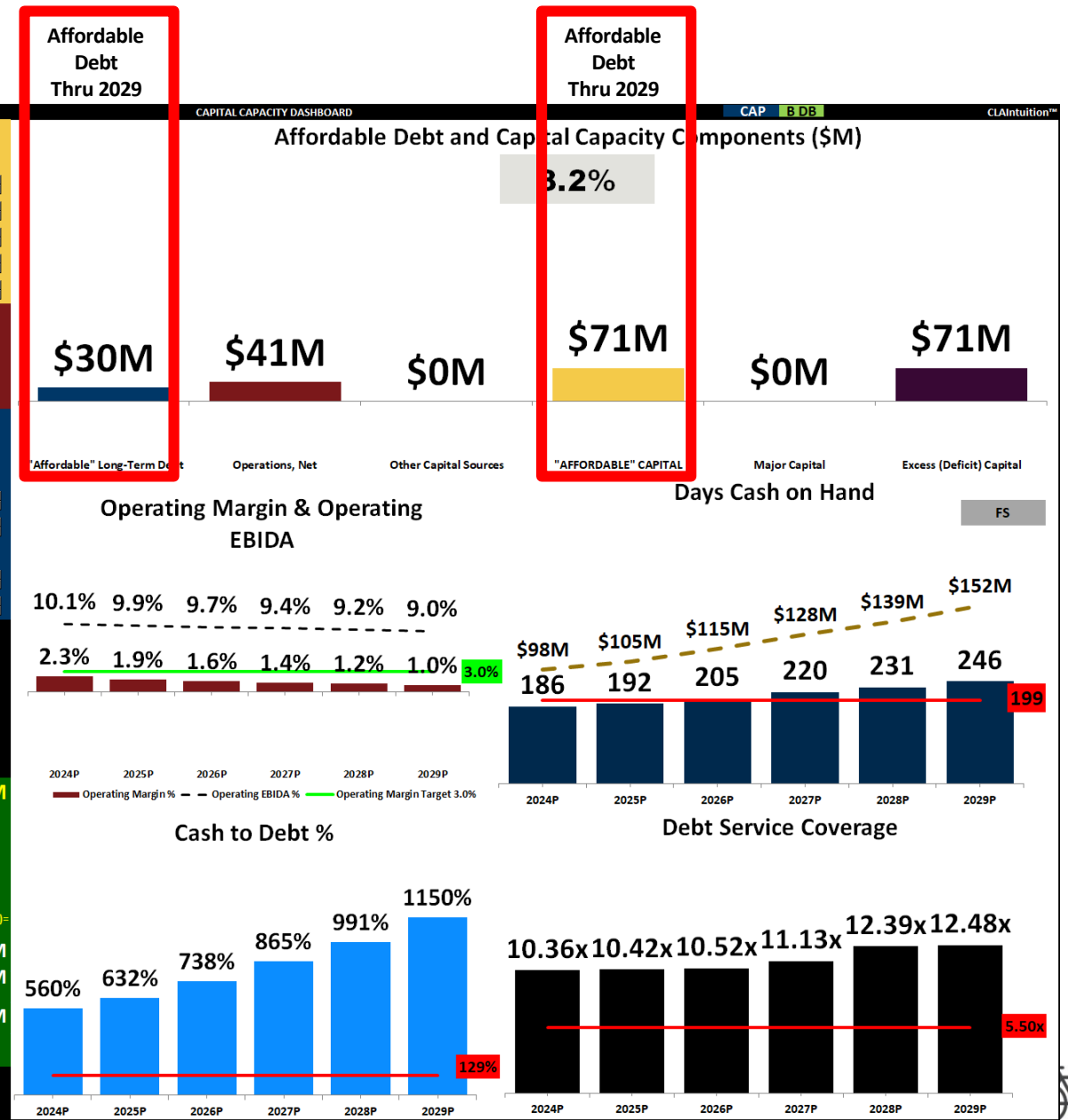
Total Included Costs (with Financing Costs) = \$0.0M

- No BiPlane Const Phase II and Equipment
- No New Parking Garage
- No Center Tower Replacement
- No Robot

### JOR PROJECT CAPITAL SOURCES

- Long Term Debt ( 5.00% over 25 Years) \$0.0M
- Philanthropy \$0.0M
- Cash - Projects \$0.0M
- Cash - Acquisitions/Other 50% Equity
- Proj Routine Capital \$8.0M / Yr Proj of Op Rev

Overall Investment Return % 0.0% / year

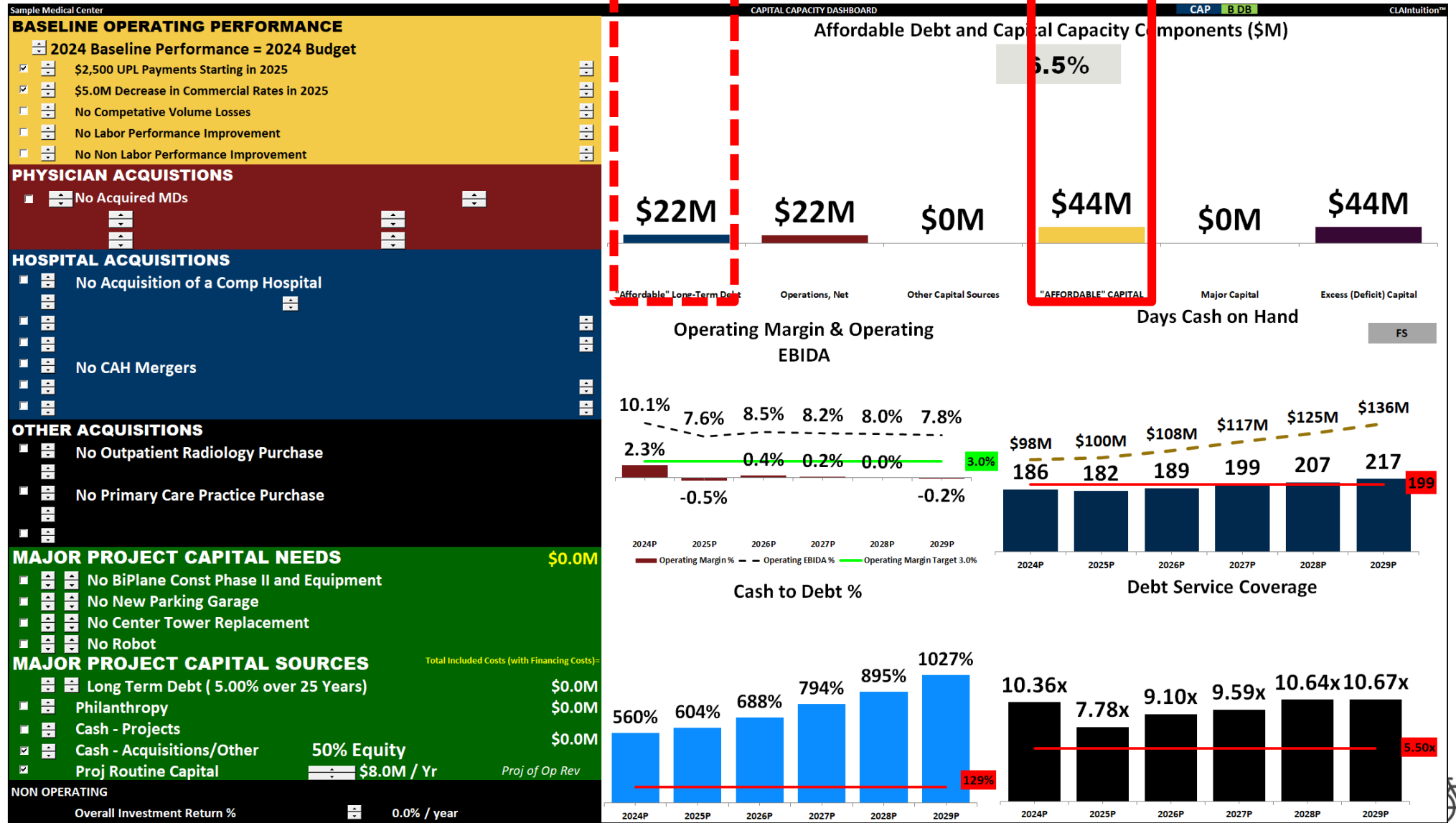


Future “Affordable” Debt and Capital Capacity

# “Baseline + Environmental Impacts”

The model at right, based on a screen shot of the CLA Intuition modeling tool that indicates the “Baseline + Environmental Impacts” scenario produces through 2029 ...

- 1) \$22M incremental new debt capacity, and
- 2) \$44M (6.5% of revenues) of total capital spending capacity



# Future “Affordable” Debt and Capital Capacity “Physician Acquisition” Scenario

The model at right, based on a screen shot of the CLA Intuition modeling tool that indicates the “Physician Acquisition” scenario produces through 2029 ...

- 1) \$64M incremental new debt capacity, and
- 2) \$140M (10.6% of revenues) of total capital spending capacity

Sample Medical Center

### BASELINE OPERATING PERFORMANCE

2024 Baseline Performance = 2024 Budget

- \$2,500 UPL Payments Starting in 2025
- \$5.0M Decrease in Commercial Rates in 2025
- No Competative Volume Losses
- No Labor Performance Improvement
- No Non Labor Performance Improvement

### PHYSICIAN ACQUISITIONS

- 18 Acquired MDs 2025 - 2027
- \$50 Increased Comp per FTE
- \$400 Acquisition Costs per FTE
- 50% Inpatient Capture
- 50% Outpatient Capture

### HOSPITAL ACQUISITIONS

- No Acquisition of a Comp Hospital
- No CAH Mergers

### OTHER ACQUISITIONS

- No Outpatient Radiology Purchase
- No Primary Care Practice Purchase

### MAJOR PROJECT CAPITAL NEEDS

Total Included Costs (with Financing Costs) = \$0.0M

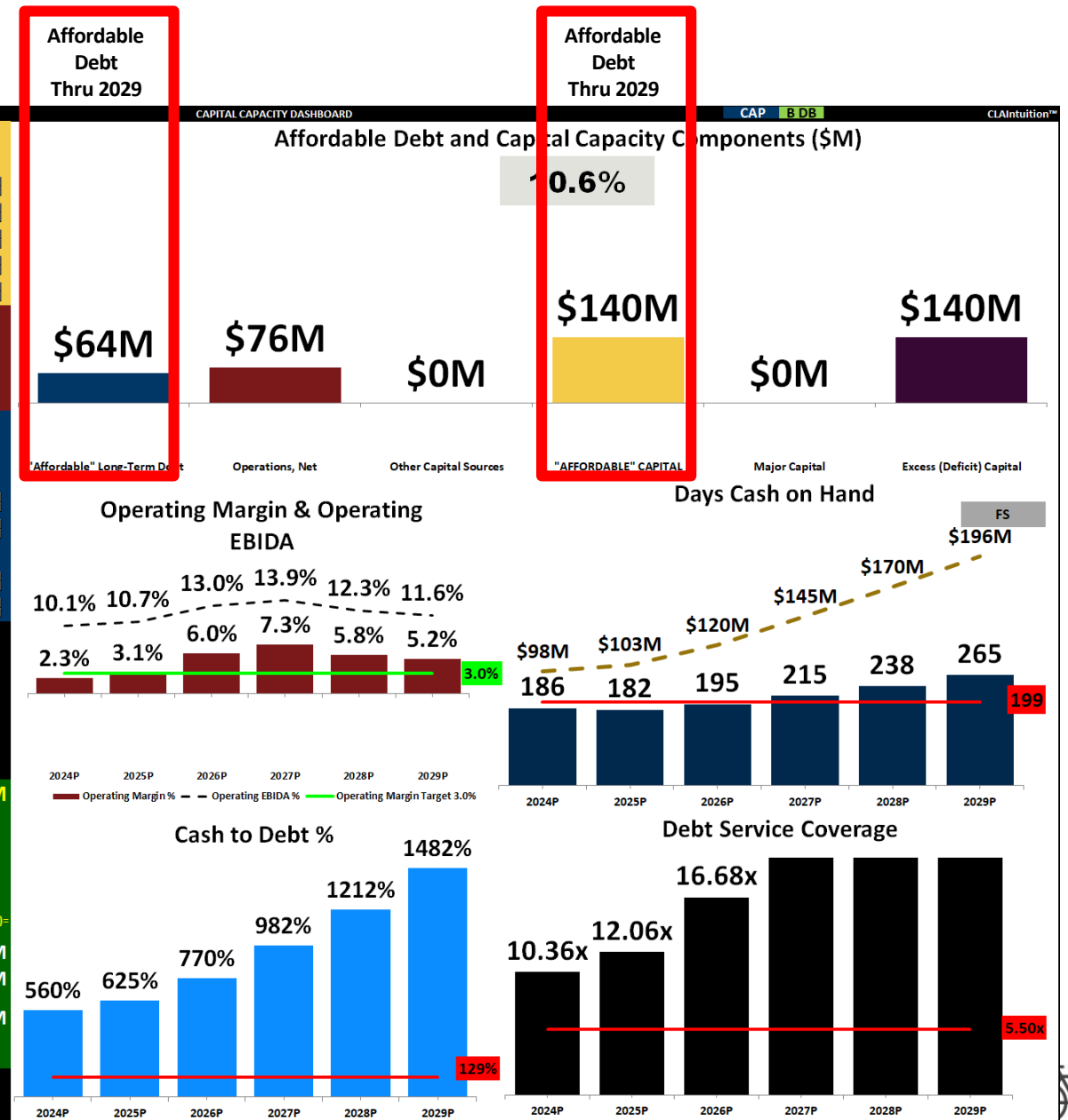
- No BiPlane Const Phase II and Equipment
- No New Parking Garage
- No Center Tower Replacement
- No Robot

### MAJOR PROJECT CAPITAL SOURCES

Total Included Costs (with Financing Costs) = \$0.0M

- Long Term Debt ( 5.00% over 25 Years) \$0.0M
- Philanthropy \$0.0M
- Cash - Projects \$0.0M
- Cash - Acquisitions/Other 50% Equity
- Proj Routine Capital \$8.0M / Yr Proj of Op Rev

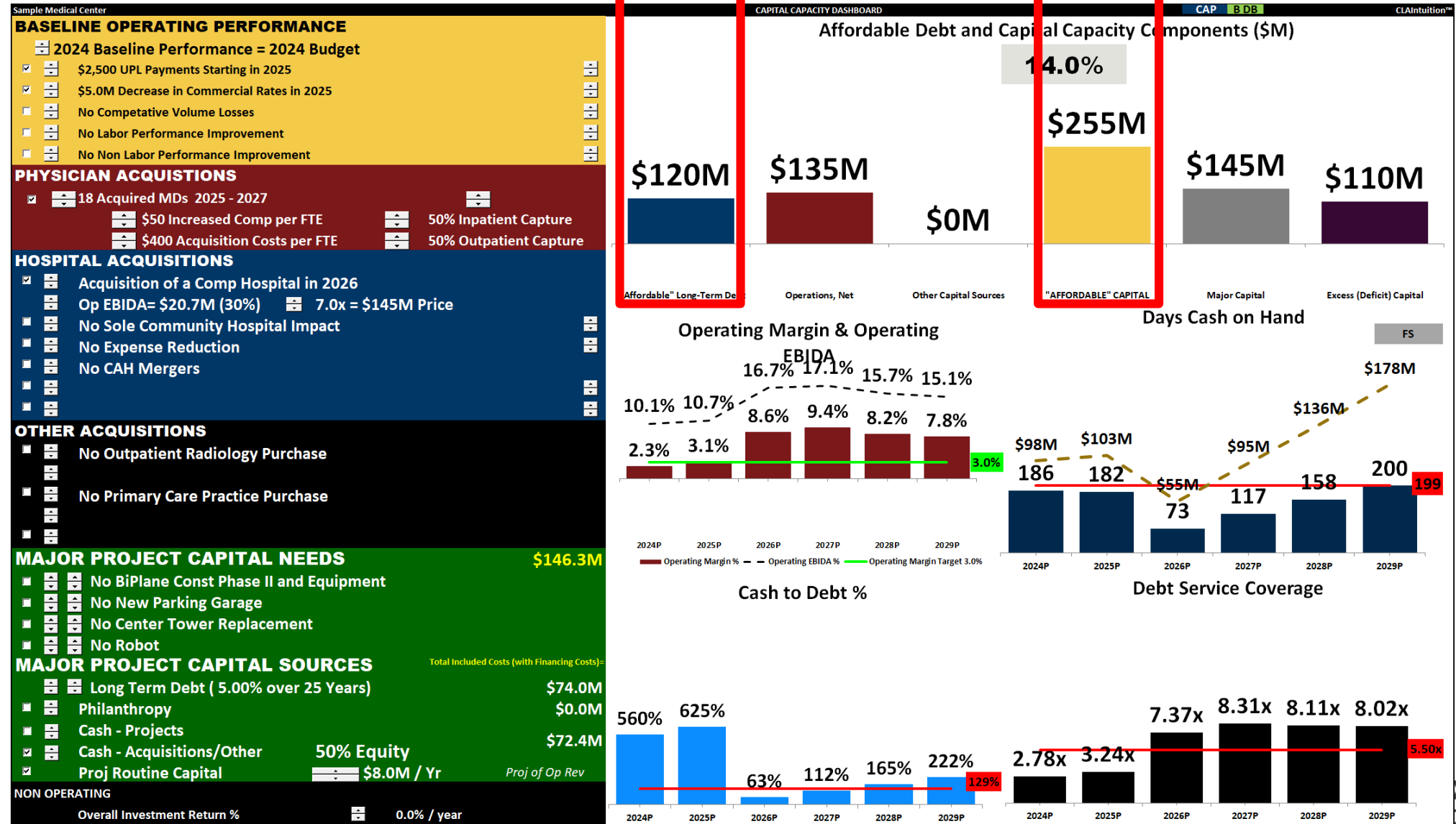
NON OPERATING Overall Investment Return % 0.0% / year



# Future “Affordable” Debt and Capital Capacity “Hospital Acquisition” Scenario

The model at right, based on a screen shot of the CLA Intuition modeling tool that indicates the “Hospital Acquisition” scenario produces through 2029 ...

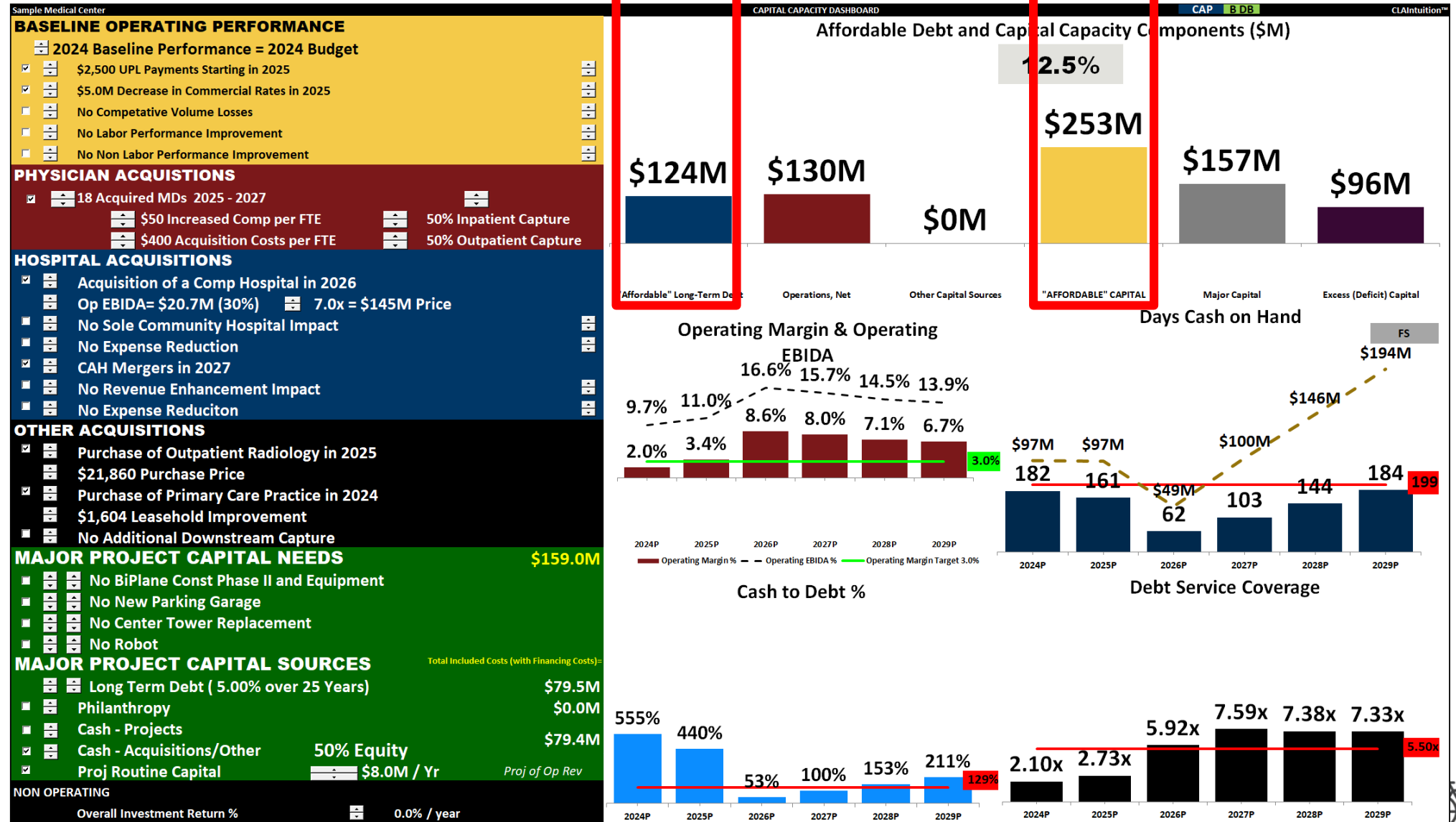
- 1) \$120M incremental new debt capacity, and
- 2) \$255M (14.0% of revenues) of total capital spending capacity



# Future “Affordable” Debt and Capital Capacity “Other Acquisition” Scenario

The model at right, based on a screen shot of the CLA Intuition modeling tool that indicates the “Other Acquisitions” scenario produces through 2029 ...

- 1) \$124M incremental new debt capacity, and
- 2) \$253M (12.5% of revenues) of total capital spending capacity



# Attributes of Effective Strategic Capital Planning Model



**Organizational Financial Targets:** High Level Agreement on Financial Targets for Evaluating “Affordability” of Capital Investments



**Understanding Value of Strategic and Capital Decisions:** Process to Evaluate the “Value” of Strategic and Capital Investment Opportunities



**Sensitivity Testing of Future State:** Financial Analysis of Future State Impacts of Strategic and Capital Investment Decisions





# Discussion and Questions





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