How PACE Can Be an Effective Growth Strategy
(Or, what can we learn from the PACE model that will help us thrive under health care reform?)

June 6, 2012

Presenter:
Edwin Eng, Senior Vice President, Cain Brothers

Agenda

1. Introduction
2. Overview of PACE Program
3. PACE Case Studies
Introduction

New Business and Revenue Models Driven by Health Care Reform

- Health Reform is pushing acute and long term care providers toward working together towards clinical integration
  - Sharing financial risks in new ways
    - gain-sharing,
    - bundled payments
  - The old is the “new”
    - Prepayment => Capitation => HMO => ACO and bundling
- Historically, long term care services are rewarded by volume on a fee-for-service basis with limited coordination among providers
  - Hospital discharge planners are indifferent to post-acute care quality
- Emerging new models reward efficiency and effectiveness of the outcome
  - Bundled Payments (acute and post-acute)
  - Readmission penalties coordination
  - Accountable Care Organization (ACO) models – reward and penalty for outcome achievement
  - Patient Centered Medical Homes – accountable care at the medical group level
  - Growing Medicare Advantage enrollment
Medicare Post-Acute Care and Hospital Re-admissions Spending (2001-2010)

Hospital re-admissions cost $26B in 2009
Hospital re-admissions cost $8B in 2005

Why Post-acute Care Is Key to Managing Health Care Costs

Hospital Discharges to Post Acute = 35%
Transfers to 2nd / 3rd Post Acute Venue = 50%
Post Acute Discharges to Hospital (readmissions) ~ 29%

Source: MedPAC
Source: RTI International - “Examining Post Acute Care Relationships...” February 2009
How Do ASW Members Fit In?

- Early payment reforms target hospital re-admissions and are likely to expand to include some form of bundled payment:
  - Success will depend largely on what happens to the patient following discharge – or even earlier through the prevention of an acute re-admission
  - ACOs or hospital bundled payers will need to affiliate with, or build, an organized system to manage post-discharge patients, the **post-acute care network** becomes a key element of accountable care
  - That post-acute care network will need to be sensitive to quality, coordination and cost – which is quite different from today’s paradigm
  - Rehab facilities, skilled nursing facilities and even assisted living will take a more prominent role
    - Home health with assisted living placement may generate capitated savings even if it requires some front-end investment
    - Acute rehab and LTAC services may find marginally qualified patients moved to lower level skilled nursing care due to SNF’s more cost-efficient care model
  - Cost of being an early innovator will be significant in terms of **staff time and IT investment**, which is why post-acute affiliates of reasonable scale are a prerequisite
    - Standardized procedures
    - Efficient and effective patient information management

PACE Program Overview
PACE Model Fits Within an Accountable Care Model

- To the extent that is socially and clinically possible, the goal is to allow the participant to live in the community
  - True “health maintenance” but social and environment factors are considered in the assessment and treatment plan
  - Kaiser Permanente is close analogy with regard to clinical care = most profitable when members “thrive”
  - Similarly, PACE is most profitable with “low-tech, high-touch” approach.
  - Frail elderly, perhaps with several conditions = maintain or attain stable health status
  - Key is participant’s well-being
    - PACE’s interdisciplinary team are at the front line
    - Participant’s family involved for best results
- Currently, 23,000 participants nationally, 166 centers sponsored by 81 organizations in 29 states
  - Centers for Medicare and Medicaid Innovation and National PACE Association working on major expansion as part of the Affordable Care Act.

PACE Program Overview
Revenues: Integrated Financing Sources

MEDICARE
Risk Factor plus Frailty Adjustor X county rate

MEDICAID and/or PRIVATE PAY
Rate at 90% of comparable cost of long-term care population

Monthly Capitation
PACE Program Overview
Who are PACE Participants?

- Average number of medical conditions – 7.9
- Average number of ADL dependencies – 3
- Average age – 82
- 85% Medicare/Medicaid or Medi-Cal but growing number of private pay
  - Private pay populations can pay for the Medicaid range of services, typically $4,000 to $4,500 per month, until they spend down into Medicaid eligibility

PACE Program Overview
Revenues: Integrated Financing Sources

<table>
<thead>
<tr>
<th>PACE</th>
<th>MEDICARE-HMO</th>
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<tbody>
<tr>
<td>Enrolls only frail elderly</td>
<td>Enrolls universe of elderly</td>
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<tr>
<td>Average age is 84 years old</td>
<td>Preponderance of population is under 85 years old</td>
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<tr>
<td>No premiums to participant</td>
<td>Premiums increase with risk</td>
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<tr>
<td>Services rendered to insure independence</td>
<td>Services triggered by illness</td>
</tr>
<tr>
<td>Requires an operational risk reserve</td>
<td>Requires substantial risk reserve by law</td>
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<td>Medical component practices preventive health to prevent acute episodes</td>
<td>Medical component reacts to acute episodes</td>
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<tr>
<td>Enhanced service package effects cost efficiency/cost containment</td>
<td>Services rationed to limit liability to provider</td>
</tr>
</tbody>
</table>
PACE Program Overview
Cost Controls: Interdisciplinary Team Coordinates Care for Participants

Primary Care

Home Care

Specialists

Adult Day Health Care
Nursing
Social Work
OT/PT
Speech
Nutrition/Meals
Recreation
Personal care
Pharmacy
Transportation

Nursing Home

Hospital

Lab / X-ray
Medications / DME

Maintaining Profitability Despite Government Reimbursment Pressure

- Proactively reinforce and monitor doing the basics well
- Top-line revenue must reflect participant acuity
- Manage utilization of medical services with a best practices approach
- Scrutinize appropriateness of expenditures
- Understand the unit costs of medical expenses
- Seek opportunities to leverage technology
- Create an operations management dashboard

Source: Richard Burke and Jade Gong, “Going the Distance” Advance for Long-term Care Management www.advanceweb.com
PACE Program Overview
The Financial Advantages of PACE Housing Co-Location

- As PACE is a Medicare/Medicaid combined capitation program in most states, any funds saved in service delivery costs fall to the PACE provider’s bottom line. The resulting profits can be used to offer expanded services or to help subsidize PACE participants’ housing costs.

- PACE providers are eager to team with housing providers as the delivery of long-term care services to congregated groups of residents tends to save operating delivery costs while also reducing costly 911 calls.

- Operating costs savings can easily reach $500 to $1,000 per month:
  - Reduction or elimination of transportation costs
  - Higher home care aide productivity as an aide/nurse can see 8 to 10 residents during a shift versus 4 to 5
  - Residents with 24-hour housing staff are less likely to make unnecessary 911 calls as such staff can offer psychological security
  - Site staff observation identifies potential acute problems before they escalate
  - Housing options reduce marketing costs – family and participant often like having it

PACE Program: Case Studies
PACE Program: On Lok Case Study

- Location: San Francisco Bay Area
- Founded: 1970
- 501(c)(3) Organization
- PACE membership: 1,450 max participants
- 10 Adult Day Care Centers
- Housing
  - On Lok House (1980)
    - 54 studio apartments
    - HUD 202 funding
  - 1000 Montgomery (1989)
    - 35 rooms
    - Single resident occupancy
  - The Dr. William I. Gee House (1994)
    - 42 rooms
    - Single resident occupancy

San Francisco Centers:
- **30th Street Center**
  Serving the Noe Valley, Diamond Heights, Excelsior, Glen Park, St. Mary's Park and Outer Mission neighborhoods
- **Coronet Center**
  Serving the Western Addition neighborhood
- **Geary Center**
  Serving the Richmond and Sunset neighborhoods
- **Jade Center**
  Serving the Polk Gulch, South of Market and Japantown neighborhoods. Primary focus is the mono-lingual Chinese population
- **Mission Center**
  Serving the Mission and Excelsior neighborhoods
- **Powell Center**
  Serving the Chinatown and North Beach neighborhoods
- **Rose Center**
  Serving the Polk Gulch, South of Market and Japantown neighborhoods

South Bay Center:
- **San Jose Center**
  Serving all of Santa Clara County except San Martin, Morgan Hill and Gilroy

East Bay Centers:
- **Fremont Center**
  Serving the tri-city areas of Fremont, Newark and Union City
- **Peralta Center**
  Serving the tri-city areas of Fremont, Newark and Union City
  (Opening in June 2012)

Cain Brothers
PACE Program: Bienvivir Case Study

- Location: El Paso, Texas
- Founded: 1986
- 501(c)(3) Organization
- PACE membership: 840 participants
- 3 Adult Day Care Centers
  - McKinley: capacity 580/ daily attendance approximately 200 (Currently half of the McKinley Center is being used for Carolina participants)
  - Carolina: capacity 280/daily attendance approximately 100
  - Montana: capacity 280/ daily attendance approximately 100
- Residential memory care
  - McKinley: capacity 44 beds / residents 36
- Affordable Housing – Casa Bienvivir
  - Carolina: 40 residents /approximately 25% PACE participants

- Constructed 2001
- $15 million project budget
- 88,000 sq. ft.
- Top Floor
  - Dementia ADHC
    - Daily capacity: 60 participants
  - Residential dementia care beds
    - Total capacity: 48 individuals
    - 4 pod design
    - 10 semi-private/2 private beds
- Main Floor
  - 2 ADHC
    - Daily capacity: 90 participants/ center
  - Administrative Offices
  - Therapy space
- Lower Floor
  - Covered participant bus drop-off
  - Geriatric medical clinic
  - Therapy pool
  - Central supply
  - Durable Medical Equip Storage
  - Central Kitchen and Laundry
PACE Program: Bienvivir Case Study

- Annual Gross Revenues: $60 million
- Annual Expenses: $54 million
- Net Operating Margin: $6 million
- Cash and Investments: $50 million

Revenue Growth

$ in millions

2005 2006 2007 2008 2009 2010 2011

PACE Program: Institute on Aging Case Study

- San Francisco Bay Area
- Founded: 1987

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<thead>
<tr>
<th>IOA Services</th>
<th>Location: Home</th>
<th>Location: On-Site</th>
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<tbody>
<tr>
<td>Assessment Service</td>
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<td>Older Adults Care Management</td>
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<td>Support Services for Elders</td>
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<td>MSSP</td>
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<td>Community Living Fund</td>
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<td>Linkages</td>
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<tr>
<td>Ruth Ann Rosenberg Adult Day Services</td>
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<td>Alzheimer's Day Care Center</td>
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<tr>
<td>Swindells Day Program</td>
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<td>CEYA Art</td>
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<td>On Lok Lifeways</td>
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<td>Psychological Services</td>
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<tr>
<td>CESP Suicide Prevention</td>
<td>✔</td>
<td>✔</td>
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<tr>
<td>Friendship Line</td>
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PACE Program: Institute on Aging Case Study

- Irene Swindells Center for Adult Day Services
  - Social Day Care Program
  - Located at California Pacific Medical Center – California Campus
- Ruth Ann Rosenberg Adult Day Services
  - Located at the New IOA Senior Campus
- On Lok Lifeways
  - IOA is a contracted provider of On Lok services and manages two Lifeways sites,
    - Geary Lifeways (2700 Geary Boulevard)
    - Coronet Lifeways (3575 Geary Boulevard).
- New IOA Senior Campus
  - Development started 2001
  - Construction started 2008

PACE Program: Institute on Aging Case Study

- Collaboration between:
  - Institute on Aging – community-based service provider
    - PACE program through On Lok
    - Bridge Housing – affordable housing developer/manager
- Redevelopment Project
  - Abandoned movie theater site
  - IOA purchased land for $8,752,000 and sold air-rights above building to Bridge for $6,591,000, net cost to IOA = $2,161,000
  - 215,000 total square feet
    - 55,000 sf office/clinic space for IOA
    - 160,000 sf housing space for Bridge Housing
      - 150 housing units; 50 must be reserved for residents eligible for PACE
  - 6-story building
    - IOA: First Floor + ½ of Second Floor
    - Bridge Housing: ½ of Second Floor + Third, Fourth, Fifth and Sixth Floors
PACE Program: Institute on Aging Case Study

**Deal Summary**

- Bond proceeds were used to finance the construction of 55,000 square feet for two adult day health centers, clinics, meeting and office space
- 30-year Cal-Mortgage bond insurance gave IOA an all-in interest cost of 6.31% counting all debt, insurance and bond issuance costs
- 150 FHA-financed apartments were constructed above PACE site
Summary and Questions

EDWIN ENG, Senior Vice President

With regard to PACE, Edwin worked on the financial feasibility study, in 1992, that was used by On Lok to obtain financing for its acquisition of a former telephone switching facility which was then re-developed into On Lok’s Dr. Gee Center. The creation of the Center allowed it to co-locate adult day health centers with clinics and assisted living apartments. Since then, he has worked on financing transactions for the Center for Elders Independence, Bienvivir, and the Institute on Aging.

Edwin joined Cain Brothers in 1998. His career has spanned over 33 years with experience in the health care industry as a manager, management consultant, and investment banker. Client engagements have included skilled nursing facilities, assisted living facilities, continuing care retirement communities, PACE providers, community health centers, multi-site/multi-level senior care providers, and non-health care 501(c)(3) organizations. Edwin's work at Cain Brothers has focused on the development, expansion, and financing of senior living communities. His particular expertise lies in the preparation of financial projections used for planning and decision making.

Prior to joining Cain Brothers, Edwin worked at B.C. Ziegler and Company and with Pomeranz Associates. Edwin holds a Bachelor of Arts in Biology from Cornell University and a Masters degree in Public and Private Management, with an emphasis in finance and accounting, from Yale University.

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