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EXSUM Finance III:

Business Case Analysis (PCMH in New Braunfels)

Question:

What are the financial and business impacts of establishing a PCMH in New Braunfels, Texas including pharmacy, laboratory, and radiology ancillary services to recapture TRICARE Prime beneficiaries enrolled to the network?

Domain/Competencies:

Health Resource Allocation

Leadership & Organizational Management

Method of research/Model: This Business Case Analysis (BCA) involves a financial analysis and business impacts of establishing a PCMH in New Braunfels, Texas including pharmacy, laboratory, and radiology ancillary services to recapture TRICARE Prime beneficiaries enrolled to the network. The financial metrics included in this BCA were annual and cumulative cash flows, net present value, simple return-on-investment, and break-even analysis for a five-year period beginning 1 October 2015.

Assumptions:

Leasing costs were estimated based on the existing Schertz leasing contract. Personnel staffing was based on Air Force Instruction 44-171.

Overview:

The San Antonio Military Health System (SAMHS) is comprised of United States Army (USA) and United States Air Force (USAF) units responsible for providing management of business, clinical, and educational functions of the military treatment facilities located in the San Antonio metropolitan area. Given the demonstrated success of the PCMH model within the United States (US) health care industry, the Department of Defense (DoD) adopted the PCMH model in 2008. Since that time, the SAMHS has established six PCMHs and continues to evaluate opportunities to better serve its beneficiary population in the San Antonio metropolitan area.

The purpose of this BCA was to provide a recommendation to the Commander of Wilford Hall regarding the financial feasibility of opening a new PCMH in New Braunfels, Texas according to the financial analysis of the case and an assessment of contingencies and risks associated with each scenario evaluated.

The BCA incorporated three potential scenarios. The first of which is to maintain the status quo. The second scenario is to establish a PCMH in New Braunfels along the I-35 corridor, for easy acces for patients living north of the San Antonio metropolitan area with one Family Health Team (FHT). The third scenario evaluated is to open a PCMH on the south side of San Marcos with two FHTs, in order to avoid overlap in the patient recapture radius with the Schertz PCMH.

The team also performed a sensitivity analysis measuring the effect of the scenarios' net present values to changes in recapture rates and leasing cost per square foot.

Analyzing the projected cashflows reveals the establishment of a PCMH in New Braunfels will result in a negative net cash flow in the first year of operations followed by positive net cash flows in each of the next four years of operations, culminating with a cumulative net cash flow of -$1,033,850. Given the cumulative negative cash flows, the simple return on investment in this scenario is -11.6% and the project will not break even during the first five years of operations. The net present value (NPV) of the project is estimated to be -$989,760.

The establishment of a PCMH in San Marcos will result in a negative net cash flow in the first year of operations followed by positive net cash flows in each of the next four years of operations, culminating with a cumulative net cash flow of $57,210. The simple return on investment at the end of five years of operations is 4.0% and the project will break even in 4.8 years of operation. The net present value (NPV) is estimated to be $320,190. Additionally, a sensitivity analysis indicates both scenarios' net present values are more sensitive to changes in recapture rates than they are to lease cost-per-square foot.

Based on this analysis, we recommend to establish a PCMH in San Marcos.

Findings:

Analyzing the projected cashflows reveals the establishment of a PCMH in New Braunfels will result in a negative net cash flow in the first year of operations followed by positive net cash flows in each of the next four years of operations, culminating with a cumulative net cash flow of -$1,033,850. Given the cumulative negative cash flows, the simple return on investment in this scenario is -11.6% and the project will not break even during the first five years of operations. The net present value (NPV) of the project is estimated to be -$989,760.

The establishment of a PCMH in San Marcos will result in a negative net cash flow in the first year of operations followed by positive net cash flows in each of the next four years of operations, culminating with a cumulative net cash flow of $57,210. The simple return on investment at the end of five years of operations is 4.0% and the project will break even in 4.8 years of operation. The net present value (NPV) is estimated to be $320,190. Additionally, a sensitivity analysis indicates both scenarios' net present values are more sensitive to changes in recapture rates than they are to lease cost-per-square foot.

Based on this analysis, we recommend to establish a PCMH in San Marcos.

Lessons Learned:

Population demographics became the driving factor in the outcome of the analysis and recommendation. Sensitivity analysis became critical when presenting courses of action to the primary stakeholders as it allowed them to determine where they were willing to assume risk for a project remaining financially viable.