

# *Green House Initiative - Business Analysis*



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April 2010

## **Executive Summary**

The ICA Group was retained by NCB Capital Impact to analyze the market for the Green House Project's technical assistance services and consider ways to strengthen and expand the initiative to more fully realize the Green House Project vision. To inform our analysis, ICA interviewed a wide range of individuals including culture change consultants, academics with expertise in long term care, skilled nursing facility operators and government officials. These interviews, combined with an extensive review of government and private data regarding the long term care industry and culture change, yielded a number of important findings regarding the potential for expansion of the Green House Replication Initiative (GHI).

### **The Potential Market**

At present, 18 adopters are operating 57 Green Houses. Another 21 adopters are working on the development of an additional approximately 150 individual Green Houses. In total, almost 200 individual green houses are in various stages of development. This is an impressive number of adopters for a new and radical model of culture change. However, this community of practice still represents only a tiny fraction of the 16,000 skilled nursing facilities nationwide. The potential market for green house adoption is limited by a number of factors including:

- The Green House model requires the construction of a new facility or the substantial renovation of an existing facility. Therefore, the potential market for GHI's services is limited by the number of SNFs that are built, renovated or expanded on an annual basis. Approximately 150 nursing home projects were completed each year between 2005 and 2008, with roughly 2 projects designed for every completed project.
- Not all nursing homes are good candidates for Green House adoption. Nursing homes that have adopted the Green House model tend to share certain financial and operational characteristics including higher staffing and operating costs per resident day and longer average resident stays. Analysis of Medicare Cost Report data indicates that roughly 11% of facilities overall, and 17% of newly constructed homes (2005 – 2008) are likely to be good candidates for Green House adoption.
- Fully 41% of nursing homes identified as good candidates for Green House adoption are for profit operators.
- If 150 substantial construction projects are undertaken per year, and 11 to 17% can be expected to be strong candidates for Green House adoption, this would suggest that the Initiative could potentially capture 17 to 25 projects per year.

### **GHI Cost Structure, Pricing, and Potential for Financial Self Sufficiency**

#### ***Cost Structure***

- In 2009, total GHI expenses, including overhead allocated from NCB Capital Impact, were \$2.9 million. Labor costs, account for 40% of total costs, 47% if the Director of Innovation's salary is included. Contracted services for research, outreach, evaluation, and planning constitute approximately 20% of total costs.

- Going forward, assuming NCB overhead at 15% of direct costs and certain other economies are achieved<sup>1</sup>, the GHI baseline budget would be approximately \$2.8 million. This figure assumes that the current administrative and management staff is retained as well as 3 project guides, 3 project associates, and a peer network coordinator. With this staffing structure the initiative should have the capacity to handle a total of 36 active projects.
- Operating at capacity with 36 active projects, and assuming that each project is actively supported for three years, the fully loaded cost per project (including all overhead and non project specific activities) would be approximately \$230,000.

### ***Pricing***

Initially GHI technical assistance services were almost completely subsidized for adopters. Over time the GHI has steadily increased its technical assistance fees, raising the level after securing 5 customers at a given price point. The GHI is currently testing a price point of \$150,000 with the goal of ultimately being able to charge \$200,000 per engagement.

- Given that GHI services are purchased within the larger context of a major capital project, GHI technical assistance pricing is not likely to be the determining factor of whether an operator elects to invest in small house development.
- GHI operates in a competitive environment and must compete with other consultants that offer small house development services as well as operators who may elect to manage the transformation process internally.
- The Green House is a branded product with an excellent reputation and national recognition. The GHI provides a package of services that includes workforce training, management coaching, environmental design, assistance with regulatory approval, and post implementation support. This unique combination of services and value makes identifying appropriate competitive benchmarks for GHI pricing difficult.
- Other culture change consultants, including Planetree and Action Pact, appear to charge in the range of \$75,000 to \$120,000 for major culture change engagements including some design consultation.
- While competitor pricing information is quite limited, and direct comparisons in terms of services provided difficult, the available information suggests that at \$200,000 per engagement, GHI fees would be at the high end of the market for most of these services.

### ***Potential for Financial Self Sufficiency***

- The initiative's ability to cover its costs with fee revenue is a function of the number of projects that can be attracted and the price per engagement that can be charged. To achieve a break-even level of revenue, the GHI would need to attract 14 new projects per year at a price point of \$200,000 each.
- 14 new projects per year represent over 60% of the high potential market estimated in the market analysis. While achieving this level of activity is possible, it is likely to be difficult in the near term particularly as the continuing weak economy may further constrain construction activity.

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<sup>1</sup> The baseline budget assumes that non labor costs are reduced by approximately \$275,000

- It is likely that the GHI will continue to require some level of philanthropic support to defray the costs of certain elements of its work including policy, outreach, movement building, research and evaluation.
- To support higher price points, and maximize the likelihood of growing the annual number of projects, the GHI should focus on addressing perceived obstacles to adoption and enhancing the value of the Green House brand.

### **Obstacles to Adoption**

The Green House model enjoys an excellent reputation within the long-term care industry and culture change community. However, despite its strong appeal, a number of organizations that have considered the model have ultimately declined to pursue it. Non-adopters identified a variety of factors that were barriers to proceeding with the Green House including: construction costs, operating cost, regulatory hurdles, prescriptiveness of the model, and need for campus wide culture change.

#### ***Operating and Construction Costs***

The perceived cost of the Green House model, both construction and operating, is a major deterrent to adoption. A presumption within the industry that the Green House model is prohibitively expensive has persisted in the absence of clear evidence to the contrary. It is extremely important for the Initiative to actively define the construction and operating costs of the Green House model for the market rather than allowing competitors and skeptics to do so. This will require researching and detailing the costs of adoption and operation for the most efficient operators and developing an effective communications strategy to disseminate this information widely in the market.

In addition to addressing market perceptions, a number of steps can be taken to help reduce the actual costs of construction and operation. Steps to consider for reducing construction costs for adopters should include:

- Partner with an architect to develop model design templates
- Raise a pool of low cost capital targeted for Green House development
- Encourage, rather than tolerate, 12 Elder Green Houses
- Advocate for public subsidies to encourage small house construction

#### ***Regulatory Obstacles***

Although Green House projects have been launched in over 25 states, potential adopters continue to express concerns about regulatory compliance. Feedback from Green House staff indicates that some of these regulatory concerns are unfounded. In some instances, operators continued to hold these views despite having discussed the issues with GHI staff. This underscores the need for better communication with potential adopters to ensure that they do not erroneously dismiss the model as unfeasible in their state.

#### ***Prescriptiveness of Model***

Some adopters expressed concern that the Green House model was not flexible enough to meet their needs. Concerns raised about the prescriptiveness of the model mainly relate to cost issues. For example, operators expressed interest in developing larger small homes (in the 16-20 resident range), as a way to reduce per resident staffing costs. Shared food purchasing and preparation across multiple houses was also mentioned as a way to preserve some economies of scale without adversely affecting the culture.

- Revisions to the Green House model could broaden market appeal and reduce operator costs. Other culture consultants are capitalizing on the fact that potential adopters, even those who generally find the Green House model quite attractive, may still desire to tailor elements of the model to their particular situation. Even among Green House adopters there has been variation in the interpretation of the model.
- The GHI should revisit the Green House model to identify elements that may be desirable *but not essential* to accommodating the Shahbazim structure and creating a deinstitutionalized, resident centered care environment. These potentially include the fully free standing footprint, the prohibition regarding any food preparation outside the house itself, and staffing ratios in 12 Elder homes.
- In considering modifications to the model, it is important to identify elements that are not essential for the Green House culture, or brand, and that if modified can be expected to maintain quality of care and either reduce costs or otherwise foster expanded Green House adoption.

### ***Need for Campus Wide Culture Change***

The GHI's development services are currently limited to helping adopters develop and implement their Green House homes. However, facilities often are considering converting only a portion of their skilled nursing beds to Green Houses or other type of small house and are therefore still concerned about improving the quality of life and work for residents and workers campus-wide.

- The desire for a more holistic approach to culture change can organizations to select a consultant that is willing to help them with culture change in both a small house and an institutional setting.
- Given the significance of this issue to existing and potential adopters, the Initiative needs to take a more proactive approach to addressing culture change within legacy facilities. Simply referring adopters to other culture change consultants is not sufficient. Far preferable would be to offer a culture change model tailored to Green House adopters that incorporates elements of the Green House model. Even if this product is designed and delivered by a partner, the GHI needs to take a greater role in promoting and facilitating the process for adopters.

### **Enhancing Brand Value**

The GHI is not well positioned to compete on price for training with other culture change vendors, many of whom are small operations with minimal overhead. Product differentiation and building brand value is thus extremely important.

- The value of the GHI brand is the integrated package of benefits including the branded and standardized model, array of development tools, training curriculum, expert technical assistance, policy advocacy, and the community of Green House practitioners.
- Organizations that choose to adopt the Green House model benefit from both an established field of practice and an organization dedicated to cultivating the field and facilitating learning among Green House operators.
- The GHI can enhance brand value by expanding the tools available to adopters, building a formal peer network, and developing culture change products for legacy facilities.

### *Expanded Tools for Adopters*

Over the past several years, the GHI has developed an array of services and supports for adopters that include financial models, planning guides and extensive training curriculum for clinical staff and Shahbazim. While most of these tools have proven quite valuable, market feedback indicates that additional tools would enhance the value proposition for adopters by making the development process easier and potentially more economical.

The GHI has the potential to create a more turnkey experience for adopters through the development of model building documents, feasibility templates, financial templates, and operating and personnel manuals. Additional tangible tools could also help differentiate GHI service offerings from other consultants.

### *Peer Network*

- The formation of a formal peer network would create a mechanism to deliver post-implementation services to adopters while simultaneously engaging them to share information, set standards, and act in concert to advance policy goals. Perhaps most importantly, the network would become a part of the Green House brand identity and a key differentiator.
- Operators choosing among culture change alternatives would come to understand that an integral benefit of choosing Green House would be not only the support of the GHI, but also access to a community of true peers to both guide and accompany them on their culture change journey. No other model of culture change offers a comparable resource.
- To realize the full potential of a formal peer network, a dedicated staff person should be hired to manage the network's services and activities.

### **Research, Advocacy and Communications**

Even if all of the recommendations included in this report are implemented, without strong public incentives for reinvestment in nursing home infrastructure and/or resident centered care, it will be challenging to dramatically increase the pace of Green House adoption. Accordingly, it is essential that the GHI continue to work to develop effective strategies to:

- Demonstrate the superior quality of care of the Green House model
- Communicate the financial feasibility of the model
- Advocate for state and /or federal incentives to rebuild quality nursing homes
- Link states' interest in reducing skilled nursing beds with promoting culture change and improved quality.

## 1.0 Market Analysis

### Overview of Long Term Care Market

Demographic shifts within the US are driving increased demand for long term care services. Between 2000 and 2005, while the total population grew by 5%, the number of people requiring long term care services increased 8%, from 9.5 million to 10.3 million.<sup>i</sup> The growth in people requiring long term care will continue to outstrip overall population growth as baby boomers age and average life expectancy continues to rise. Long term care is delivered in a variety of settings including home and community based care, senior housing, and skilled nursing facilities. The following table presents a brief description of the various settings in which seniors may receive care as well as information regarding market size and attendant costs.

Over the past decade, significant changes have transformed the long term care market shifting the setting in which long term care services are delivered. In 1999, following the Supreme Court ruling in *Olmstead v. LC*, states were required to offer home and community based services (HCBS) to people requiring long term care.<sup>ii</sup> A focus on “rebalancing” long term care policy at both the State and Federal level, driven both by cost containment concerns and a greater recognition of the need for choice for consumers, soon followed.

Between 2000 and 2005, the number of people receiving Medicaid HCBS increased by 34%. In 2005, for the first time, the number of people receiving Medicaid home care equaled the total number of nursing home residents. Five states, including California and New Mexico, now spend more on HCBS than on nursing homes. The trend toward increased HCBS utilization, which is viewed as significantly less expensive than institutional care, is likely to continue.<sup>iii</sup>

Senior housing alternatives have also grown rapidly in recent years. Between 1998 and 2008, the number of assisted living facilities more than tripled from 11,500 to 39,500.<sup>iv</sup> This rapid growth occurred in the absence of a consistent regulatory framework resulting in differing definitions of assisted living across the country. In some states, group adult foster care facilities are licensed assisted living facilities. In others, the distinction between ALFs and SNFS is blurred because residents who are nursing home eligible are allowed to age in place in ALFs.<sup>v</sup>

The majority of ALFs are small facilities with fewer than 25 units.<sup>vi</sup> These roughly 28,000 ‘small house’ ALFs, often located in residential neighborhoods, are home to one-third of the nation’s assisted living residents.<sup>vii</sup> Of the larger ALFs, roughly a third are part of a larger complex that offers independent living and/or skilled nursing care.

In addition to the large number of ALFs, there are now more than 750,000 Independent Living units in the US. The proliferation of senior housing alternatives, coupled with a greater emphasis on HCBS, has made it far easier for seniors to receive care outside of nursing homes.