FINANCING OPTIONS FOR THE NEW HEALTHCARE ENVIRONMENT

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The Patient Protection and Affordable Care Act (PPACA), commonly called the Affordable Care Act (ACA), is the most significant regulatory overhaul of the U.S. healthcare system since the passage of the Medicare and Medicaid act in 1965. Its goals are to make quality insurance more affordable, cover more lives and reduce overall cost.

In this environment, changes to existing payment models and delivery systems will put additional pressure on operating margins and cash reserves. Consequently, healthcare providers will need to re-think access to capital from traditional and non-traditional sources. Options include cash from operations, bonds, bank credit lines and equipment finance programs. Providers will need to evaluate capital sources against the investment opportunity to determine what will deliver the best financial outcome.

Two areas of new investment will be population health and data analytics. These areas are dynamic and, while the future investment requirements are not fully understood at this time, it can be expected to be robust.

POPULATION HEALTH INITIATIVES
Population health initiatives will be supported in part by the development of Accountable Care Organizations (ACOs). ACOs basically provide total care to an assigned population of patients. Payment is received and the ACO is accountable to the patient and the third party payer for the overall quality, appropriateness and efficiency of the healthcare provided. The concept of wellness and preventive action is required for ACOs to reach their objectives.

Preventive medicine and earlier access to care will challenge the current brick and mortar structures as destination points for care. New access points will need to be developed that bring all types of clinical services to the population. This integration of outpatient services, which generally include diagnostic and screening tools, naturally lends itself to equipment finance as an option that can preserve cash for other system needs. In addition, tax-advantage structures can offer lower cash outlays and the possibility of hedging against technology obsolescence.

DATA ANALYTICS
Data analytics is being driven by the substantial investment that healthcare providers have made and will make in IT Infrastructure. One area driven by ACA is the requirement for Electronic Health and Medical Records (EHR/EMR). The 2011 Digital Universe study, Extracting Value from Chaos, stated that the “world’s data is doubling every two years — growing faster than Moore’s Law.” It can be expected that with the rapid adoption of EHR/EMR with Healthcare providers, data growth would mirror this observation. Clearly, re-investment in IT will continue for the foreseeable future.
Along with this data explosion, providers will need to harness this information to improve the overall quality of care. The development of predictive analysis in the continuum of care is expected to assist and support the general themes of population health. With the growing dependency on information technology, supporting ongoing re-investment with cash from operations might not be the best acquisition strategy. A combination of cash, bank credit and equipment finance programs may offer the greatest flexibility for this continued investment.

The World Bank Data on Healthcare Expenditures indicates that the United States has one of the most expensive systems as a percentage of GDP at 17.9%. While this percentage is large, investment will continue in order to advance effective and efficient care in the near term. Ongoing disruptive elements, such as continuing economic pressure, regulatory and technology changes, are influencing and changing overall healthcare delivery models. Healthcare provider management will be challenged to adapt to these elements, forcing a careful analysis of project investment and sources of funds.

While the industry has been through significant changes for the past 50 years, this time it might be different due to the growing influence of the healthcare consumer. Decisions made by these new and active "entrants" are influenced by insurance coverage characterized by high deductible plans. This cost shift has consumers "shopping for the best value" for care, delaying elective procedures and re-thinking the effect of their lifestyles.

In addition, reform and cost realities have transformed the patient into the consumer and into the investor in the continuum of care.

With this reality in mind, a comprehensive, well developed capital plan that includes multiple sources of capital will allow the provider to adapt and have the flexibility to deploy assets quickly to maximize their reach to this new investor.

However, in the long run, we might find with all of this change and use of real-time data, the best investment for healthcare might be your own individual wellness.

**ABOUT THE AUTHOR**

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Mark Tambussi is Senior Vice President and National Manager of PNC Equipment Finance Healthcare Business. His overall responsibilities include strategy development, managing originations, risk, operations and portfolio management. A 25-year veteran of the Healthcare and Healthcare Finance Industry, Mark has broad experience in the clinical sales and finance segments with a focus on providing structured financing solutions.

Mark is an active member of the Equipment Leasing and Finance Association (ELFA), the Healthcare Financial Management Association (HFMA) and the American College of Healthcare Executives (ACHE). He holds a B.A. from Dickinson College, Carlisle, Pa., and an M.B.A. from St. Joseph’s University, Philadelphia, Pa.

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