PACE Program Development Considerations:

Program Start-up and Development Costs

To provide a general understanding of the start-up requirements for a new PACE program and the factors affecting those requirements, the National PACE Association (NPA) reviewed the experience of six PACE programs. Based on this review, NPA has developed high, medium and low range estimates of the costs associated with initiating a new PACE program. While the cost estimates presented here provide a sense of the resources required to start a PACE program, your own specific circumstances will have a significant effect on the costs you actually incur. Organizations should be careful to adjust their assumptions in light of their unique situation and market factors. This information should not be used as the basis for an organization’s decision whether to invest in or initiate a PACE program. Each organization must develop its own estimates of the costs, benefits and risks of starting a PACE program.

Planning, development and start-up of Programs of All-inclusive Care for the Elderly (PACE) typically require resources for the following:

- Consulting
- Acquisition of space for the PACE day center
- Acquisition of equipment for the PACE day center
- Vans
- Working capital
- Solvency reserves

The start-up experiences of existing PACE organizations exhibit a considerable range in each of these categories, reflecting variation in their approach, geographic location, time of start-up and access to funding.

To assist potential new PACE organizations in considering whether PACE is a good fit, NPA has provided an overview of each of these start-up requirements and their associated costs. The cost parameters presented are intended to guide organizations in assessing the potential scope of funding required relative to their financial strengths and weaknesses.

Though not presented in detail here, the revenues of PACE programs have demonstrated their ability to generate a solid return on the start-up investment required. Fully operational PACE programs with enrollments in excess of 300 participants are demonstrating solid margins that ensure their financial viability.

To ascertain financial requirements and considerations, many organizations engage consultants with expertise in operating a PACE program and assessing the requirements of establishing a new program. These consultants can gather the needed information and assist in developing a financial analysis. For more information about consulting organizations available to help you, visit the National PACE Association’s web site at www.NPAonline.org, or contact NPA by phone (703/535-1517) or e-mail (pei@NPAonline.org).

1 The year of start-up for these programs ranges from 1998 to 2000.
2 Fully operational PACE programs with enrollments in excess of 300 participants are demonstrating solid margins that ensure their financial viability.
### Table 1: Start-Up Costs and Variables

While the general categories for start-up costs are common across new programs, the extent of the costs can vary significantly. This table presents start-up cost categories and some of the variables to consider.

<table>
<thead>
<tr>
<th>CATEGORY - Description</th>
<th>VARIABLES</th>
</tr>
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</table>
| Consulting Fees        | • Consultant costs vary depending on how early a consultant is engaged in the development and planning process, what products the consultant is responsible for (e.g., feasibility analysis, provider application, service initiation, financial audit, applications for loans/financing), and whether staff are hired as consultants during the planning phase and/or operational phase.  
• Regardless of the point at which a consultant is engaged, costs will vary depending on the extent of staff time available from the sponsoring organization to complement the work of the consultant.  
• Travel costs for consultants may add to the total expense.  
• Resources that support consultants working with prospective PACE organizations are available through NPA. NPA membership fees begin at $2,500 for Exploring PACE, a one-year membership program to support organizations in the decision-making and early development stages. |
| PACE Center            | • Costs will vary depending on whether the site is leased or purchased; lease costs are likely to be in the range of $10-$15 per square foot, or $10,000 to $15,000/month for a 12,000 square foot center (see next bullet).  
• The typical size of a site is 10,000–12,000 square feet; state adult day care licensing standards may affect the required square footage.  
• If a site is purchased, costs will vary depending on whether the site is new construction or renovation.  
• Construction costs typically range from $135–$160 per square foot; renovation costs typically range from $45–$55 per square foot.  
• The level of plumbing at an existing site, and/or ease of access to add plumbing, can significantly affect costs of renovation because of the extensive requirements for plumbing. |
| Equipment              | • Costs will vary depending on whether the equipment is leased or purchased.  
• Equipment purchase costs typically range from $650–$850 per enrollee, for a program intending to serve a total enrollment of 300.  
• Equipment is needed for: activities room, kitchen, dining area, rehabilitation, physician examination and clinic, personal care areas, suites for use by external medical specialists (e.g., dentistry, mobile x-ray), and administration.  
• For purchased equipment, costs will vary depending on whether the equipment is new or used. |
## CATEGORY - Description

### Transportation
The vehicles needed to transport PACE participants

- Costs will vary depending on whether the vehicles are leased or purchased.
- Purchased vans range from $35,000-$40,000 for a used van and $50,000-$60,000 for a new van.
- Transportation can be subcontracted entirely resulting in no, to low, upfront costs.
- Passenger vans typically accommodate 12–15 passengers; wheelchair vans accommodate 6-8 passengers. These may vary depending on state requirements for seating positions.

### Working Capital for Start-Up
While the program grows its enrollment, some of the fixed costs will result in operating losses that will need to be covered.

- Staff required to initiate a program are determined by regulation. Programs will need to have the site director and core interdisciplinary team of staff in place at the point the program opens and is operational.
- The rate at which programs achieve census growth will determine the duration of operating losses associated with fixed minimum staffing, facility, transportation and other costs. Census growth will vary depending on the service area’s underlying demographics, service alternatives/competition, and marketing success.
- Effective clinical management is a cornerstone of PACE quality and financial viability. The program’s ability from the outset to maintain people in their homes and avoid unnecessary hospitalizations or nursing facility admissions by delivering effective preventive care and assistance will help reduce initial operating losses as enrollment grows. Clinical management will continue to be critical to financial success.
- To contain medical cost risk exposure, PACE programs can contract with providers that are willing to share risk, and they can acquire reinsurance to limit their exposure for extraordinary inpatient care costs. Containing risk through these kinds of arrangements can reduce the impact of catastrophic costs during a time when the program has a small financial base/risk pool.

### Solvency Requirements
PACE programs are required to meet state and federal solvency requirements

- Sponsoring organizations may offer a line of credit to meet the solvency requirements of the PACE program.
- Federal regulations require PACE programs to have one month of expenses plus one month of total capitation in reserve; some states have requirements that exceed this minimum.
**Table 2: PACE Program Start-Up Investment Scenarios**

New PACE programs have varied in their start-up costs and funding requirements. This table presents high, medium and low cost scenarios for each of the most significant cost categories.³

<table>
<thead>
<tr>
<th>Category</th>
<th>Factors</th>
<th>Range (High, Medium, Low)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consulting Fees</strong></td>
<td>High: All phases, full-time consultant during planning, actuary</td>
<td>High: $420,000</td>
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<tr>
<td></td>
<td>Medium: Planning and provider application</td>
<td>Medium: $220,000</td>
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<tr>
<td></td>
<td>Low: Planning only</td>
<td>Low: $100,000</td>
</tr>
<tr>
<td><strong>Organizational Assets</strong></td>
<td>PACE Center</td>
<td>High: $2.3 million</td>
</tr>
<tr>
<td></td>
<td>High: Purchase of building and renovation</td>
<td>Medium: $1.75 million</td>
</tr>
<tr>
<td></td>
<td>Medium: New site construction</td>
<td>Low: $500,000</td>
</tr>
<tr>
<td></td>
<td>Low: Lease and renovate a site within an existing building</td>
<td></td>
</tr>
<tr>
<td><strong>Equipment</strong></td>
<td>High: Purchase new equipment</td>
<td>High: $250,000</td>
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<tr>
<td></td>
<td>Medium: Purchase mostly new and some used equipment</td>
<td>Medium: $200,000</td>
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<tr>
<td></td>
<td>Low: Purchase mostly used and some new equipment</td>
<td>Low: $130,000</td>
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<tr>
<td></td>
<td>*Note: Leasing some equipment may lower upfront cash requirements</td>
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</tr>
<tr>
<td><strong>Transportation</strong></td>
<td>High: Purchased van fleet over two years to serve full enrollment</td>
<td>High: $500,000</td>
</tr>
<tr>
<td></td>
<td>Medium: Contract for services initially; purchase vans after one year</td>
<td>Medium: $300,000</td>
</tr>
<tr>
<td></td>
<td>Low: Contract for service (monthly fees offset need for capital)</td>
<td>Low: $0</td>
</tr>
<tr>
<td><strong>Working Capital for Start-Up</strong></td>
<td>Pre-operational Staffing</td>
<td>High: $540,000</td>
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<tr>
<td></td>
<td>High: Full staff hired for program during pre-operational development</td>
<td>Medium: $400,000</td>
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<tr>
<td></td>
<td>Medium: Full-time manager supplemented with part-time team members</td>
<td>Low: $80,000</td>
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<tr>
<td></td>
<td>Low: Staff assigned by sponsoring organization to do most of planning and pre-operational development</td>
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³These estimates are based on the experience reported by six PACE programs. The estimates have been adjusted for regional cost factors and outliers. Cost estimates have been standardized to reflect a program with a planned total enrollment of 300.
<table>
<thead>
<tr>
<th>Category</th>
<th>Factors</th>
<th>Range (High, Medium, Low)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Working Capital for Start-Up (continued)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Losses while Growing Enrollment</strong></td>
<td>High: For a site with a net enrollment growth of three per month</td>
<td>High: $ 800,000</td>
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<tr>
<td></td>
<td>Medium: For a site with a net enrollment growth of four per month</td>
<td>Medium: $ 600,000</td>
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<tr>
<td></td>
<td>Low: For a site with a net enrollment growth of five per month</td>
<td>Low: $ 500,000</td>
</tr>
<tr>
<td><strong>Solvency Requirements</strong></td>
<td>High: Cash reserves needed to self-insure for risk</td>
<td>High: $ 750,000</td>
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<tr>
<td></td>
<td>Medium: Cash reserves to ensure stability, with additional line of credit</td>
<td>Medium: $ 300,000</td>
</tr>
<tr>
<td></td>
<td>Low: Line of credit from sponsoring organization</td>
<td>Low: $ 200,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(see all above)</td>
<td>High: $ 5.56 million</td>
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<tr>
<td></td>
<td></td>
<td>Medium: $ 3.77 million</td>
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<td></td>
<td></td>
<td>Low: $ 1.51 million</td>
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</table>

**NOTE:** Please see attached discussion. These estimates are best used to assess the order of magnitude an investment in PACE may require. More detailed financial analyses should be developed to evaluate costs, risk and return on investment. This information should not be used as the basis for an organization to decide whether to invest in or initiate a PACE program.
DISCUSSION

Consultant and Service Management Fees

New PACE organizations typically work with a consultant that has experience in developing and operating a PACE program. Consultants can assist organizations with demographic analyses, market assessments, financial estimates and actuarial analyses, regulatory approval, planning for service start-up, and initiation of service delivery. The fees for these services range from $20,000-$30,000 for assistance with developing a feasibility assessment and from $40,000-$50,000 for preparation of required submittals to state/federal agencies. Support for service development and start-up in the first year of operation is generally in the range of $40,000-$55,000.

The National PACE Association (NPA) offers a range of technical assistance resources through its Exploring PACE membership program. Exploring PACE is a one-time, one-year program for organizations assessing PACE. The cost for Exploring PACE is $2,500 for one year. Full NPA membership provides access to all of the services of Exploring PACE, as well as to the range of model practices developed by the association. NPA membership fees for provider organizations begin at $8,500. For organizations that join Exploring PACE and go on to join NPA, the cost of Exploring PACE is credited against the full membership fee for the first year.

Capital for Required Organizational Assets

PACE Center

The PACE center is the core service facility for PACE enrollees. Primary medical care, nursing, recreation, occupational and physical therapies, social services, dietary and personal care services are provided on-site to the persons enrolled in the PACE program, who are referred to as “participants.” At an enrollment of 300, the PACE program’s day center would need to accommodate 120-140 participants on any given day (the average number of visits to the day center by a participant is between two and three per week).

Because the PACE center includes the provision of adult day health care (ADHC), the state adult day care/day health care licensing requirements (typically 40 square feet per person for the program area) must be met. The National Institute on Adult Day Care Standards recommends at least 60 square feet per person of program space, not including reception or storage areas, offices, rest rooms, passageways, treatment rooms, and therapy and dining areas (if only used for therapy and dining). However, PACE participants are frailer than the typical ADHC client. Experience of PACE programs suggests planning for approximately 100 square feet per participant for multipurpose program space. In addition to the day center’s activity space, the center provides space for its rehabilitation and primary care services, along with administrative space. These requirements can add a total of 4,000 square feet to the center’s size. New construction costs for a PACE center range from $135 to $160 per square foot while build-out of existing space generally falls within $45 to $55 per square foot.

Transportation

PACE centers rely on vans or other vehicles to pick up participants and bring them to the day center or other locations to receive needed services. In addition, PACE centers may rely on their vehicles to deliver meals and provide transportation for home care workers and personal care attendants. Passenger vans typically accommodate between 12 and 15 ambulatory people, while wheelchair vans accommodate between 6 and 8 people. Experience indicates that PACE programs require more wheelchair than ambulatory van capacity. When initiating a new PACE program, a van that allows seats to be removed and can convert from ambulatory to wheelchair capacity can help reduce costs. As an alternative to owning its own fleet, a PACE program may choose to contract with a transportation company for these services.
Equipment
PACE centers equip the general activity space, the rehabilitation and primary care clinics, and the administrative offices.

Working Capital for Start-Up

Demand for Services
The demand for PACE services will determine how quickly a program’s enrollment grows. PACE programs typically break-even at approximately 80-100 participants. Programs typically experience net enrollment growth of from five to eight new enrollees per month as they grow.

Program Staff
At start-up, an interdisciplinary team must be established at each PACE center to comprehensively assess and meet the individual needs of each participant. The interdisciplinary team must be composed of at least the following: primary care physician; registered nurse; social worker; physical therapist; occupational therapist; recreational therapist or activities coordinator; dietitian; PACE center manager; home care coordinator; personal care attendants or their representative; and drivers or their representative. Prior to opening for enrollment, PACE programs will have payroll or contractual expenses for the required staff.

Clinical Management
The financial viability of PACE programs is predicated on their ability to maintain frail elderly people in their homes, with reduced reliance on inpatient and institutional long term care services. Effective clinical management is essential to achieving this. Successful PACE programs tend to maintain their inpatient utilization rate in the range of 2,802 days per thousand participants. Clinical management also will affect the number of enrollees cared for in nursing homes, which can have a significant impact on costs.

Financial Risk Management
To contain risk exposure, PACE programs can contract with providers that are willing to share risk and also can purchase reinsurance that covers the costs associated with extraordinary inpatient care. Reinsurance typically costs from seven to nine dollars, per member, per month for coverage of inpatient hospital services that exceed $50,000 for an admission.

Payment Rates
Monthly PACE capitation payment rates are established independently by Medicare and Medicaid. For the vast majority of PACE enrollees, PACE programs receive both the Medicare and Medicaid capitation payments. For a small subset of enrollees who are ineligible for Medicaid, the program receives the Medicare capitation payment and a private-pay premium equivalent to the Medicaid capitation amount. For those enrollees who do not qualify for Medicare, Medicaid is the sole payer. Medicare establishes payment rates for PACE on the basis of the payment system in place for Medicare+Choice organizations. Beginning in 2004, a new risk-adjusted payment methodology is being phased in for PACE such that 10% of each enrollee’s Medicare payment will be based on individual-level demographic and diagnostic data and an organizational-level frailty adjustor based on the program’s enrollees’ self-reported levels of functional impairment. The remaining 90% of Medicare payments will be based on the methodology in place for PACE since 1985 whereby county level M+C rates are multiplied by a single acuity adjustment factor of 2.39 to reflect the higher frailty of the population served by PACE. The proportion of individual-level payment rates based on the diagnostic model will increase to 30% in 2005, 50% in 2006, 75% in 2007 and 100% in 2008. Medicare monthly payment rates for current PACE programs generally fall within the range of $1400 and $1775.
Medicaid capitation payment rates are generally set as a percentage of an Upper Payment Limit (UPL) that is based on the state’s costs of serving a comparable nursing home eligible population. In all cases, the Medicaid rate(s) must not exceed the corresponding UPL(s). Medicaid monthly payment rates for dual-eligibles enrolled in current PACE programs generally fall within the range of $2200 and $3700. Medicaid rates for Medicaid-only enrollees are higher as a consequence of Medicaid’s status as sole payer for these individuals.

**Start-Up Capital Required to Fund Early Operational Losses**

The rate of enrollment growth determines to a large extent the level of operational losses. For programs achieving rapid enrollment growth (e.g., a net enrollment increase of eight per month), start-up operational losses may only be incurred for one year and be as low as $500,000, though experience to date has not supported such rapid growth assumptions. For programs that add to enrollment at a slower rate, multiple years of losses can be expected. A more typical operating loss over two years would be approximately $600,000. In some cases, if break-even enrollment growth for a large center is achieved over a longer period of time (three or more years), the cumulative operating loss may be closer to $800,000.

**Solvency Requirements**

Federal and state requirements for the PACE program to maintain a risk reserve are designed to ensure the solvency of the program. The federal requirement is for one month of operating revenue and one month of expenses to be on-hand. This can be in the form of a letter of credit to the PACE program. States vary and may impose additional reserve requirements. In the first year, average monthly revenue is likely to be low with enrollment growing from 0 to a more operational level (probably in the 60 to 80 enrollee range). Therefore, the solvency requirement will be similarly low. However, access to risk reserves or reinsurance is important to protect the PACE program. Reinsurance costs range from seven to nine dollars per member, per month for coverage of inpatient admissions that exceed $50,000. However, service exclusions and cost caps can result in significant costs for the PACE program even when reinsurance is triggered. To establish its own insurance reserve, a PACE program may want to secure between $500,000 and $750,000 in cash or letters of credit from a sponsoring organization.