Instructions for the Cooperative Development Foundation's Home Care Financial Model

Developed by The ICA Group (Fall 2015)

Disclaimer: This model is only an initial measure of feasibility for a new home care cooperative. A more detailed analysis of the results is necessary for business planning.

Overview

1. Begin at the *Data Entry* worksheet by making your own assumptions (or using defaults) for projecting business revenues and staff compensation (see below)
2. Go to the *Analysis* worksheet to view results and adjust some assumptions from the "Data Entry" worksheet, as desired.

Notes

By default, the model presents an unfavorable financial picture of a new home care cooperative as evidenced by negative cash balances and low net income in the first few years after startup. This issue stems from the following:

- High indirect expenses (e.g., administrative salaries, occupancy, marketing, etc.) compelling providers to grow and achieve economies of scale, and focus on operational efficiencies. Specifically, the default salary values for the executive director and office staff in the model may be unrealistic for small home care cooperatives.
- The need to finance cash when accounts receivables are outstanding. Short-term cash financing methods, such as a line of credit or invoice factoring, are typically used by firms to address these issues, but are not reflected in the model.

Data Entry

Step One: Enter Assumptions about Revenues and Clients –

- Average **hourly bill rate** for public and private clients *(e.g., $19/hr. public; $25/hr. private)*
- Average **length of visit** in hours for public and private clients *(e.g., 3 hours per visit)*
- Average **visits per week** for public and private clients *(e.g., 3 visits per week)*
- Average **length of care delivered** in months for clients *(e.g., 12 months)*
- Average **travel time** in hours per client *(e.g., 0.5 hours)*
- **Shift length** for workers *(e.g., 12 months)*
- *Enter:*
    - The number of public and private clients at startup (estimated or current), and
    - The number of new public and private clients anticipated each year (Years 1-5 moving forward).

Step Two: Enter Assumptions about Worker Compensation –
Direct Care Workers >>>

- Average **hours per week** for workers *(e.g., 40 hours)*
- **Starting hourly wage** for workers *(e.g., $11/hr.)*
- **Travel time hourly wage** for workers *(e.g., $11/hr.)*
- **State unemployment insurance rate** for workers *(e.g., 3.2%)*
- **Worker's compensation rate** for *direct care* workers *(e.g., 4.0%)*
- **Worker's compensation rate** for *non-direct care* workers *(e.g., 1.5%)*
- **Employer portion of health insurance** for workers *(e.g., $2,400)*
- **Annual hours of paid time off** for workers *(e.g., 80 hours per year)*
- **Long- and short-term disability rate** for workers *(e.g., 0.7%)*
- **Employer contribution to retirement rate** for workers *(e.g., 2.0%)*
- **Annual wage increase** for workers *(e.g., 3.0%)*
- **Annual in-service hours** for workers *(e.g., 12 hours per year)*

Indirect Staff >>>

- **Executive director annual salary** *(e.g., $85,000)*
- **Office staff annual salary** *(e.g., $45,000)*
- **Coordinator hourly wage** *(e.g., $15/hr.)*
- **Number of direct care workers per coordinator** *(e.g., 25 workers per coordinator)*
- **Office staff required per $1MM in revenues** *(e.g., 1 office staff member required)*

Board of Directors >>>

- **Number of board members** *(e.g., 5 members)*
- **Will board members be paid?** *(Check box if yes)*
- **Days accounts payable** *(e.g., 60 days)*

Loan Financing & Membership Fees >>>

- **Loan principal** *(e.g., $200,000)*
- **Annual loan interest rate** *(e.g., 6.0% annually)*
- **Loan term** in years *(e.g., 5 years)*
- **Membership fee** *(e.g., $500)*
- **Initial payment** *(e.g., $50)*
- **Months to pay off membership fee** *(e.g., 12 months)*

Analysis

After confirming the assumptions used in the *Data Entry*, go to the *Analysis* worksheet:

- **Breakdown of Direct Labor Costs:** Shows non-wage compensation (e.g., payroll taxes), which is added to wage rate to determine gross margin on average billings.
- **Break-Even Analysis:** Using gross margin determined above, indicates revenues/clients required for cooperative to cover indirect costs (e.g., administrative salaries)
- **Financial Pro Forms & Adjustments:** Presents pro forma income statement, balance sheet, and cash flows, and allows adjustments to be made to projected clients and startup loan.