

Profit margins are low, net income is inconsistent

SHASTA continued
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ficer Chris Leno said Shasta Administrative Services is currently repaying only the interest on its previous two loans and that the latest \$600,000 was only being made available should the company request the funds.

“I don’t know at what point Council will be willing to provide a report to the membership,” Leno said. “I know that project is moving along. I don’t know, in terms of confidentiality with some of the things they’re going through and some of the things that have been talked through the process, that that would probably be a better question for Tribal Council.”

Tribal Council Chairwoman Cheryle A. Kennedy added that the Tribe is working on a long-term plan for the company and looking at having “things” wound up within 45 days.

However, Tribal Economic Development Manager Bruce Thomas said on Thursday, Oct. 5, that the Tribe is seeking to sell Shasta, but remain a client. After the sale, he said, the Tribe would recoup its outstanding loans before any money is distributed.

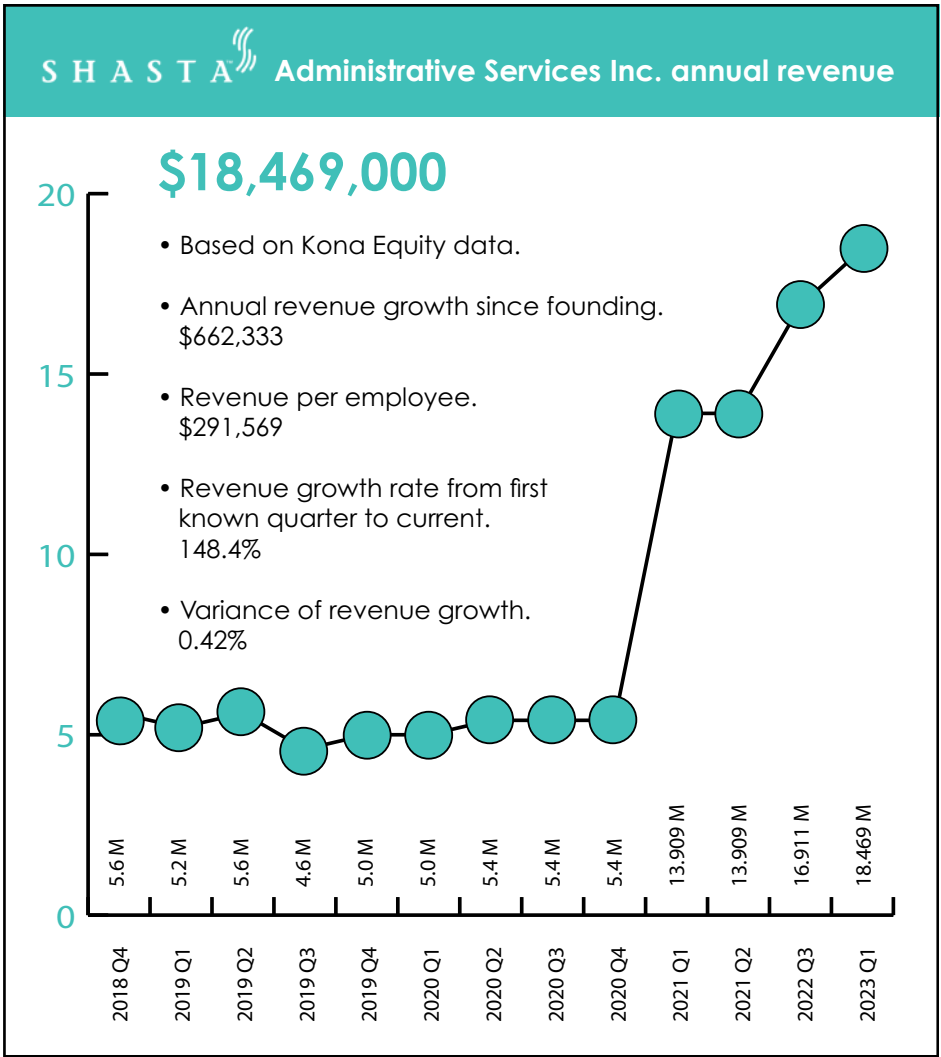
“We’re exploring that,” Thomas said. “It’s an industry where efficiency and economies of scale are critical. And what’s happening is that industry is consolidating with bigger and bigger operators. It’s hard for us with the number of clients that we have with that organization to really generate the profit we were hoping for. While we’re happy to have them as a service provider, probably being an owner is no longer in our interest.

“It’s made small returns, but not the kind of returns that from an economic development standpoint you’d look for. For many years, it was making a little bit of money, but it doesn’t meet the goals I would hope for for economic development.”

According to the Oregon Corporation Division, Shasta Administrative Services registered to do business in the state on March 5, 2001, to provide “claims administrative services and telephonic/electronic customer service support for medical, dental and prescription drugs.” It served the needs of Jeld-Wen, an international company that fabricates windows and fixtures, and other self-funded employers in the Pacific Northwest. The Grand Ronde Tribe became a Shasta client in January 2009.

In November 2012, the Tribe along with Hawaii-Western Management Group, which provides third-party services for insured and self-funded employer groups’ health plans in Hawaii, purchased the company from Jeld-Wen with the Tribe being the majority owner. The purchase price was not disclosed.

Then-Tribal Economic Development Director Titu Asghar said the purchase made sense in the Tribe’s pursuit of diversifying its non-gaming businesses because the company was already processing claims for the Tribe’s self-funded



Graph by Samuel Briggs III

health plans.

“Since that time, Shasta has achieved steady growth and maintained our reputation of integrity, quality, value and service at a competitive price,” the company states on its website.

Current company officers include President Paul Kaiser, a 30-year veteran of the health insurance industry, and Tribal Council Chief of Staff Stacia Hernandez as Board of Directors secretary. Its website lists several Northwest Tribes besides Grand Ronde as clients – Chehalis, Jamestown S’Klallam, Nisqually, Nooksack, Shoshone-Paiute and Suquamish.

The initial \$350,000 loan to Shasta was designed to help the company address cash flow issues stemming from software system upgrades and litigation expenses.

“It’s OK to share that earlier in this year, or actually was it last year, that they had a new software system installed and that did not go as well or as smoothly as they hoped,” Tribal Council member Kathleen George said during the Sept. 27 meeting. “That resulted, and some Tribal members expressed this to us as well, that they were getting a backlog of bills.

“To try and catch up with that, which they are doing now, it’s required additional staff time and overtime, and at the same time I think they have lost a couple staff.

Again, this isn’t the whole answer, but we wanted to share what we can. This is definitely trying to address the backlog of claims that resulted from the difficulty in the software change.”

Hawaii-Western Management Group, which owns 49 percent of Shasta, has not provided any additional funding to the company, Thomas said.

Shasta also agreed in November 2022 to release the Grand Ronde Tribe and its entities from any claims Shasta or its parent compa-

ny, Lamatsin LLC, have against Tribal entities arising out of a lawsuit filed by QualiCenters Salem LLC against Shasta and First Choice Health Network.

The lawsuit, filed in the U.S. District Court in Oregon, alleged Shasta and First Choice “regularly failed and refused to fulfill their contractual obligations” in paying QualiCenters Salem network rates for the treatment of a patient who worked at Spirit Mountain Casino. It was seeking approximately \$1.5 million for past billing and payments for services it provided for the patient.

Shasta, however, asserted it is the payor of last resort and QualiCenters Salem failed to bill Medicare first for the patient’s treatment before attempting to collect from Shasta.

The Grand Ronde Tribe is traditionally reticent about publicly releasing information on how well its business entities and investments are performing. Annual briefings on the economic performance of Spirit Mountain Casino and the Tribe’s endowments are always held in executive session for Tribal members only, and rarely are specific revenue numbers released about the performance of such companies as Shasta and SAM Medical Products, a Wilsonville-based company the Tribe purchased a 20-percent stake in in December 2012.

The website Statista.com says that the third-party administrator market has enormous potential. In 2022, revenues totaled \$333.4 billion worldwide with estimates that the market will increase to more than \$567 billion in 2030.

“The revenue of the global insurance third-party administrator market is predicted to grow by almost 6 percent annually until 2030,” the site says.

According to an article by Fred Hunt, active past president of the Society of Professional Benefit

Administrators, the third-party administration business is “extremely competitive” with many entities – venture capitalists, other investors, insurance companies and medical entities – interested in purchasing companies.

“Don’t invest in a TPA expecting to make X percent of profit every year,” he advises in an article published on the organization’s website. “First of all, the TPA business is so competitive that profit margins are quite low. Second, net income is not consistent, because costs of implementing some new government compliance requirement can be very expensive before the clients are willing to be charged for it.

“Also, occasionally, some large competing source of business, such as insurance companies or HMOs, lower their prices below market in order to build up their numbers. They can’t sustain such losses, and TPAs often get the client back, seeking the personalized service, but there has been a dent in the TPA’s income in the meantime.”

According to the website Datanyze, Shasta employs approximately 60 people with revenues of about \$18.5 million annually, a \$1.5 million increase since *Smoke Signals* last checked the site in November 2022.

Also on a positive note, the website konaequity.com, which is a market intelligence platform, says that Shasta’s revenue is greater than the industry median, income per employee is more than the industry average, that revenue growth from the first known quarter to the current quarter is higher than industry average and that annual revenue growth since its founding is higher than the industry average.

The website rates companies on a scale of eight to zero, with eight meaning the respective company has satisfied all its assessment criteria. Shasta Administrative Services receives a score of 5.

“They’ve got value,” Thomas said about Shasta. “Because of this consolidation that is happening, other companies are looking to expand. So having some eight or 10 existing clients and a well-functioning system for Tribes ... so Shasta’s system has value, too. That’s actually one of the assets of the company, the software. A lot of that is unique to Shasta. For serving Tribal clients, it’s got value.”

Thomas added he did not know the Tribe’s initial investment in purchasing Shasta, so he could not estimate whether the Tribe would make money in a potential sale.

“What I have been told is that dealing with Shasta over the years has saved us a whole lot of money based on their relationships, their network and relationships with medical providers, and the fees that we are charged,” he added. “That has to be factored in, too, when looking at return on investment.”

Thomas said a potential sale is in process and an unnamed company is currently looking at buying Shasta. He added that Hawaii-Western Management Group is on board with the sale as well. ■