

# Best Practices in Financial Benchmarking



ILLINOIS SENIOR LIVING CFO WORKSHOP

August 2, 2007

*Part of the Ziegler CFO Workshop Series<sup>SM</sup>*

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*Clark-Lindsey Village*

# Presentation Outline

Section 1 - Best Practices in Financial Benchmarking

Section 2 - Case Study: Clark-Lindsey Village

Questions & Answers



# Section 1

## Best Practices in Financial Benchmarking



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# What is Benchmarking?

...”the search for those best practices that will lead to the superior performance” of an organization  
(1989 Robert Camp)



# What is Benchmarking?

- The establishment and attainment (or nonattainment) of benchmark targets reveals a community's strengths and/or weaknesses
- Performance/nonperformance becomes self-evident



## How To Use

- Benchmark targets should be used:
  - as a key indicator of a community's continuous improvement
  - As a method of communicating a community's accountability to key target audiences (e.g., senior management, Boards, staff)

## Why Use?

- Benchmarking can help your organization
  - Analyze and improve internal processes
  - Enhance operational performance
  - Collect information needed to assess your current situation and plan for the future
  - Achieve your mission, vision and goals

# Criteria

- Criteria applied to benchmarking should be:
  - *FAIR*
  - *EQUITABLE*
  - *REASONABLE*



# Types

- **PROCESS** benchmarking involves identification of best practices
- **STRATEGIC** benchmarking involves identifying emerging trends in a market or industry for strategic/resource planning
- **COMPARATIVE** benchmarking is results oriented, and can be useful in setting stretch goals



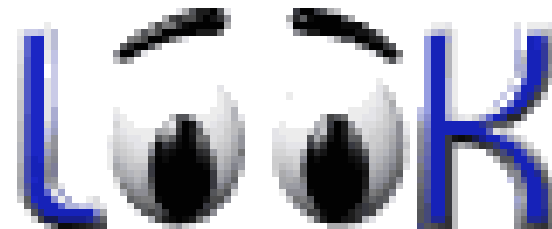
# Phases

- Identify/examine your own processes
- Identify organizations that you will benchmark against and determine how data will be collected
- Collect/analyze the data
- Establish targets to close the gaps and develop action plans to reach those targets

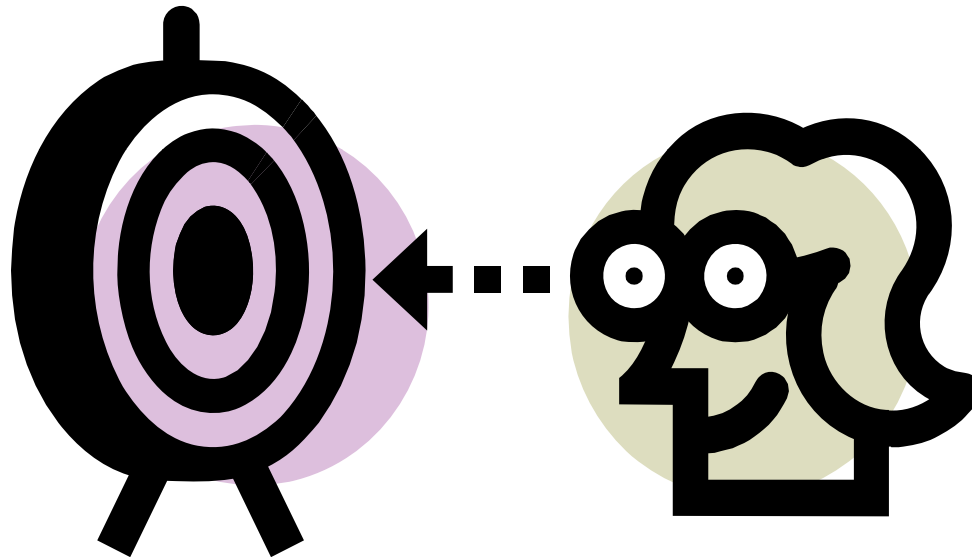


# Take a Fresh Look

- Examine major areas of operations (e.g., health center, dining services, environmental services, plant operations, marketing)
  - Number of indirect service staff
  - Resident care
  - Staff interaction
  - Physical appearance



# CDS Targeted Benchmarks



# Hours of Care Per Resident Day

CARE LEVEL	CDS
Nursing Care	3.5 – 4.0
Assisted Living	1.7 – 2.2
Memory Care/Assisted Living	2.1 – 2.6

*Note: above targets are dependent on State regulations*



# FTEs Per Level of Service

UNIT TYPE	OCCUPIED UNITS	FTEs/ OCCUPIED UNIT	TOTAL FTEs
ILU	300	.33	99
ALU	60	.45	27
NC	60	.85	51
TOTAL	420	.41	177



# Staffing



<b>BENCHMARK (campus wide)</b>	<b>CDS</b>
Employee Turnover %	<40%
Benefits as a % of Total Wages	25%
Salaries/Benefits as a % of Net Revenue	40 – 45%
Supervisor to Staff Ratio (not including floor nurses)	1:15 – 1:20
HR Staffing Ratio	1:100
Portion of payroll dollars not committed to contractual services	\$.25 - \$.30



# Plant Services

<b>Square Feet Maintained Per FTE (campus wide)</b>	<b>50,000</b>
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# Environmental Services

BENCHMARK (campus wide)	CDS
Rooms Cleaned Per FTE	
Independent Living	4-5
Assisted Living	8-10
Health Care	22-24
SF Cleaned Per FTE	21,000 – 23,000
Independent Living	30,000
Assisted Living	20,000
Health Care	8,000
Pounds Laundry Processed Per Labor Hour	50

# Dining Services

BENCHMARK (campus wide)	CDS
Meals Per Labor Hour	2.5 – 3.0
Raw Food Costs as % of Charges	33%
Labor Costs as a % of Total	33%



# Best Practices

- Establish “best practices” ....
  - *Pricing*—consistent increase of MF, premium pricing, ancillary revenue and level of care additions
  - *Lost Revenue Reporting*—determine maximum revenue at full occupancy (100%) and identify reasons for the vacancy



## Best Practices

- *Fund Raising*—maximize the fund raising efforts of the organization by establishing a separate Foundation under the community corporate umbrella (allows placement of Board members where they can be most effective—governance or funding raising)



# Best Practices

- *Organizational Structure*—minimize management/support structure and establish clear lines of responsibility and reporting
- *Pay for Performance*—implement pay structure, which has base wages 5 to 10% above the median rate for the job classification in the local market and provide semi-annual bonuses



# Best Practices

- *Health Care*—level staffing pattern (e.g., 12-hour shifts), Universal Workers, management of medication administration



# Section 2



## Case Study: Clark-Lindsey Village



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# Case Study

- Continuing Care Retirement Comm
  - 140 ILU
  - 30 Sheltered Care
  - 20 Skilled Memory Care Unit
  - 56 Skilled Care
    - Including 15 Medicare beds
    - 0 Medicaid beds
- Established in 1977
- Located in Urbana, Illinois, adjacent to the University of Illinois campus





# Importance of Benchmarking

- Benchmarking is essential for a **Board of Directors** with expertise that is oftentimes outside of the senior living business
- Benchmarking is essential for **Managers** to help define specific operational goals and measure performance
- Benchmarking is essential for effective **Resident Communication**, helping to educate residents about operational decisions



# Types of Benchmarking






- Informal Benchmarking
  - Site visits
  - Review of Form 990s
  - Comparison of services & amenities/ prices
- Formal Benchmarking
  - Benchmark studies (CARF/KPMG/Ziegler & AAHSA)
  - Annual actuarial review
  - Quarterly and annual Dashboard Reports
  - Regular internal operational reports
  - Independent operational reviews

**“What doesn’t get measured,  
doesn’t get done.”**

# DASHBOARD SUMMARY

March 31, 2007

## Operating Ratios

		<u>Target</u>		<u>For 3 Months Ending March 31, 2007</u>		<u>For 12 Months Ending 12/31/2006</u>		<u>Assessment</u>
<b>Occupancy</b>								
Assisted Living	<i>Per budget (beds)</i>	24.0	82.8%	<b>26.0</b>	<b>89.7%</b>	24.9	85.9%	
Skilled Care	<i>Per budget (beds)</i>	66.0	86.8%	<b>63.7</b>	<b>82.7%</b>	54.7	71.0%	
Apartment	<i>Per budget (apts.)</i>	130.0	94.9%	<b>127.3</b>	<b>93.6%</b>	126.0	92.0%	
Operating Ratio	<i>50th percentile or better</i>	Less than 100%		<b>94%</b>		101%		
Net Operating Margin	<i>75th to 50th percentile</i>	5%		<b>7.2%</b>		0.9%		



Green light: operating results have met or exceeded target

Yellow light: operating results are close to target, but a significant change or trend warrants further study

Red light: operating results have not met target. Further explanation follows.



# DASHBOARD SUMMARY

## Capital and Liquidity Ratios

	For 3 Months Ending <u>March 31, 2007</u>	For 12 Months Ending <u>12/31/2006</u>
Days in Accounts Receivable	12	14
Days Cash on Hand	376	453
Debt Service Coverage Ratio	3.02	4.08

Days in Accounts Receivable	50th percentile	18 days or less
Days Cash on Hand	75th to 50th percentile	365 days or more
Debt Service Coverage Ratio		2 or more



Green light: operating results have met or exceeded target



Yellow light: operating results are close to target, but a significant change or trend warrants further study



Red light: operating results have not met target. Further explanation follows.



# Maximize Occupancy

## Quarterly Report to the Board on Adjusted Occupancy

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### MEADOWBROOK HEALTH CENTER

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	<u>Assisted Living</u>	<u>Skilled Care</u>	<u>Total</u>
Number of licensed beds	39	76	115
Adjustments:			
Number of semi-private rooms paid or held as private rooms <sup>1</sup>	10	1	11
Number of beds unavailable due to renovation or maintenance	0	0	0
Number of beds held open for apartment resident unplanned use <sup>2</sup>	0	4	4
Adjusted number of beds available	29	71	100
Number of paid beds (year-to-date average)	26	63.7	89.7
<b>Adjusted occupancy percentage (year-to-date)</b>	<b>90%</b>	<b>90%</b>	<b>90%</b>

# Maximize Occupancy

## Quarterly report to the Board on Apartment Occupancy

### APARTMENTS<sup>3</sup>

	For 3 Months Ending <u>March 31, 2007</u>		For 3 Months Ending <u>03/31/06</u>
Number of apartments paid for	<b>127.3</b>	<b>91%</b>	125.6
Number of apartments rented as guest suites	<b>4.0</b>	<b>3%</b>	4.0
Number of apartments held for conversion <sup>4</sup>	<b>3.0</b>	<b>2%</b>	1.0
Number of apartments under renovation (unpaid)	<b>1.5</b>	<b>1%</b>	6.1
Number of apartments unsold (unpaid)	<b>4.3</b>	<b>3%</b>	4.3
Total number of apartments available	<b>140.0</b>	<b>100%</b>	141.0



# Lost Revenue Reporting

## Monthly Report to Marketing and Maintenance Managers

2007 Sales and Renovation Analysis														
Today's Date: 6/4/07		Marketing							Maintenance				Total	Lost
Apt.	Size	Vacant	Days Prior to Offer	Offer Date	Deadline	Sold Date	Total Marketin g Days	Date to Maint.	Maint. Renovated	Total Maint. Days	Move In/ Billing	Total No. Days (Vacant to Billing)	Revenue	
1103	1B	3/21/2006	1	3/22/2006	3/29/2006		440	3/22/2006	6/22/2006	93		440	\$ 19,471	
2202	1B	3/31/2006	13	4/13/2006	4/20/2006	6/5/2006	66	3/31/2006	1/14/2007	289	01/15/07	290	\$ 12,833	
6109	1B	9/6/2006	24	9/30/2006	10/1/2006	10/11/2006	35	10/14/2006	1/26/2007	142	02/01/07	148	\$ 6,549	
4302	2B	10/25/2006	-2	10/23/2006	11/10/2006	11/13/2006	19	10/25/2006	1/5/2007	72	01/19/07	86	\$ 4,874	
3109	DelA	1/29/2007	-98	10/23/2006	10/31/2006	11/29/2006	-61	2/7/2007	3/2/2007	32	03/09/07	39	\$ 3,549	
3102	1B	12/3/2006	61	2/2/2007	2/12/2007	4/3/2007	121	12/12/2006	3/3/2007	90	05/04/07	152	\$ 6,726	
4205	2B	3/31/2007	-26	3/5/2007	3/14/2007	3/30/2007	-1	4/11/2007	6/7/2007	68	06/08/07	69	\$ 3,911	
4303	2B	4/30/2007	-40	3/21/2007	3/30/2007	4/10/2007	-20	5/3/2007		35		35	\$ 1,984	
6107	1B	3/23/2007	35	4/27/2007	5/7/2007		73	3/24/2007		73		73	\$ 3,230	
3209	1B	7/31/2006					308	5/14/2007	5/22/2007	295		308	\$ 13,630	
1210	2BE			6/5/2007	6/14/2007									
			-32				980			1189		1640	\$ 76,758	
			4				98			119		164	\$ 7,676	

**Benchmark — Units are reoccupied within 90 days that unit was vacated**



# Maintain Efficient Staffing

- Sample payroll analysis of nursing direct hours, including floor hours of Clinical Coordinators (supervisors)

2007	AVG CENSUS FOR PAY PERIOD	HOURS														TOTAL DIRECT CARE HOURS	TOTAL HOURS/RSN /DAY	
		CLIN COORD <sup>1</sup>			RN <sup>2</sup>		LPN <sup>2</sup>		Total Nurse Hours <sup>3</sup>	Nurse hours/rsn/day	CNA		TASK AIDES		Total CNA Hours <sup>4</sup>			CNA hours/rsn/day
		LW	TT	MW	REG	OT	REG	OT			REG	OT	REG	OT				
PAY #5	91	0	0	0	665	297	441	64	1468	1.2	2430	541	169	17	3156	2.5	4624	3.63
PAY #6	91	0	0	0	828	107	503	60	1497	1.2	2621	316	218	0	3155	2.5	4652	3.65
PAY #7	91	0	0	0	766	85	488	56	1394	1.1	3005	294	265	2	3567	2.8	4960	3.89
PAY #8	92	0	0	0	762	141	426	44	1373	1.1	2682	239	215	3	3139	2.4	4511	3.50
																	Benchmark:	3.5-4.0

# Maintain Efficient Staffing

<u>Unit Type</u>	<u>Occupied Units</u>	<u>FTEs/ Occupied Unit</u>	<u>Benchmark FTEs</u>	<u>CLV 2nd Q 07</u>
ILU	140	0.33	46.2	
ALU	30	0.45	13.5	
SNF	65	0.85	55.3	
<b>Total</b>	<b>235</b>		<b>115.0</b>	<b>120.4</b>

Over (Under) **5.5**  
**5%**

# Maintain Efficient Staffing

**A COMPARISON OF 12-HOUR SHIFT VS. 8-HOUR SHIFT STAFFING REQUIREMENTS**

		Sun	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Mon	Tue	Wed	Thu	Fri	Sat	FTE
<b>12 hour</b>	Nurse	5	5	5	5	5	5	5	5	5	5	5	5	5	5	9.8
	CNA	10	10	10	10	10	10	10	10	10	10	10	10	10	10	19.3
																<b>29.1</b>
Day	Nurse	3														
PM	Nurse	2														
Day	CNA	6														
PM	CNA	4														
<b>8 hour</b>	RN/LPN	8	8	8	8	8	8	8	8	8	8	8	8	8	8	11.2
	CNA	16	16	16	16	16	16	16	16	16	16	16	16	16	16	22.4
																<b>33.6</b>
Day	Nurse	3														
Eve	Nurse	3														
PM	Nurse	2														
Day	CNA	6														
Eve	CNA	6														
PM	CNA	4														

- 13% less personnel
- Reduces benefit costs, turnover and training costs
- Easier scheduling
- Primary assignments improve employee/resident relationships



# Effectively Manage Human Resources

Clark-Lindsey Village  
**Personnel Turnover Report**  
For Year Ended December 31, 2006

RN	15.9%	Kitchen	57.5%
LPN	29.3%	Waitstaff	92.3%
Aides	28.0%	Maintenance	20.0%
Activities	0.0%	Housekeeping	22.2%
Other Nsg.	0.0%	Grounds	27.6%
		Administration	26.6%

**Overall Turnover = 39.1%**

**Overall Turnover, excluding waitstaff = 28.0%**

**Benchmark Goal = <40%**

# Effectively Manage Human Resources

- **Pay for Performance Plan**

- Annual review of labor market to determine adjusted market rate and COLA
- Goal is to create pay levels that start at 5% - 10% above average market wage
- Evaluations and potential pay adjustments are performed every 6 months
  - Regular and timely feedback
  - Quicker movement up the pay scale to secure competitive edge



# Effectively Manage Human Resources

- **Pay for Performance Plan (cont'd)**
  - In general, pay levels are maxed out at 4 years and are 20-25% above starting wage
  - Once maxed, employees are eligible for a 6 month bonus, based on performance (an avg. of 3%, but significantly differentiated between high performers and average performers)

# Implement Premium Pricing

- Differential pricing on larger health center rooms
- Differential pricing on apartments (location, location, location)
- Increased focus on ancillary revenues
  - Therapies
  - Salon services
  - Dining services



# Questions & Answers



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