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MAXIMIZING OPERATIONAL AND FINANCIAL PERFORMANCE

PRESENTED BY

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LeadingAge[®]
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HEALTH RESEARCH AND
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OBJECTIVES

- To identify diagnostics to use, not only to avoid trouble, but to enhance operations.
- To identify specific metrics that are the most important to track and focus on when looking to enhance the bottom line.
- To identify underlying success factors, best practices, and benchmarks that improve NOM

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AGENDA

ITEM 1: INTRODUCTION

ITEM 2: NOM IS THE KEY TO SUCCESS

ITEM 3: PATH TO A DOUBLE DIGIT NOM

ITEM 4: BEST PRACTICES FOR REFERENCE

QUESTION & ANSWERS

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INTRODUCTION

Item 1

DHG1

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Slide 4

DHG1

Lisa This is here in case you want to do a few introductory slides on NOM

Daniel H. Gray, 1/15/2019



NOM IS THE KEY TO SUCCESS


Item 2

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WHY IS NET OPERATING MARGIN (NOM) IMPORTANT?

- NOM is the #1 indicator of your core businesses' current and future success!
- NOM creates debt capacity and flexibility to respond to changing environments like new competition or changes in reimbursement
- Days Cash on Hand (DCOH) indicates past successes, and may not have come from core businesses (e.g., philanthropy, favorable financing and/or entry fee turnover). DCOH is the cushion that let's you expand your mission and take risk!

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KEY LESSONS LEARNED—OPERATIONS REVIEWS

- Revenue improvements are a lot more fun than staffing reductions.
- Positive change is easier when the goals and benefits are understood by most of the stakeholders.
- Don't look back-you are not going that way!
- Life plan communities, especially those with type A life care and highly refundable entry fee contracts, have to appropriately price their product and operate with an understanding of present value and the actuarial implications of their product.

KEY LESSONS LEARNED—OPERATIONS REVIEWS

- Leadership in successful communities understand the business, have operating information to guide good decision-making and address challenges proactively.
- During expansion, leadership must keep at least one eye on current operations.
- Not-for-profit leadership in senior living communities consistently fails to commit adequate resources to new innovations.
- Unmanaged service creep is consistently a key factor in less than robust NOMs—**Assume your residents are better at getting what they want than you are!**

KEY LESSONS—MANAGEMENT CONSULTANT REPORTS

- The hardest mistakes to fix are capital
 - Greater debt or cost of debt than operations will support. Example: *Recent operations review, a CCRC's debt service, depreciation, amortization and property tax expenses were 67% of net revenue*
 - Noncompetitive product that the market will not buy. Example: *Recent operations review had a state-of-the-art health center and independent living that was dated*
- If you are digging a hole, the least you can do is stop digging?
- In communities where CDS provided management consultant reports and the debt was restructured, particularly when the current sponsor lost control (5 of the 13), **CDS got involved too late!**

REVIEW OPERATIONS ANNUALLY

- Objective—identify revenue/expense improvements that will:
 - Strengthen financial performance,
 - Improve debt service capacity,
 - Increase days cash on hand, and
 - Create additional opportunities for communities to act strategically in order to achieve mission.

- OR...

BE HAPPY, DON'T WORRY



"Our financial troubles are over, Edna. The fellas and I have formed a boy band."

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PATH TO A DOUBLE DIGIT NOM

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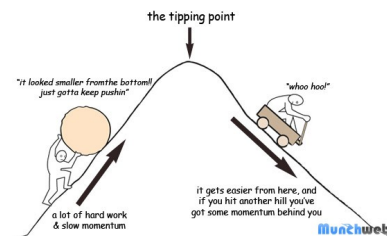
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NET OPERATING MARGIN

CCRCs need at least 15% net operating margin in order to act strategically

TIPPING POINTS FOR FINANCIAL SUCCESS

- Maximizing Revenue
 - Occupancy
 - Premium pricing
 - Medicare/Managed Care
 - Home- and community-based services
- Optimize Value of Expenses
 - Organizational Structure
 - Staffing
 - Information



UNDERLYING SUCCESS FACTORS

- Organizations with:
 - Clear vision
 - Engaged staff
 - Satisfied customers
 - Great value
- Evidenced by:
 - Great teams—no silos
 - Low staff turnover
 - Broad referral base (e.g., residents, staff, and broader community)



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DIAGNOSTICS-OCCUPANCY

- Are units reoccupied within 60-90 days of acceptance?
- Are admissions to health care processed 24 hours per day, 7 days per week?
- Are more than 40% of new residents from current resident referrals?



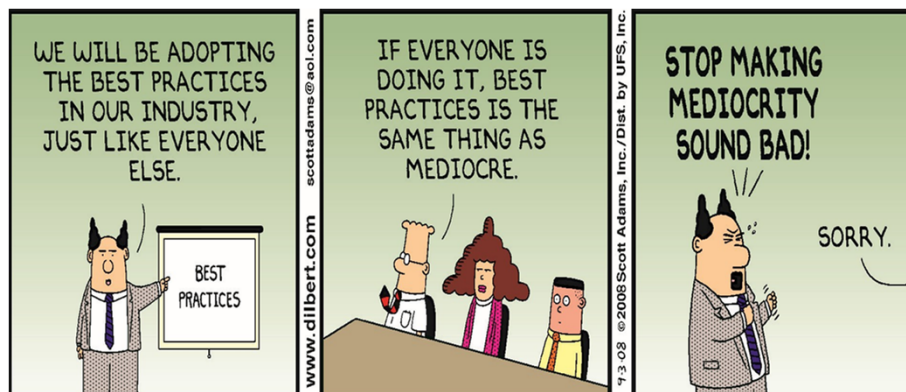
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DIAGNOSTICS-PRICING

- Are service fees equal to or greater than competitors?
- Are services included in the monthly service fee used by the majority of residents? If not, are they charged additional fees at the market rate?
- Are your best programs charged at premium rates?

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BEST PRACTICES



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BEST PRACTICES-REVENUE

- Embrace “aging in place” and create short-term stay capacity in skilled nursing
- Participate in bundles and ACOs in your market
- Achieve 4- or 5-star CMS rating
- Have the lowest readmission rate and shortest length of stay in market
- Obtain RUGs near \$500/day (most markets)
- Renegotiate managed care contracts annually
- Know your hospital’s challenges
- Know your MCO’s star rating

BEST PRACTICES-EXPENSES



- Create a flat organizational structure
- Minimize administrative support
- Scrutinize indirect staff for value
- Utilize team leaders instead of supervisors where appropriate
- Use performance- not seniority-based compensation structure
- **CAUTION:** be careful not to under power strategic changes

DIAGNOSTICS-REVENUE/STAFFING

Target salaries and benefits
to be <50% of net revenues

DIAGNOSTICS—FTES BY LEVEL OF SERVICE

Unit Type	Occupied Units	Units/ Occupied Unit	Total FTEs
ILU	300	.40	120
ALU/MC	40/20	.50/.70	34
NC	60	1.00	60
TOTAL	420		214

CDS METRICS

METRIC	CDS Target	CCRC
ADMINISTRATION		
Employee Turnover	<30%	22.0%
Benefits % of Salaries (excluding Workers Comp)	22% to 25%	28.0%
Workers Compensation per FTE	\$1,270	\$717
Non-Productive Time % of Productive Time	8% to 10%	8.5%
Overtime % of Productive Time	0% to 3%	3.0%
Marketing Costs % of Operating Expenses	2% to 3%	4.0%
FINANCE		
Revenue per Finance FTE	\$3.5M-\$4.0M	\$5M
Days in Accounts Receivable	25 to 30	7
Days in Accounts Payable	30 to 45	30
Net Operating Margin	15%+	-2.2%

Red = unfavorable to benchmark; Blue = meet or exceed benchmark

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CDS METRICS

METRIC	CDS Target	CCRC
HEALTH CARE		
PC Hours of Care per Resident Day		
Total Hours - PC	1.7 to 2.2	3.2
CMS Five-Star Rating	4 or 5 Stars	5
Hospital Readmission Rate	<15%	16.3%
Nursing Hours of Care per Resident Day		
Direct Licensed Hours	1.0 to 1.2	1.70
Direct Productive Hours	3.6 to 3.9	4.20
All Hours	4.2 to 4.7	5.60
Medicare Average Length of Stay	25-35 days	22.0
Medicare Average RUGs Rate	\$475 to \$525	\$529
Medicare Part B Caseload	30	33

Red = unfavorable to benchmark; Blue = meet or exceed benchmark

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CDS METRICS

METRIC	CDS Target	CCRC
DINING SERVICES		
Meals per Labor Hour	3.45	1.9
Raw Food Costs/Meal	\$4.60 - \$5.10	\$4.72
Total Dining Costs per Meal	\$12.35-\$13.65	\$16.78
FACILITIES		
Square Feet Maintained per Maintenance FTE	50,000	56,091
Maintenance Costs per Square Foot	\$2.00-\$3.00	3.56
Utility Costs per Square Foot	\$1.60-\$2.20	1.60
Grounds Costs per Acre	\$5,000 to \$10,000	\$8,822
Square Feet Cleaned per Housekeeping FTE	18,158	18,632
Laundry Pounds Processed per Laundry FTE	50 to 60	79

Red = unfavorable to benchmark; Blue = meet or exceed benchmark

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FINANCIAL IMPROVEMENTS

Recommendation	Minimum	Maximum
STRATEGIC		
Adhere to contract provisions for chargeable services		
Eliminate reimbursement for insurance premiums	136,000	136,000
Eliminate/reduce meal discounts	365,600	365,600
Eliminate half and no meal plans	123,200	123,200
Raise extra 2 meal price in PC and HC	107,300	107,300
Charge and markup medical supplies	204,000	204,000
Streamline organizational structure	319,200	319,200
Total Strategic Opportunities	\$1,255,300	\$1,255,300

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FINANCIAL IMPROVEMENTS

Recommendation	Minimum	Maximum
DEPARTMENTAL		
Reduce marketing staff	137,600	137,600
Eliminate marketing firm contract by the end of FY19	180,000	180,000
Reduce indirect staffing in resident assistance	39,900	39,900
Reduce social services staffing	27,400	27,400
Eliminate the mail room	61,700	61,700
Consolidate positions and reduce number of drivers	96,100	96,100
Renegotiate beauty shop contract	25,600	25,600
Contract out fitness/aquatics and eliminate lifeguards	85,400	85,400
Reduce administrative staffing in maintenance	45,300	45,300
Reduce safety staffing	115,700	115,700
Reduce staffing in dining services	625,200	625,200
Implement recommended staffing in PC	226,200	251,400
Reduce life enrichment staffing	45,200	45,200
Implement recommended staffing in HC	413,200	523,400
Implement resident health services recommendations	517,700	517,700
Total Departmental Improvement	\$2,642,200	\$2,777,600
Estimated Total Improvement	\$3,897,500	\$4,032,900

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IMPROVEMENT OF NET OPERATING MARGIN

Revenue/Expense Category	FY18 Improvement		
	None	Minimum	Maximum
Resident Revenue	25,200,000	25,200,000	25,200,000
Recommended Improvements	0	936,100	936,100
Net Resident Revenue	25,200,000	26,136,100	26,136,100
Resident Expense	25,700,000	25,700,000	25,700,000
Recommended Reductions	0	(2,961,400)	(3,096,800)
Net Resident Expense	25,700,000	22,738,600	22,603,200
Net Operating Margin	(500,000)	3,397,500	3,532,900
NOM %	-2.0%	13.0%	13.5%

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PERFORMANCE BEFORE OPERATIONS REVIEW

	Private Pay	Managed Medicare	Medicare A	Lifecare	Total
Resident Days	3,650	475	5,950	3,285	10,074
Census	10.0	1.3	16.3	9.0	36.6
Reimbursement Rate (a)					
Average Per Diem	\$411	\$419	\$486	\$75	\$480
Expense Adjustment (b)					
Pharmacy Per Diem	\$0	(\$10)	(\$27)	\$0	
Therapy Per Diem	\$0	(\$150)	(\$150)	\$0	
Lab/Radiology/Supplies	\$10	(\$5)	(\$12)	(\$5)	
Total	\$10	(\$166)	(\$190)	(\$5)	(\$118)
NET REIMBURSEMENT	\$422	\$253	\$296	\$70	\$362
Revenues	\$1,501,711	\$198,816	\$2,891,457	\$245,417	\$4,837,401
Expense Adjustment	\$37,380	(\$78,793)	(\$1,130,947)	(\$14,916)	(\$1,187,276)
Contribution Margin	\$1,539,091	\$120,022	\$1,760,510	\$230,501	\$3,650,125

(a) FY18YTD census and trial balance

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PERFORMANCE IMPROVEMENT WITH RECOMMENDATIONS

	Private Pay	Managed Medicare	Medicare A	Lifecare	Total
Resident Days	3,650	475	7,300	2,555	13,980
Census	10.0	1.3	20.0	7.0	38.3
Reimbursement Rate					
Average Per Diem	\$411	\$419	\$511	\$75	
Expense Adjustment					
Pharmacy Per Diem	\$0	(\$40)	(\$40)	\$0	
Therapy Per Diem	\$0	(\$94)	(\$94)	\$0	
Lab/Radiology/Supplies	\$10	(\$9)	(\$12)	(\$5)	
Total	\$10	(\$143)	(\$146)	(\$5)	(\$79)
NET REIMBURSEMENT	\$422	\$276	\$365	\$70	\$323
Revenues	\$1,501,711	\$198,816	\$3,730,300	\$190,880	\$5,621,707
Expense Adjustment	\$37,380	(\$67,817)	(\$1,067,085)	(\$11,601)	(\$1,109,123)
Contribution Margin	\$1,539,091	\$130,999	\$2,663,215	\$179,279	\$4,512,584
Performance Improvement	\$0	\$10,977	\$902,705	(\$51,223)	\$862,459

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HOSPITAL REFERRALS

SNF Name	City	Medicare Payments	Cost/Referral	Referrals	
				#	%
Fancy City Community Hospital					
Major Competitor	S. Fancy City	\$4,557,467	\$8,038	567	19.0%
ManorCare-West of City	W. Fancy City	\$4,728,619	\$12,411	381	12.8%
Super-Health	S. Fancy City	\$4,660,804	\$14,210	328	11.0%
The Client at Middle City	Middle City	\$2,457,380	\$10,731	229	7.7%
Life Care Center of Middle City	Middle City	\$2,142,303	\$10,658	201	6.7%
WOW SNF at Fancy City	S. Fancy City	\$2,549,929	\$12,750	200	6.7%
POSH Major Competitor	S. Fancy City	\$1,975,503	\$10,736	184	6.2%
ManorCare Fancy City	S. Fancy City	\$1,703,495	\$10,515	162	5.4%
Another Competitor, who is here	S. Fancy City	\$1,420,317	\$9,163	155	5.2%
Super Senior Living	S. Fancy City	\$1,781,874	\$11,571	154	5.2%
Other Referral Communities (82)		\$5,169,642	\$12,215	423	14.2%
Total		\$33,147,333	\$11,108	2,984	100.0%
Doctors Hospital—Fancy City					
ManorCare-West of City	W. Fancy City	\$2,679,051	\$12,346	217	23.0%
ManorCare Nursing & Rehab	S. Fancy City	\$1,526,461	\$12,721	120	12.7%
Major Competitor	S. Fancy City	\$914,830	\$8,796	104	11.0%
Another Competitor, who is here	S. Fancy City	\$756,821	\$10,091	75	7.9%
Super-Health	S. Fancy City	\$984,890	\$13,309	74	7.8%
WOW SNF at Fancy City	S. Fancy City	\$648,034	\$9,672	67	7.1%
Life Care Center of Middle City	Middle City	\$651,390	\$10,340	63	6.7%
The Client at Middle City	Middle City	\$489,953	\$10,888	45	4.8%
The PBJ Not a Sandwich	S. Fancy City	\$401,839	\$11,162	36	3.8%
POSH Major Competitor	S. Fancy City	\$211,336	\$6,604	32	3.4%
Other Referral Communities (44)		\$1,242,961	\$11,251	110	11.7%
Total		\$10,507,566	\$11,137	943	100.0%

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HOSPITAL REFERRALS

SNF Name	City	Medicare Payments	Cost/Referral	Referrals	
				#	%
Smaller Hospital Middle City					
Life Care Center of Middle City	Middle City	\$2,619,892	\$10,155	258	12.2%
ManorCare North City	North City	\$3,548,484	\$14,543	244	11.5%
SNF Part of Hospital System	North City	\$2,486,864	\$10,907	228	10.8%
South N. City SNF	South N. City	\$2,517,064	\$12,278	205	9.7%
Turn Corner Healthcare	North City	\$1,435,104	\$10,475	137	6.5%
Heart Health Care	North City	\$1,638,836	\$13,888	118	5.6%
The Lodge Anywhere	North City	\$1,367,082	\$11,684	117	5.5%
Big Village	North City	\$1,358,947	\$11,921	114	5.4%
North City Rehab	North City	\$958,557	\$11,549	83	3.9%
Twinkle Court	North City	\$1,494,006	\$18,220	82	3.9%
Other Referral Communities (65)		\$1,105,225	\$2,090	529	25.0%
Total		\$26,054,644	\$12,320	2,115	100.0%
Bigger Hospital North City					
SNF Part of Hospital System	North City	\$4,705,605	\$10,598	444	15.3%
Turn Corner Healthcare	North City	\$2,617,454	\$9,282	282	9.7%
Big Village	North City	\$2,511,431	\$10,597	237	8.2%
Heart Health Care	North City	\$2,992,484	\$14,741	203	7.0%
The Lodge Anywhere	North City	\$2,302,068	\$11,627	198	6.8%
North City SNF	North City	\$2,364,967	\$14,689	161	5.5%
Greater Village	Near N. City	\$1,882,928	\$13,167	143	4.9%
Life Care Center of Middle City	Middle City	\$1,424,179	\$10,029	142	4.9%
ManorCare North City	North City	\$1,604,311	\$13,482	119	4.1%
Garden City SNF	North City	\$1,495,747	\$13,722	109	3.8%
Other Referral Communities (88)		\$11,730,242	\$13,577	864	29.8%
Total		\$35,631,416	\$12,278	2,902	100.0%
GRAND TOTAL		\$105,340,959	\$11,777	8,944	100.0%

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COMPETITOR ANALYSIS

Referring Hospital	LCC of Middle City			The Client at Middle City		
	Rank	# Referrals	Distance Minutes	Rank	# Referrals	Distance Minutes
Fancy City Community Hospital	5th	201	29	4th	229	26
Doctors Hospital--Fancy City	7th	63	30	8th	45	31
Smaller Hospital Middle City	1st	258	14	18th	29	23
Bigger Hospital North City	8th	142	23	19th	21	29
Total Referrals	3rd	664		8th	324	

Facility	Medicare Payments
Life Care Center of Middle City	\$7,355,070
The Client at Middle City	\$3,662,062

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COMPETITOR ANALYSIS QUALITY MEASURES

SNF Name	CMS 5-Star				Certified	
	Overall	Health Inspection	Staffing	Quality	LOS	Beds
SNF Part of Hospital System	5	4	4	4	21.2	106
Major Competitor	5	5	4	5	23.2	112
Life Care Center of Middle City	5	4	4	5	21.0	155
ManorCare-West of City	5	4	3	5	28.2	117
Super-Health	5	5	4	5	33.6	113
Turn Corner Healthcare	2	1	5	5	21.8	180
Big Village	5	3	4	5	26.1	120
ManorCare North City	5	5	5	5	29.0	219
The Client at Middle City	5	5	3	5	29.0	40
Heart Health Care	5	4	4	5	30.9	120

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COMPETITOR ANALYSIS QUALITY MEASURES

SNF Name	Readmission	Mobility	Discharged to Community	ER Visit
SNF Part of Hospital System	22.3%	68.8%	63.7%	12.1%
Major Competitor	25.5%	71.7%	60.7%	8.7%
Life Care Center of Middle City	27.2%	56.4%	60.7%	9.9%
ManorCare-West of City	24.0%	73.0%	62.0%	10.0%
Super-Health	32.0%	65.0%	49.0%	15.0%
Turn Corner Healthcare	26.0%	84.0%	61.0%	11.0%
Big Village	25.0%	87.0%	50.0%	10.0%
ManorCare North City	20.0%	68.0%	66.0%	7.0%
The Client at Middle City	22.5%	71.6%	61.9%	9.2%
Heart Health Care	26.0%	86.0%	54.0%	11.0%
One of 50 States Average	23.0%	70.1%	55.5%	9.9%
National Average	21.1%	67.8%	57.0%	11.9%

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OTHER BEST PRACTICES
FOR REFERENCE



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MAXIMIZE REVENUE



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BEST PRACTICES-REVENUE

- Develop transitional care household with market effective amenities
- Hire Medicare community liaison
- Design specialized customer service program
- Provide therapy 7 days per week
- Track and market quality outcomes

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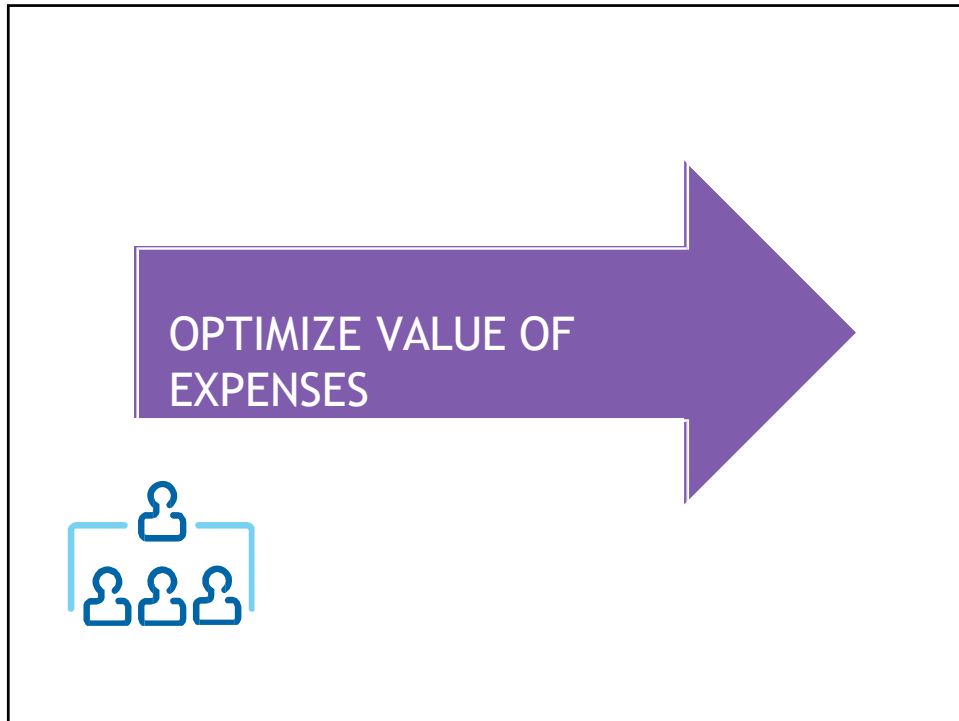
BEST PRACTICES-REVENUE

- Concentrate on superb resident communications
 - Do your residents know the total costs of your operations?
 - Do they understand the value of your services compared to the market?
- Convert to declining balance dining plans
- Optimize level of care pricing in Assisted Living



BEST PRACTICES-REVENUE

- Transform your CCRC into a “Community Service Center” for your entire market, regardless of economic and functional status of seniors
- Develop low capital investment, high-margin programs, with appropriate development support (e.g., home health care/hospice, PACE, and continuing care at home)



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BEST PRACTICES-EXPENSES



- Eliminate/reduce shift overlaps
- Use a patterned schedule that provides the appropriate staff at the right time
- Empower charge nurses to lead “care teams” to serve specific residents

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BEST PRACTICES-EXPENSES

- Centralize facility operations (e.g., housekeeping, maintenance, laundry, grounds and security)
- Create schedules with only one housekeeper per unit cleaning units in the same area
- Schedule kitchen staff so that cooks open and close
- Regularly evaluate the use of contracted versus internalized services

BEST PRACTICES-EXPENSES

- Manage labor costs by providing payroll reports that compare to budget and set productivity targets
- Provide financial reporting that is concise and action-oriented
- Provide summary of financial performance using a “dashboard” approach
- Implement technology that reduces staffing requirements

BEST PRACTICES-EXPENSES

- Wireless call systems which signal a pager
- Point of services (POS) system integrated with receivables
- Electronic medical record combined with service tracking system, which helps maximize reimbursement under Medicare and case-mix Medicaid
- Eliminate time-consuming manual processes

BENCHMARKS FOR
REFERENCE



FACILITY OPERATIONS

- Target 50,000 square feet per maintenance FTE
- Target square feet cleaned per housekeeper FTE
 - Independent living 30,000
 - Assisted living 20,000
 - Health center 8,000
 - Public spaces 20,000
- 60 pounds of laundry cleaned per productive hour

DINING SERVICES

- Target meals per labor hour
 - Health care 4.0 to 4.5
 - Assisted living 3.5 to 4.0
 - Independent Living 2.0 to 3.0
depending on type of service
- 40% of labor should be part-time

ASSISTED LIVING HOURS OF CARE PER RESIDENT DAY

Assisted Living	1.7 to 2.2
Memory Care	2.2 to 2.6

NURSING HOURS OF CARE PER RESIDENT DAY

Direct Licensed	1.0-1.2
Direct Productive	3.6-3.9
All Hours	4.2-4.7



QUESTIONS & ANSWERS




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