Strategic Development in Turbulent Times
The Critical Importance of Engaged Boards for Our Changing Future
Tuesday, June 27, 2023 • 3–6 p.m. • Virtual

Governance Intensive
A virtual workshop for executive and board teams
Drivers for a Burning Platform...

**Medicare Enrollment Growing**
10,000 Beneficiaries per Day

**Healthcare Spending: Up 42.5% by 2028**
National Health Expenditures per Capita

**Fiscal Unsustainability**
Entitlements Will Eventually Outpace Revenue

**Explosion of Chronic Disease**
Chronic Illness Accounts for 99% of Medicare Spend
Come Together: Thinking about Collaboration, Affiliations, and Mergers

May 2022

Financial Stability Is On Everyone’s Mind
Capital partner roles, consolidations, and new arrangements among everyone highlight need for integration, more efficiencies, and how to rationalize and consolidate services

Federal/State Fiscal Health – Actuarial Reality Check
FFS for payment cuts are inevitable, Medicare Advantage keeps growing, managed Medicaid is freaking out, and many see risk arrangements as a better way forward overall

Disruption Abounds Across the Board
Health plans are acquiring delivery-side assets (given capital) to control cost and quality while venture-capital and PE organizations are flooding new ideas with cash

Customers Want It Now and at Home
In-home delivery of EVERYTHING is the game – provider must reconsider strategy, delivery, asset allocation, technology alignment and building a new paradigm

Payer Mix Shift, Health Equity, and Unemployment
Intensifying interest around SDOH and behavioral health needs stemming from isolation and unemployment, leading to shift in payers, health equity and need to manage better

Post-COVID:
Financial Position and Market Presence Must Lead Thinking

Organizational Position

• Large regional provider or multi-site organization with an expansive geographic footprint
• Owns or has formal arrangements with providers across the entire continuum of care
• Healthy cash reserves on-hand
• Familiar with or evolving toward value-based/risk-sharing payment model(s)

• Community-based provider organization with some scale
• Modest to strong presence within a local market
• Few or no formal arrangements across the continuum of care
• Financial position and ability to take on more debt has been compromised
• Modest cash reserves on-hand
• Fee-for-service business with limited value-based payment model(s)

• Stand-alone entity
• Limited presence within local market
• Limited service line offering
• No formal arrangements across the continuum of care
• No cash reserves on-hand – likely at highest risk of closure
• Fee-for-service business with high Medicaid payer mix

• Look for capital partners through acquisitions (i.e. other providers of similar type, health system, or for-profit operator)
• If able to remain independent, shore up financial position through operational restructuring and well-executed strategic growth

• Look for partner or "savior" (i.e. merge or acquire partner)
• If partners are not interested, evaluate long-term efficacy of current business, prioritize opportunities, and potential exits
• If partners or investors are interested, look at feasibility to revalue, repurpose, or reposition

Strategic Focus

• Pursue risk payment models at an expedited pace
• Partner with innovative technology companies
• Expand telehealth and virtual capabilities
• Acquire other providers across the continuum

• Strategic Focus
And This All Means What?

Looking FORWARD, organizations need to adapt accordingly:

- Achieve scale through partnership
- Deliver more services in the home
- Consolidate around best opportunity
- Shed non-performing lines of business

Continued staffing challenges, increasing costs overall, and industry trends will drive reimbursement further towards value-based thinking and risk (both one- and two-sided) and capitation looms evermore. Across the board, providers and payers will both increasingly seek the financial certainty of prospective payment and, in turn, push that risk downward.

**Scale is essential to survival**
A Growing American Crisis: Who Will Care for the Baby Boomers?

America is not prepared for this coming shortage. Congress and the White House have kicked the can down the road, effectively waiting for the issue to become a crisis before they deal with it. But caring for America’s elders is the single most expensive domestic priority on the horizon, breaking the projected budgets of both Medicare and Medicaid, all 50 states and most of the middle class, and the truth is, no one is truly prepared for what is to come.

TIME

The rearview mirror won’t work
Build a Better Board
Boards: Good vs. Not So Good

Foundational Thinking...

What is a Board?

What’s the Board’s role?

Ensure Purpose

Define Direction
Four Fundamentals of Boards

Ensure Purpose

Core Purpose
What you do

Values
What guides you

Mission
How you do it

Vision
Where you’re going

Define Direction

Board Responsibilities

• Defining strategy
• Choosing the CEO
• Approving major policies
• Making major decisions
• Overseeing performance
• Holding management accountable

Management Responsibilities

• Executing strategy
• Making operational decisions and policies
• Keeping the board educated and informed
• Bringing well-documented recommendations and information to the board

It’s not Tug-of-War
It's understanding roles
Good Board vs. Bad Board

Good boards work hard to avoid getting lost in the forest

Bad boards can wander around for days

Why?

- Don’t understand the role
- Poor expectation setting
- Bad process overall
- Lack of guidance
- Limited skillsets
- Zero innovation or change
- Board size
- No trust
- Boredom
Contrasting Good and Bad

<table>
<thead>
<tr>
<th>Good Board</th>
<th>Bad Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Attendance is understood</td>
<td>• Attendance is optional</td>
</tr>
<tr>
<td>• Members understand their role and know the guardrails</td>
<td>• Lack clarity around what is a board issue and what is not</td>
</tr>
<tr>
<td>• Have clearly defined terms of service and term limits</td>
<td>• Have members who’ve been on forever - and maybe will be</td>
</tr>
<tr>
<td>• Receive materials well in advance of meetings for review</td>
<td>• Materials are available at the meeting for review</td>
</tr>
<tr>
<td>• Agendas are efficient and organized</td>
<td>• Agendas are either non-existent or too high-level</td>
</tr>
<tr>
<td>• All voices are heard</td>
<td>• Certain voices always dominate the conversation</td>
</tr>
<tr>
<td>• Discussions are majority future focused (&gt;50%)</td>
<td>• Discussions wander into minutiae and operations</td>
</tr>
<tr>
<td>• <strong>The CEO looks to the Board for direction</strong></td>
<td>• <strong>The Board looks to the CEO for direction</strong></td>
</tr>
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As our industry changes, so must our business and culture
4 Foundational Elements of Successful Boards

**Recruitment**
Bringing the right members people to your board

- Defining member role responsibilities and expectations
- Matrizing for the right combination of skills
- Ensuring diversity and representation
- Approaching, engaging, and closing

**Orientation**
Explaining the organization and the role

- Standardizing introductory and overview materials
- Scheduling and committing to the process
- Differentiating roles within the board – chair, vice, committee chair

**Process**
Being efficient, effective, and reliable

- Systematizing meetings, agendas, and materials
- Utilizing a portal to provide and retain information
- Optimizing committee functions and work
- Maintaining engagement with members

**Education**
Maintaining engagement and understanding

- Integrating ongoing development as a standard element
- Annual learning scheduling
- Retreats and field trips
- Leveraging your professional resources – auditors, consultants, and other experts

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**Coming out of Covid, many non-profit organizations are reflecting on long overdue changes and need to consider who and what we may need to be in the future**

**Are boards equipped to address these issues, have the conversations, and govern effectively?**

**Time to talk about purpose-driven board leadership**

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### Four Principles of Purpose-Driven Board Leadership

<table>
<thead>
<tr>
<th>Purpose before Organization</th>
<th>Respect for Ecosystem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prioritizing the organization's purpose, versus the organization itself.</td>
<td>Acknowledging that the organization's actions can positively or negatively impact its surrounding ecosystem, and a commitment to being a respectful and responsible ecosystem player.</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Equity Mindset</th>
<th>Authorized Voice and Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Committing to advancing equitable outcomes, and interrogating and avoiding the ways in which the organization's strategies and work may reinforce systemic inequities.</td>
<td>Recognizing that organizational power and voice must be authorized by those impacted by the organization's work.</td>
</tr>
</tbody>
</table>

### Traditional

What's best for our organization?

### Purpose Driven

What's best for the outcome we want to achieve?
Rhetorical Question #1: Good or Bad

Do you have a good board or a bad board?

- Do they wander?
- Why do they wander?
- Is it them or is it you?
- Is it the organization overall?
- Where are you with fundamentals?

Rhetorical Question #2: Efficiency and Consistency

Is board management and engagement efficient and consistent?

- Do you have standard practices for providing materials in advance?
- Do you leverage a board portal?
- Do agendas leverage consent items?
- Do meetings just re-hash committee discussions?
Rhetorical Question #3: Development and Growth

Is board development and growth integral to board process?

- Does some aspect of education occur in every meeting?
- Are you consistent with planning cycles or retreats?
- Who identifies education or learning needs?
- Can you leverage external resources?

Rhetorical Question #4: Don’t Talk So Much

Who does most of the talking?

- Does your board chair know how to be a board chair?
- Do certain members do most of the talking?
- Do staff attend meetings – do they do a lot of the talking?
- Does the CEO talk too much?
Rhetorical Question #5: Purpose-Driven

Could we move towards purpose-driven thinking?

- Are my fundamentals strong enough to support a philosophical shift?
- Does my market position or brand identify me as a leading organization?
- Is our focus sufficiently outward?
If You’ve Got a Bad Board…

1. Understand What’s Broken & Limitations
   What are the biggest challenges and opportunities? What can I change?

2. Consider Incremental Change
   Develop a plan to drive change. Big journeys start with little steps.

3. Communicate, Communicate, Communicate
   Dialog with your board about what doesn’t work and where you’d like to go.

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The best way to predict your future is to create it.

Abraham Lincoln
Quick Question
If you could pick one or two things to work on to improve your board or governance group, what would they be?

Working Together Can Be Messy
The challenges are big and complex

But for some, time is running out
The News Is Perpetually Unpleasant…

Only 1 in 4 nursing homes are confident they can survive a year

Mounting costs from the pandemic have made a system’s shortcomings untenable, leaving residents, workers and families in a precarious position.

MPRnews
Nursing home operators fear ‘collapse’ after another COVID wave

Skilled Nursing News
Conditions Are Ripe For Industry Consolidation As Nursing Homes Emerge From Pandemic

And This All Means What?

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Continued staffing challenges, increasing costs overall, and industry trends will drive reimbursement further towards value-based thinking and risk (both one- and two-sided) and capitation looms evermore.

Across the board, providers and payers will both increasingly seek the financial certainty of prospective payment and, in turn, push that risk downward.

**Scale is essential to survival**
The $4 Billion Threshold

If you’re not big enough on your own, you’re going to need someone else to survive.

Industry pundits say $4-6 billion for a health system.

How much for an aging services organization?
Partnersing in Aging Services Has Been a Slow-Moving Target

Many industry experts agree that future viability for aging services organizations (especially NFP) will hinge on how we work together.

Collaboration
- Joint Ventures & Shared Services
- Generally low-risk and potentially lower cost for some gain – market position, new service, efficiency
- Usually negligible issues around control – stand-alone or stand-alongside arrangements
- Parent(s) can be isolated – easily stood-up and torn down

Affiliation
- Aligning under shared brand

Acquisition
- Buying or Being Bought

Merger
- Coming together of equals

The pace of change in these areas was picking up prior to Covid – thinking has moved into overdrive for many in the last 12 months

Collaboration

Collaboration
- Most common approach among aging services organizations
- Generally low-risk and potentially lower cost for some gain – market position, new service, efficiency
- Usually negligible issues around control – stand-alone or stand-alongside arrangements
- Parent(s) can be isolated – easily stood-up and torn down

Examples
- Joint ventures: HCBS, housing, PACE
- Insurance pools and captives
- Learning and quality collaboratives
- Messenger-model managed care contracting
Examples: Collaboration

Ethos
North Dakota
- Formed in February of 2014 by Bethany Retirement Living (Fargo, ND), Eventide Senior Living Communities (Moorhead, MN) and Knute Nelson (Alexandria, MN)
- 501c3 nonprofit organization that provides Medicare-certified home health and hospice services to the Red River valley region

Tandem365
Michigan
- 2015 joint venture involving Holland Home and Porter Hills in Grand Rapids, MI
- Health management program provided to seniors as a covered insurance benefit via alignment with market-based payers
- TANDEM365 navigators provide wrap around services and advanced level case management

CareChoice
Minnesota
- Organized in 1996, CareChoice is the nation’s first senior care cooperative formed by 21 nonprofit aging services organizations primarily located in the Minneapolis Saint Paul region
- Originally conceived as a collective contracting entity, now embraces quality innovation as the core of its Member operations

Affiliation

Affiliation
- Rapidly gaining ground as a dominant model as providers face challenge
- Organizations often line-up under a larger entity – new or existing
- Risk is increased, as aspects of control often surrendered to gain something – resources, support, brand association
- Often complex agreements with detailed expectations and can be difficult to unwind

Examples
- Distinct single-site organizations joint-branding under organizing models or umbrella structures
- Management companies or services organizations
Examples: Affiliation

**Brio Living Services**
Michigan
- Affiliation involving United Methodist Retirement Communities and Porter Hills Presbyterian Village, initially announced in 2019 – branded under Brio in March 2022
- Employs more than 1,300 people and serves more than 6,700 older adults annually across 22 counties in Michigan

**Eliseo & John Foss**
Washington
- Partnership agreement inked in early 2022 among Eliseo (formerly Tacoma Lutheran Retirement Community) and nearby John Foss Village
- Intent of alignment is to “provide a solution to rising operational costs, share resources, and maximize efficiencies”

**Asbury & Albright**
Maryland/Pennsylvania
- Albright Care Services sought affiliation under the Asbury banner in 2019
- Added two additional CCRCs, pharmacy services, affordable housing, and PACE to the Asbury portfolio
- Not publicly stated, but affiliation is likely stepwise towards a merger and member transfer

Merger

**Definition of merge**

1. To cause to combine, unite, or coalesce (see COALESCE sense 2)
   \( \text{merged the two companies} \)
2. To blend gradually by stages that blur distinctions
   \( \text{individuality and uniqueness are merged and blurred} \) — Norman Helm
3. Archaic: to plunge or engulf in something: IMMERSION

**Examples**
- Multi-site, multi-state organizations with broad portfolios coming together
### Examples: Merger

<table>
<thead>
<tr>
<th>Cassia</th>
<th>HumanGood</th>
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<tbody>
<tr>
<td>Minnesota</td>
<td>California</td>
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</tbody>
</table>

- **Cassia**
  - Merger of Augustana Care and Elim Care in Minnesota in 2018
  - Two-year process to align and merge operations, leadership and governance
  - Broad range of senior housing options, skilled nursing/health care and community-based across Minnesota, Colorado, Florida, Iowa and North Dakota

- **HumanGood**
  - Resulting organization of the 2016 merger between ABHOW and be.group in California
  - Continuing care, affordable housing, assisted living and memory support for 9,800 residents in 83 communities across California, Arizona, Nevada, Washington and Oklahoma

Interesting to Note – Cassia and HumanGood were mergers of already “strong” organizations and were motivated in part to aging leadership

### Acquisition

- **Acquisition**
  - Purchase of another entity, typically involving a transfer of assets for cash or other means
  - Least common model of “big” partnering alignment in the NFP world (very common in FP sector) – line of business acquisition has been popular
  - Acquiree services, assets, and identity folded into acquirer – usually surrender of full control

**Examples**

- Purchase of an existing organization or line of business (i.e., home health or affordable housing)
Examples: Acquisition

FrontPorch
California
• California-based FrontPorch acquired the assets of Covia in April 2021, following a year-long transition process
• Both organizations historically offered senior living campuses and affordable housing, primarily in California
• The acquisition of Covia’s assets nearly double the affordable housing base for the combined organization and provides a base for potential growth of Medicaid HCBS

The Arc of Partnering

- Current State
- Collaboration
- Affiliation
- Merger
- Acquisition
- Asset Transfer
- Member Transfer
- Benefit or Risk

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Things Don’t Always Work Out…

February 2022

3 Pennsylvania Nonprofits to Affiliate, Forming New Senior Living Organization Ilumin

The organisations — Allegheny Lutheran Social Ministries, Liberty Lutheran Services and Garden Spot Communities — will operate under the “Ilumin” banner when the affiliation takes effect. The combined organization expects to serve 40,000 people living in 28 counties across Pennsylvania, with more than 2,000 senior living units on nine campuses and a slate of community-based, intergenerational services.

March 2022

Allegheny Lutheran Social Ministries, Liberty Lutheran Services, and Garden Spot Communities today issued the following joint statement:

“After careful reflection, we have decided not to proceed with plans to enter into an affiliation with one another. We have the utmost respect and regard for one another. Each of us looks forward to continuing our missions independently.”
Sizing It Up: Criteria and Considerations

Partnering Criteria: Three Big Buckets

**Affiliation**
Core Purpose, Mission, Values, Faith, Intangibles

**Financial**
Revenue, Margin, Debt, Balance Sheet, Capacity

**Operating/Clinical**
Service Mix, Payer Mix, Occupancy, Outcomes

But two important considerations before we begin...
Are you leading or following?

And are you on offense or defense?
### Alignment Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Reference</th>
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</thead>
<tbody>
<tr>
<td>Operating type (FP, NFP, Governmental, etc.)</td>
<td>Organizational Preference</td>
</tr>
<tr>
<td>Affiliation status (faith-based, community, etc.)</td>
<td>Organizational Preference</td>
</tr>
<tr>
<td>Board size and composition</td>
<td>BoardEffect / Industry</td>
</tr>
<tr>
<td>Board member type and tenure</td>
<td>BoardEffect / Industry</td>
</tr>
<tr>
<td>Leadership team roles / capabilities</td>
<td>Organizational Preference</td>
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<tr>
<td>Advisory board status and function</td>
<td>Organizational Preference</td>
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<tr>
<td>Mission, vision and values</td>
<td>Organizational Preference</td>
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<tr>
<td>Fund development status / capabilities</td>
<td>Organizational Preference</td>
</tr>
<tr>
<td>Location / Accessibility</td>
<td>Organizational Preference</td>
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</tbody>
</table>

### Financial Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Reference</th>
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</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>Organizational Preference</td>
</tr>
<tr>
<td>Net Margin (EBITDA/EBIDA)</td>
<td>Ziegler / Industry</td>
</tr>
<tr>
<td>Operating Ratio</td>
<td>Ziegler / Industry</td>
</tr>
<tr>
<td>Days Cash on Hand</td>
<td>Ziegler / Industry</td>
</tr>
<tr>
<td>Receivables Days Outstanding (DSO/DAR)</td>
<td>Ziegler / Industry</td>
</tr>
<tr>
<td>Average Age of Plant</td>
<td>Ziegler / Industry</td>
</tr>
<tr>
<td>Debt rating</td>
<td>Ziegler / Industry</td>
</tr>
<tr>
<td>Debt service coverage (requirements and trend)</td>
<td>Ziegler / Industry</td>
</tr>
<tr>
<td>Liquidity (TBD)</td>
<td>Ziegler / Industry</td>
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<tr>
<td>Cap Ex as % of Depreciation Expense</td>
<td>Ziegler / Industry</td>
</tr>
<tr>
<td>Capital Capacity</td>
<td></td>
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</tbody>
</table>
### Operating/Clinical Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Target Threshold/Desired</th>
<th>Reference Benchmark or Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service line offerings and Mix</td>
<td></td>
<td>Organizational Preference</td>
</tr>
<tr>
<td>Occupancy (current and trend)</td>
<td></td>
<td>Industry – Top Quartile</td>
</tr>
<tr>
<td>Payer mix (by service line/offering)</td>
<td></td>
<td>Industry – Top Quartile</td>
</tr>
<tr>
<td>Staff turnover (by role/service line/offering)</td>
<td></td>
<td>Industry – Top Decile</td>
</tr>
<tr>
<td>Waitlist depth (IL/AL)</td>
<td></td>
<td>Industry – Top Quartile</td>
</tr>
<tr>
<td>ALOS (SNF)</td>
<td></td>
<td>CMS / State – Top Decile</td>
</tr>
<tr>
<td>Readmission management (SNF)</td>
<td></td>
<td>CMS / State – Top Decline</td>
</tr>
<tr>
<td>Resident / Customer satisfaction</td>
<td></td>
<td>Industry – Top Decile</td>
</tr>
<tr>
<td>Staff satisfaction</td>
<td></td>
<td>Industry – Top Decile</td>
</tr>
<tr>
<td>EHR / technology integration</td>
<td></td>
<td>Organizational Preference</td>
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### Potential Plays Along the Axes

- **OFFENSE**
  - **Wait for Approach**
    - Financial Support
    - Diversification
    - Faith, Mission, Vision
  - **Approach Partners**
    - Scale, Mix, Coverage
    - Faith, Mission, Vision
    - Geography

- **LEAD**
  - **Deflect Partners**
    - Financial Position
    - Service Mix
  - **Status Quo**
    - Slow Death
    - NFP Indignance

- **DEFENSE**
  - **WAIT for Approach**
    - Financial Support
    - Diversification
    - Faith, Mission, Vision
So, Where Are You and What to Think About?

**Tier 1 Providers**
- Large regional provider or multi-site organization with an expansive footprint
- Pursue acquisitions that align with strategy – scale, risk, diversity
- Evaluate affiliation opportunities that can lead to merge or acquire
- Define response to Tier 2 & 3 inquiries

**Tier 2 Providers**
- Community-based provider organization with some scale
- Explore affiliation with similar Tier 2 providers
- Evaluate Tier 1 organizations for potential approach
- Define response to Tier 3 inquiries

**Tier 3 Providers**
- Standalone entity
- Consider affiliation with stronger Tier 3 organizations or look for an aggregator
- Evaluate Tier 2 or 3 organizations for approach
Where Are You Now?

Because it succinctly defines where you might be able to go...

And for many the options are limited
First: Look Inward

Integrate Collaboration into Strategy
What do you need or want to accomplish? Will we lead or follow?

Understand How You Fit in the Landscape
What are others thinking about? What or where is our value?

Start Building the Relationships
Reach out and seek the conversations. Be transparent and honest.

Next: Preparing for Change

Create Leadership Consensus & Practice
How to garner governance understanding, participation and engagement?

Communicate, Communicate, Communicate
How will we talk about this? How often? To whom?

Commit Resources to Support
What time and money will we dedicate to this?
Finally and Most Importantly!

Have a plan that ultimately outlines everything:

• What you want
• What you are prepared to accept
• Who the targets are
• What leadership must know and do
• How you will lead or follow or play offense or defense
• How you will communicate – both in and out
• How you will keep moving forward

In The End…
“Whatever comes out of these gates, we’ve got a better chance of survival if we work together.”

Maximus Decimus Meridius, Commander of the Armies of the North, General of the Felix Legions, and Loyal Servant to the True Emperor, Marcus Aurelius
Quick Question
When it comes to potentially collaborating or partnering with another organization, what are your biggest concerns?
INTRODUCTION

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CAPITAL MARKETS
AN 18-MONTH RETROSPECTIVE

HOW IT STARTED:
• Coming off record senior living issuance (Over $6B fixed rate)
  – Record low interest rates
  – Fiscal and monetary stimulus
  – Exploding money supply
• Early stages of Fed tightening

HOW IT’S GOING:
• Inflation: “Transitory” to “Sticky”
• Unprecedented tightening cycle
  – Monetary policy and QT
• Significant rise in interest rates
• Sizeable bond fund outflows
• Contracting money supply
• Bank stress

Jan. 2022 – Present
<table>
<thead>
<tr>
<th>Change</th>
<th>Jan. 2023 – Present</th>
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<tbody>
<tr>
<td>Fed Funds</td>
<td>↑ 5.00%</td>
</tr>
<tr>
<td>10YR Treasury</td>
<td>↑ 2.33%</td>
</tr>
<tr>
<td>30YR MMD</td>
<td>↑ 1.92%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>↓ 8.10%</td>
</tr>
<tr>
<td>Nasdaq</td>
<td>↓ 12.83%</td>
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Jan. 2023 – Present
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<tr>
<td>S&amp;P 500</td>
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<tr>
<td>Nasdaq</td>
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</tbody>
</table>

Source: Ziegler Investment Banking as of 6/14/2023

CURRENT PUBLIC FIXED RATE BOND MARKET

Market Observations:
• As of 6/12/23, 10, 20, and 30-year MMD rates were 2.59%, 3.28%, and 3.50%, respectively
  – 10, 20 & 30-year MMD is above the 12-month average by 1, 6 & 9 bps, respectively
• Year-over-year, 10, 20 & 30-year MMD increased by 9, 45 & 53 bps, respectively
• Volatility in tax-exempt rates due to market uncertainty:
  – Federal Reserve intervention with increased short-term rates and unwinding of its balance sheet
  – Inflation is stickier than expected
  – Banking crisis is disrupting the Fed’s plan and could trigger more economic challenges

Source: Bloomberg, as of 6/12/2023
CURRENT BANK LENDING ENVIRONMENT

- The bank market in today’s environment remains an attractive source of capital for those that meet LTV requirements; many banks, but not all, are willing to lend for new construction/acquisitions
  - **Covenants**: banks have been willing to accept terms with minimal differences to standard bond provisions (additional debt provisions remain a more restrictive differential)
  - **Commitment Period**: bank terms are typically between 7 and 10 years currently, after some banks pulled back to terms of 3 to 7 years throughout the COVID-19 pandemic.
  - **Interest Rates**: variable rates, swaps (synthetic fixed), and interest rate caps remain at attractive levels providing borrowers with a low cost of capital – credit spreads, however, have somewhat widened from pre-pandemic levels; interest rate floors have become much more common

![Graph showing Historical SOFR Rates and Current SOFR Swap Curve](source: Ziegler Capital Markets, as of 6/12/2023)

KEY TRENDS BOARDS NEED TO THINK ABOUT

I: CONSOLIDATION & GROWTH

II: THE BIGGEST CHALLENGE: WORKFORCE

III: WHAT’S NEXT?
CONSOLIDATION & GROWTH

DEMOGRAPHICS
THE TREND THAT HAS NOT CHANGED

What COVID-19 Has Not Changed

- Our U.S. population is aging
- The dangers of social isolation among older adults are real
- There is safety and security in residing in a retirement community
- Family caregiving is difficult
- Financial resources will impact the care and housing options available
- The demand for home-based care and services continues to grow

Consumer Preferences:

- Need to market an individualized experience
- They need to embrace you, not dread you
- Next chapter; Second act
- Choice, flexibility
- Sustainability and activism (social, environmental)
- Middle-market needs
- Long-term impacts of isolation and pandemic-related influences

Source: U.S. Census Bureau, data released September 2018

The 75+ age cohort will grow by another 27 million people through the year 2050
GROWTH FROM AFFILIATIONS & ACQUISITIONS EXCEEDS GROWTH FROM NEW CAMPUS

- Nearly all NFP growth is coming from existing providers
- Number of NFP closures and dispositions outpacing the number of new campus developments
- Increasingly, new developments without SN component

Source: 2020 & 2021 LeadingAge Ziegler 200 Publications Note: Only expansions of 20 units or greater included. An additional 18 communities with expansions <20 units per project.

SECTOR CONSOLIDATION (2015 – Q1 2023)

- Since 2015, 49% have been dispositions to the FP sector (SNFs; distressed communities)
- LPCs are the most likely to stay NFP if up for ownership transition
- Increase in NFP closures the past two years

Note: Includes market-rate communities; excludes government subsidized. The ELGSS community count is also excluded from the community count (represents 150+ communities). Source: Ziegler Investment Banking 3/1/23
LABOR MARKET

DEMOGRAPHICS ARE NOT YOUR FRIEND

PERCENT CHANGE IN HEALTHCARE SECTOR EMPLOYMENT
(MARCH 2020 – DECEMBER 2022)

<table>
<thead>
<tr>
<th>Category</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physician's Offices</td>
<td>6.9%</td>
</tr>
<tr>
<td>Outpatient Care</td>
<td>4.3%</td>
</tr>
<tr>
<td>Home Health</td>
<td>3.9%</td>
</tr>
<tr>
<td>Hospitals</td>
<td>0.8%</td>
</tr>
<tr>
<td>Nursing Homes</td>
<td>-13.1%</td>
</tr>
<tr>
<td>Assisted Living*</td>
<td>-1.4%</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics, January 2023

*Assisted Living change: March 2020 – November 2022

SKILLED NURSING LABOR SHORTAGE

Historic Labor Shortage

- 210k jobs lost over the course of the pandemic
- 1994 last time workforce levels were at this level
- >13% decline in nursing home workforce
- 2027 at the current pace, nursing homes need 4 years to return to pre-pandemic workforce levels
- 84% of nursing homes are currently facing moderate to high levels of staffing shortages*

9/10 nursing home providers have increased wages and offered bonuses
28-34% increase in wages for nurses between 2020-2022
96% of nursing homes find difficulty in hiring staff
97% said the lack of interested or qualified candidates is a major obstacle to hiring new staff

*Data, COVID-19 nursing home data, as of Jan. 31, 2023
**Source: McK Madness among those employed in the skilled nursing facilities, as of Jan. 31, 2023
***Source: National Center for Assisted Living, November 2022
****Source: American Health Care Association National Network of Nursing Home Residents

Source: American Healthcare Association Fact Sheet, Feb. 6, 2023
## COMBATTING WORKFORCE CHALLENGES

<table>
<thead>
<tr>
<th>PROMISING PRACTICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Empathy: The pandemic has caused people to reevaluate what they want from a job...and from life</td>
</tr>
<tr>
<td>Designing environments for staff</td>
</tr>
<tr>
<td>Specialty leadership positions (recruitment; talent; retention)</td>
</tr>
<tr>
<td>Unbundling of benefits; substituting benefits for pay</td>
</tr>
<tr>
<td>Discounts at local businesses</td>
</tr>
<tr>
<td>Internal staffing agencies; international recruitment</td>
</tr>
<tr>
<td>Expanding recruitment pool (retirees; high school students; alumni; refugees)</td>
</tr>
<tr>
<td>Commitment to Diversity</td>
</tr>
<tr>
<td>Utilization of technology (recruitment, retention, payment strategies, efficiencies)</td>
</tr>
<tr>
<td>Development of/participation in training programs</td>
</tr>
<tr>
<td>Workforce housing (develop or partner)</td>
</tr>
</tbody>
</table>

Source: Ziegler Investment Banking

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## ZIEGLER’S WORKFORCE TECHNOLOGY WHITE PAPER

https://www.ziegler.com/technology-ecosystem-volume2/
WHAT’S NEXT

MULTIGENERATIONAL LIVING

Bringing Intergenerational Living to the Lincoln Community in 2021

Co-Housing
STAYING AT HOME LONGER

- Covid-19 has prompted some major societal change supported by technology
  - Working from home
  - Leaving urban cores for suburbs and even rural locations
  - Rethinking how we socialize with smaller gatherings for infection prevention

- These shifts may be permanent for many

- Do you currently or do you want to participate in creating and sustaining programming to engage seniors who decide to stay at home?


AFFORDABILITY

- Themes around the squeezed middle class include:
  - Working longer
  - Need for creative sources of income
  - Need for alternative living accommodations that can provide social engagement but also be affordable
  - Workforce housing
  - Repurposing distressed hotels

AFFORDABILITY
THE "MIDDLE MARKET" SENIOR

• Over the next decade, the number of middle-income seniors will almost double—reaching 16M adults age 75+ by 2033
  – This group will be more racially and ethnically diverse
  – Many seniors will have health needs, like mobility limitations and cognitive impairments, that make it hard to live independently
  – May be more reliant on paid caregiving since a majority of them will be unmarried in 2033, and many do not have children living nearby

• Without selling their homes, three-quarters of middle-income seniors (11.5M) have insufficient resources to pay for private assisted living
  – Many seniors are reluctant to sell their homes either because their spouse still lives there or because it is a “nest egg” to protect against unforeseen expenses or pass to their children
  – Even with home equity, approx. 40% of middle-income seniors cannot pay for assisted living

Source: The Forgotten Middle: Housing & Care Options for Middle-Income Seniors in 2033, Released 8/31/22
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Ziegler is a privately held, national boutique investment bank, capital markets and proprietary investments firm. Specializing in the healthcare, senior living and education sectors, as well as general municipal and structured finance, enables us to generate a positive impact on the communities we serve.

Investment Banking
Strategic advisory, financing and capital planning solutions in healthcare, senior living and educational sectors as well as general municipal and structured finance

Capital Markets
Active participant in municipal sales and trading including public, tax-exempt, taxable, private placement and preferred trading markets

Proprietary Investments & Fund Management
Providing opportunities for investors in senior living, healthcare services & technology solutions

Source: Ziegler Investment Banking
ABOUT ZIEGLER

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- A registered broker dealer with SIPC & FINRA
- Ziegler provides its clients with capital raising, strategic advisory services, equity & fixed-income trading and research
- Founded in 1902, Ziegler specializes in the healthcare, senior living and educational sectors as well as general municipal finance

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Leading Age Minnesota
2023 Board of Directors Retreat
June 20, 2023
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Factors Impacting SNF Performance

Occupancy

Workforce

Regulation

Lower Cost Alternatives

State Funding of HCBS
Industry Challenges — Workforce

As a result of the workforce shortage, providers are dealing with wage increase pressures and reliance on contracted or agency nursing, resulting in significant expense increases.


*Assisted Living BLS data through November 2022
Nursing Hours Per Day Trend

National Trend

Minnesota

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SNF Occupancy Trend

National Trend

Median Occupancy

2021 and 2022 Recovery

2023

- 85.0%
- 68.4%
- 73.1%
- 74.0%
- 76.3%
- 78.0%

- 79.7%
- 79.4%
- 80.0%
- 80.0%
- 80.0%
- 79.7%

Pre-COVID: 1/3/2021
1/27/2021
1/2/2022
7/3/2022
1/1/2023

1/29/2023
2/26/2023
4/1/2023
4/30/2023
5/28/2023
6/4/2023

Minnesota

Median Occupancy

2021 and 2022 Recovery

2023

- 85.6%
- 72.2%
- 76.8%
- 75.0%
- 77.3%
- 77.1%

- 79.5%
- 79.7%
- 80.4%
- 79.6%
- 80.0%
- 79.5%

Pre-COVID: 1/3/2021
6/27/2021
1/2/2022
7/3/2022
1/1/2023

1/29/2023
2/26/2023
4/1/2023
4/30/2023
5/28/2023
6/4/2023
Shift to Home-Based Care

Figure 1. Trends in Destination After Hospital Discharge To Post-Acute Care Settings: Skilled Nursing Facility, Home With Home Health, and Inpatient Rehabilitation. Adapted from Werner & Bressman, JAMDA, 2021.
Minnesota Hospital Discharge Locations

Discharge Setting Following Hospital Claim - Top 40 MN Hospitals by Total Discharge Volume

Source: Definitive Healthcare, CMS Medicare Claims Data
Taking a look back...

- LTC Imperative Study from 2007 was commissioned to predict the need for skilled care beds over **25 year** period out to year 2030
- Over 50 variables analyzed that impact SNF demand
- Study predicted a decrease in bed demand due to a number of factors including an expected increase in state’s funding of HCBS

**Presented and Reviewed during LAMN 2018 Annual Meeting**
Taking a look back...

- SNF bed demand based estimated future HCBS funding by the state
  - Approx $20M annual increase in funding

<table>
<thead>
<tr>
<th></th>
<th>Actual 2005</th>
<th>2030 Imperative Recommendations</th>
<th>% Change 2005 to 2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short Stay 0 to 90 days</td>
<td>3,148</td>
<td>16%</td>
<td>249%</td>
</tr>
<tr>
<td>Moderate Stay 91 to 365 days</td>
<td>2,990</td>
<td>8%</td>
<td>145%</td>
</tr>
<tr>
<td>Long Stay &gt; 1 year</td>
<td>29,400</td>
<td>76%</td>
<td>-66%</td>
</tr>
<tr>
<td><strong>Total Beds</strong></td>
<td><strong>35,538</strong></td>
<td><strong>28,186</strong></td>
<td><strong>-21%</strong></td>
</tr>
</tbody>
</table>

*Current Estimated Bed Usage:*
Total SNF Beds May 2023 = 25,189
Average Occupancy as of May 2023 = 80%

Estimated Bed Usage = 20,151

*Actual SNF Beds in 2015 = 28,915 (per DHS public cost report files)*
What’s Been the Response?

- Enhanced focus on operations and performance
- Divestitures and Closures
- Sales and Acquisitions/Mergers
Productive Nursing Hours Per Day Trend

Site #1
9/30/2019 Productive Hours/Day: 4.32

Site #2
9/30/2019 Productive Hours/Day: 3.85

Site #3
9/30/2019 Productive Hours/Day: 4.53

Consolidated 9/30/2019 Productive Hours/Day: 4.04

Source: 9/30/2019 & 9/30/2018 Minnesota Medicaid Cost Reports Submitted – excludes Nursing Admin hours
Digital Opportunities

• Senior Living & Care industry has a lot of valuable data; however, we have not historically invested to capture value.

• Operators and owners need to invest in their ability to use the data they already have:
  o Consistently
  o Simply
  o From Multiple Systems

• We need to use data to:
  o Make our workforce more **efficient**
  o Identify and **influence** decisions
  o **Empower** autonomy
Evangelical Lutheran Good Samaritan Society, the nation’s largest nonprofit provider of skilled nursing beds, plans to exit 15 states and reduce its patient and resident count by roughly 30% as it consolidates services to the Midwest.

“By consolidating and moving forward with this new strategy, we believe it gives us a new opportunity to reinvest in this core service area, whether that’s creating new services, whether that’s reinvesting on our current footprint, maybe remodeling or investing in technology. But what we do know is that the status quo isn’t going to work anymore.”
11% of state’s nursing homes facing closure, survey finds
About 11% of nursing home operators in Minnesota are considering selling their facility or closing their doors due to continued financial strain caused by the COVID-19 pandemic, a new survey has found.

Source: MDH as of April 2023
Recent Closures

Upcoming closure of Erskine, Minnesota, nursing home was a 'big shock' for community

Ingrid Harbo, Grand Forks Herald
Sun, Apr 23, 2023 · 5 min read

Apr. 23—ERSKINE, Minn. — The closing of the nursing home in Erskine Minnesota, affects multiple generations of one northwestern Minnesota family.

RiverView Health to Close Skilled Nursing Facility

Community news | Friday, March 17, 2023

Skilled nursing facilities nationwide are facing severe challenges. RiverView Health’s Memory Care is no exception.

Residents and staff were notified earlier this week that RiverView Health would no longer operate its skilled nursing facility, closing RiverView Memory Care. Resident transition teams are working with the families of the 17 residents to guide them through the relocation process.

Pine View Senior Living officially closes in Caledonia

By RACHEL STOCK <stockrach@argus.com> · Jan 26, 2023 updated Jan 20, 2023 · 5

6 Iowa long-term care facilities put into receivership, transfers in motion

JESSICA R. TOWHEY

FEBRUARY 1, 2023
Recent Affiliations and Acquisitions/Sales

Cassia purchases Praha Village in December 2022 for $22M

News Release

SAINT THERES ASSUMES OWNERSHIP OF MICHIGAN-BASED IHM SENIOR LIVING COMMUNITY, THROUGH SPONSORSHIP TRANSFER
Saint Therese plans to acquire continuing care retirement community on July 1, 2023

Walker Methodist sells Minneapolis nursing home to Compass Healthcare
“Affiliation” May Involve a Continuum of Activities

Informal Partnering
• Association membership
• Sharing info or costs

Joint Venture
• Formal link or partnership
• Pursue business line or opportunity

Mgmt Services Org
• Provide services to partners and others

Joint Operating Agreement
• Agree to joint operations, shared governance, and mgmt

Holding Company Model
• Join together to form holding company/parent to guide the system

Merger
• Join together with one surviving entity

Sale/Acquisition
• One entity sells to another
Consolidation

WHY?

- Complexity requires scale
- Access to capital
- Vertical integration
- Geographic density
- Financial strain

Nonprofit Providers
- Affiliation
- Single site struggles
- Leadership succession
- Board effectiveness

Skilled Nursing/ Seniors' Housing
- M&A
- Investor influence
- Leverage issues
- Portfolio management
Ziegler CFO Hotline: Growth Projections

Growth Plans over Next 2 Years By Community Type (2021-2022)

- **Unit Expansion**
  - Multi-Sites 3/2021: 56%
  - Multi-Sites 8/2022: 59%
  - Single-Sites 3/2021: 53%
  - Single-Sites 8/2022: 51%

- **New Community Development**
  - Multi-Sites 3/2021: 31%
  - Multi-Sites 8/2022: 35%
  - Single-Sites 3/2021: 13%
  - Single-Sites 8/2022: 12%

- **Affiliation/Acquisition**
  - Multi-Sites 3/2021: 45%
  - Multi-Sites 8/2022: 51%
  - Single-Sites 3/2021: 23%
  - Single-Sites 8/2022: 13%

- **HCBS Platform**
  - Multi-Sites 3/2021: 34%
  - Multi-Sites 8/2022: 35%
  - Single-Sites 3/2021: 13%
  - Single-Sites 8/2022: 15%

Concluding Thoughts

Challenging SNF Environment

Affiliation/Merger/Acquisition/Divestiture Activity to increase

Status quo will likely not suffice
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Principal
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