

Committed to Improving PA Senior Lives



Through Resident Involvement



ZIEGLER INVESTMENT BANKING

CCRC FUNDAMENTALS: A GUIDE TO UNDERSTANDING CONTINUING CARE RETIREMENT COMMUNITY FINANCES

Wednesday, April 10, 2024

PRESENTED BY

Adam Garcia

Director

804-793-8495 (Office)

540-220-2526 (Mobile)

agarcia@ziegler.com

Committed to Improving PA Senior Lives



Through Resident Involvement



ZIEGLER FIRM OVERVIEW

ZIEGLER – FIRM OVERVIEW

122-year-old privately held independent financial services firm, founded in 1902 with a focus on non-profit providers since 1928



1902

Established



180

Professionals



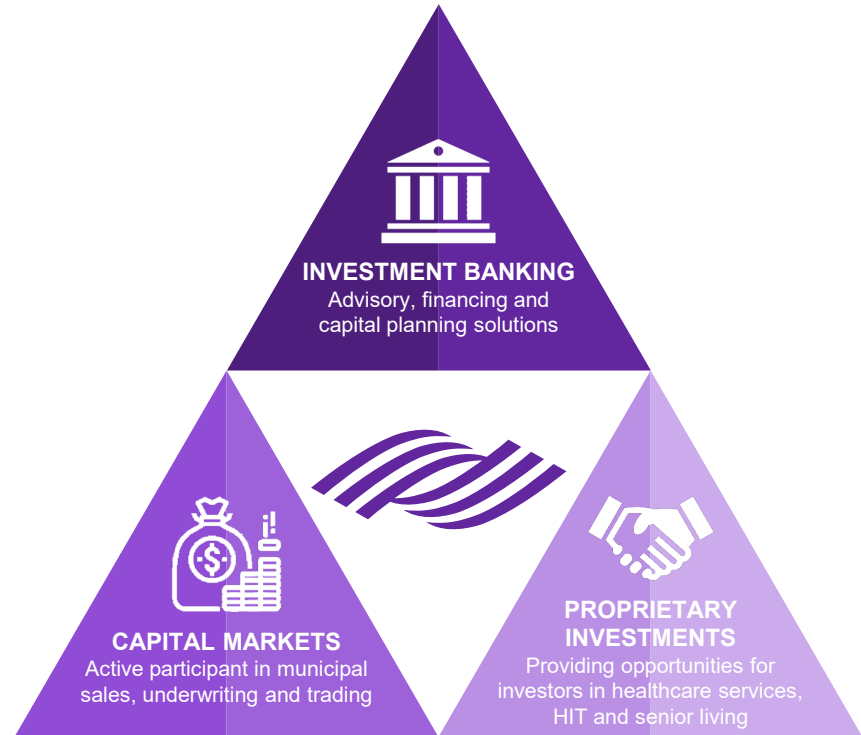
60+

Managing Directors/
Directors



22

Offices Nationally



PROVEN PERFORMANCE



RELATIONSHIPS



INSIGHT



BREADTH OF SERVICES



FLEXIBILITY



EXPERIENCED PROFESSIONALS

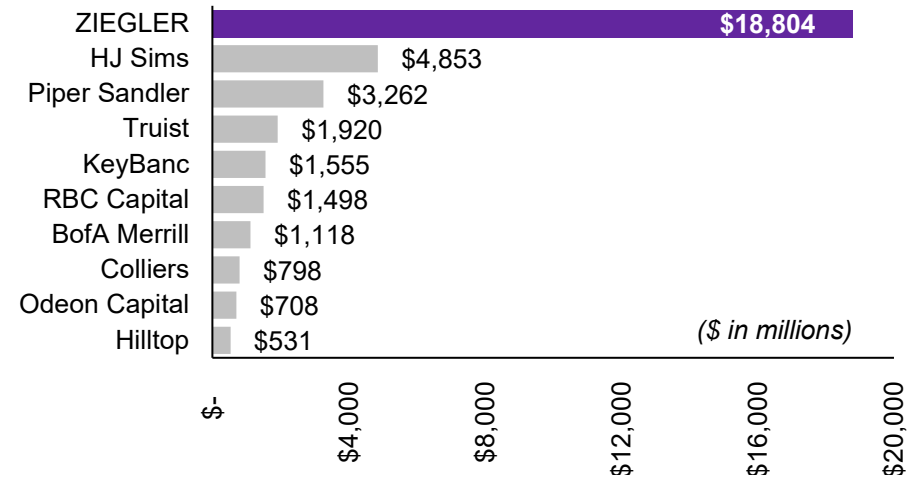
ZIEGLER – SENIOR LIVING INDUSTRY LEADER

- Expansive corporate resources organized around our clients' business activities, with decentralized decision-making allowing bankers to apply regional knowledge and creative solutions – nothing cookie cutter
- Senior Living Finance Practice underwrites or places about 70 senior living financings each year, totaling roughly \$3.0 billion +/-
- Significant investments in strategic resources for research, planning, technology and mergers/affiliations

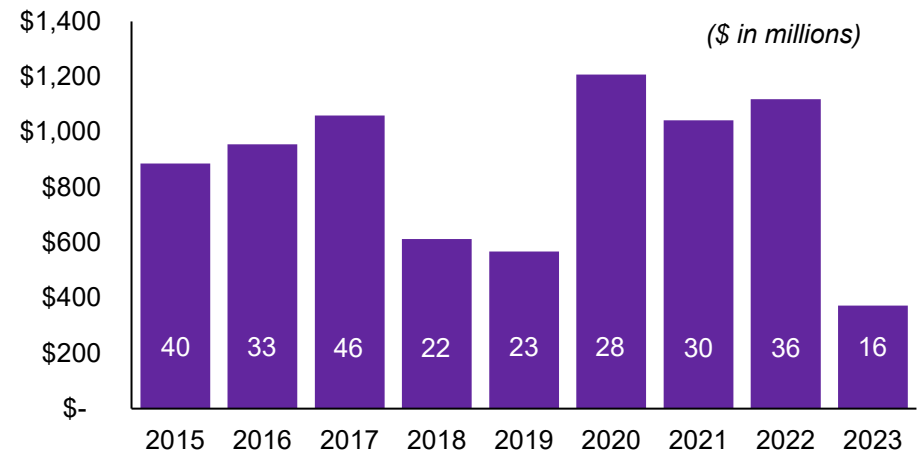


ZIEGLER SENIOR LIVING FINANCING VOLUME

Public Fixed Rate Bond Experience Since 2015 ⁽¹⁾



Direct Bank Placement Experience Since 2015 ⁽²⁾



(1) Not-for-Profit rankings and amounts through Refinitiv Data, as of 12/31/23.

(2) Ziegler Investment Banking, as of 12/31/23. Number on bar represents number of transactions completed.

COMMITMENT TO STRATEGIC INSIGHT RESEARCH, EDUCATION & THOUGHT LEADERSHIP

Routine Industry-Wide Communication

- Z-News Distributed Weekly
- CFO Hotline SM
- Topical Webinars (e.g., Bond Buyback, Stimulus, etc.)
- Industry Whitepapers

Industry Education & Communication

- Ziegler Senior Living Finance + Strategy Conference
- Ziegler-LeadingAge CFO Workshop SM
- CEO Symposiums
- Ziegler National Senior Living Investor Workshop SM

External Industry & Market Research

- LeadingAge Ziegler 200
- CARF Financial Ratios & Trends Analysis ⁽¹⁾
- National LPC listing and characteristics
- Ziegler Credit Surveillance and Analytics
- Additional Resources: new campus development, Green House projects, for-profit development, sponsorship transition activity, COVID-19 resources, bank lending activity, rating agency activity, etc.



LeadingAge®
2024 gold partner

LeadingAge® PA

Premier Sponsor



Committed to Improving PA Senior Lives



Through Resident Involvement



CCRC FINANCES OVERVIEW

WHAT WE ARE SEEING AND HEARING



OPPORTUNITIES

- Demographic growth
- Scale is important
- Demand for diversified services (Residential / Home and Community Based Services)
- Technology and innovation
- Wellness approaches hold promise in reducing healthcare costs

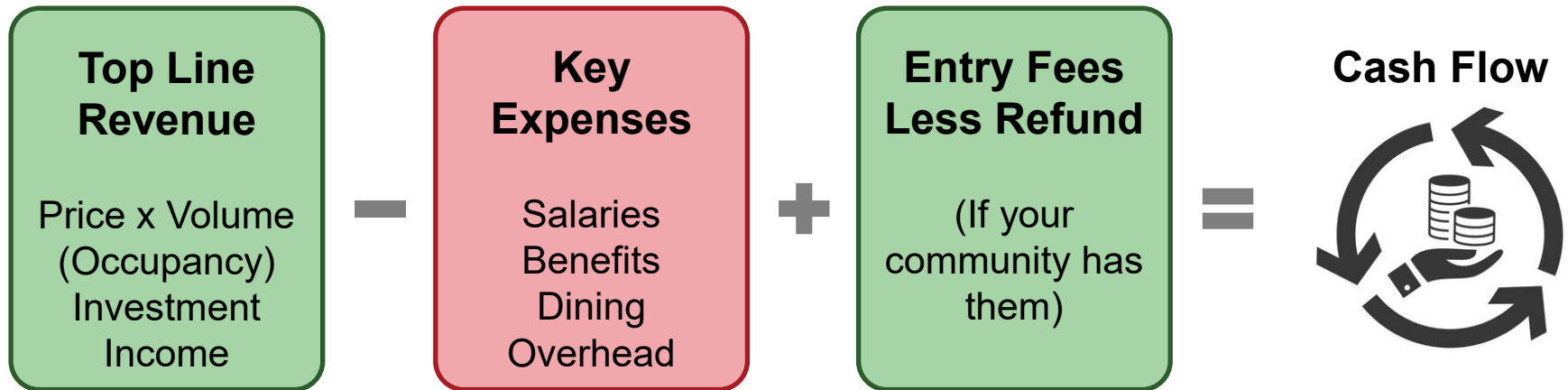


HEADWINDS

- Workforce challenges
- Expense pressures
- Construction-cost inflation
- For-Profit competition impacting demand
- Uncertainty with skilled nursing
- Cost of technology is increasing
- Higher interest rates

NFP CCRC Sector Consolidation Continues

CCRC FINANCES: A RETURN TO BASICS



Cash flow needs to cover debt payments, capital expenditures, reserves for the future and funding for growth and/or re-development initiatives

THREE MAIN SOURCES OF CCRC REVENUES



Resident Revenue



Charitable Contributions



Investment Income



**Primary CCRC
Contract Types**

Type A
LifeCare

Type B
Modified LifeCare

Type C
Fee-for-Service

REVENUES YOU CAN'T CONTROL



Investment Income

Factors Impacting Investment Incomes:

Investment Policy

Capital Planning

“The Market”



Charitable Contributions

Factors Impacting Charitable Contributions:

Source of Funds

Predictability

Specific Use Contributions

REVENUES YOU CAN CONTROL



Price

- Monthly fee increases
- Entry fee increases
- Refundability provisions
- Outside admits?
- Leases and ancillary

Volume (Occupancy)

- Unit turnover
- Length of time to fill units
- Moving through the continuum
- Waiting list management
- Actuarial data

ZIEGLER CFO HOTLINE

RESIDENT MONTHLY FEE INCREASES

	Percentage Increase to Independent Living Monthly Fees						
	2024 ⁽¹⁾	2023	2022	2021	2020	2019	2018
Minimum	(1.00%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Median	5.00%	6.00%	4.48%	3.00%	3.00%	3.00%	3.00%
Maximum	12.00%	15.00%	15.00%	12.00%	10.00%	6.88%	6.00%
Average	5.03%	6.24%	4.70%	2.98%	3.26%	3.14%	3.17%

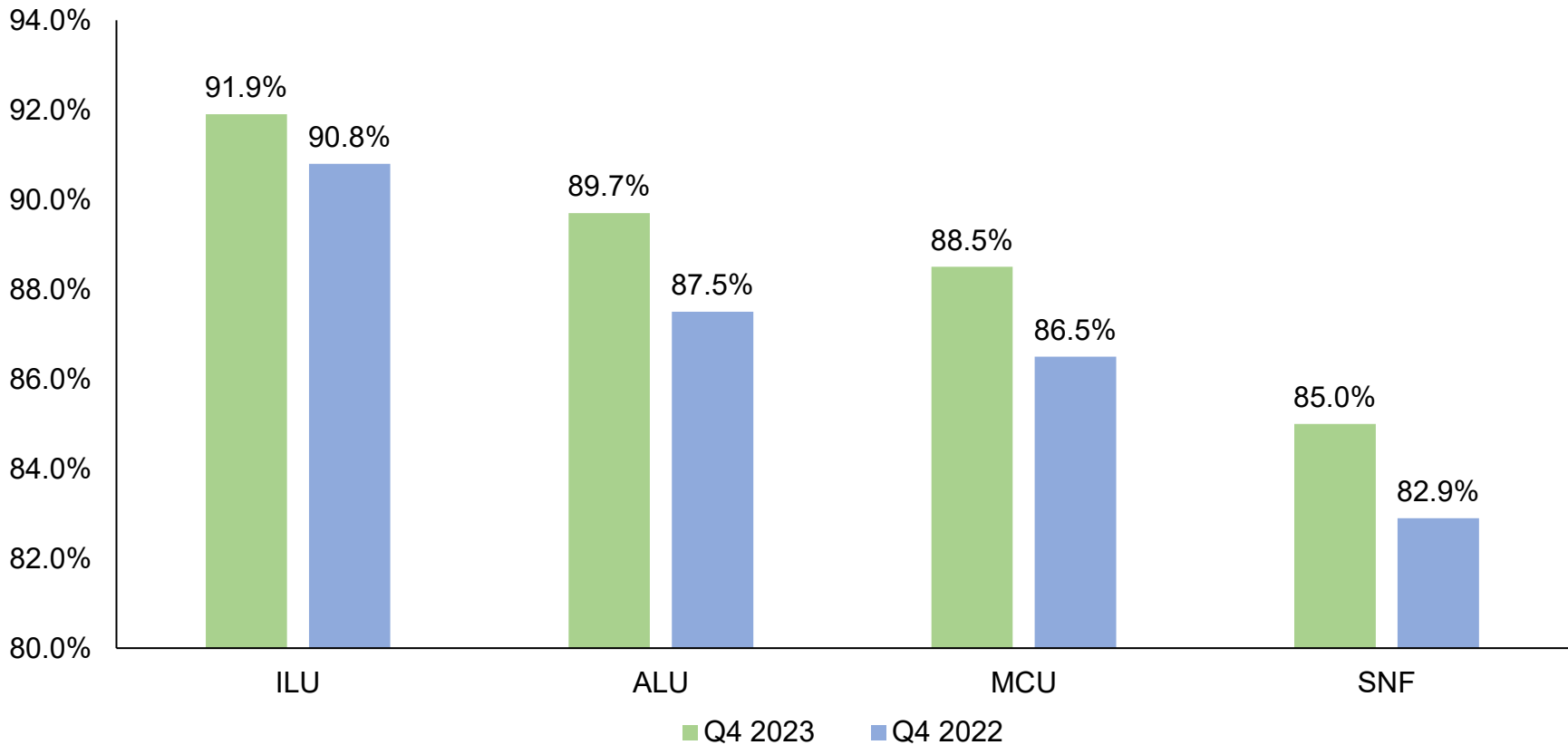
Source: Ziegler CFO Hotline SM, September 2023. Nearly 250 not-for-profit senior living CFO's responded.

(1) Projected increases for 2024 based upon survey responses.

CCRC OCCUPANCY BY LEVEL OF LIVING

Q4 2023 VS. Q4 2022

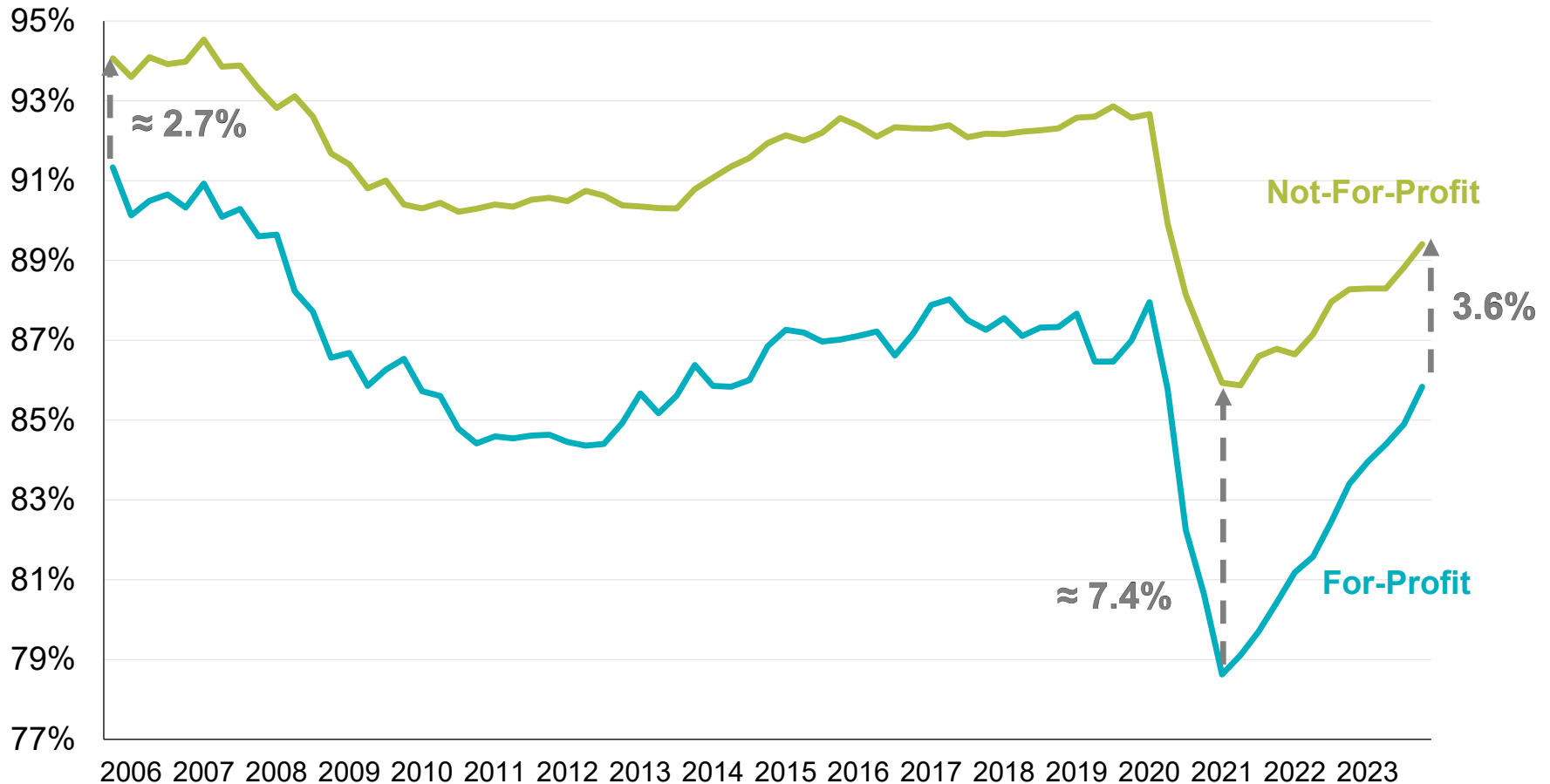
CCRC Occupancy (Year-over-Year Trends)



CCRC OCCUPANCY BY LEVEL OF LIVING

Q4 2023 VS. Q4 2022

CCRC Occupancy by Profit Status; MAP31 4Q05 – 4Q23



OPERATING EXPENSES CONTINUE TO RISE



Resident Related

- Healthcare center staff and agency usage
- Dining and hospitality
- Housekeeping and maintenance
- Service scope “creep”

Corporate

- Labor costs / turnover
- Marketing costs –waitlist
- General and administrative
- Benefit “creep”
- Contract type

ZIEGLER CFO HOTLINE

DRIVERS OF PREDICTED MONTHLY FEE INCREASES

Primary Driver of Predicted Fee Increases ⁽¹⁾	# of Mentions
Wages/Labor	181
Inflation	73
Food Costs	22
Insurance	19
Employee Benefits	13
Market	11
Utilities	10

Labor Metrics ⁽²⁾

- Comprises 30-45% of revenue for CCRCs
- Comprises 40-50% of revenue for more health-care centric models such as assisted living/personal care and memory care
- Average of 1.55 FTEs per skilled nursing resident in a CCRC

(1) Source: Ziegler CFO Hotline SM, September 2023. Nearly 250 not-for-profit senior living CFO's responded.

(2) The State of Seniors Housing 2022.

SKILLED NURSING TRENDS

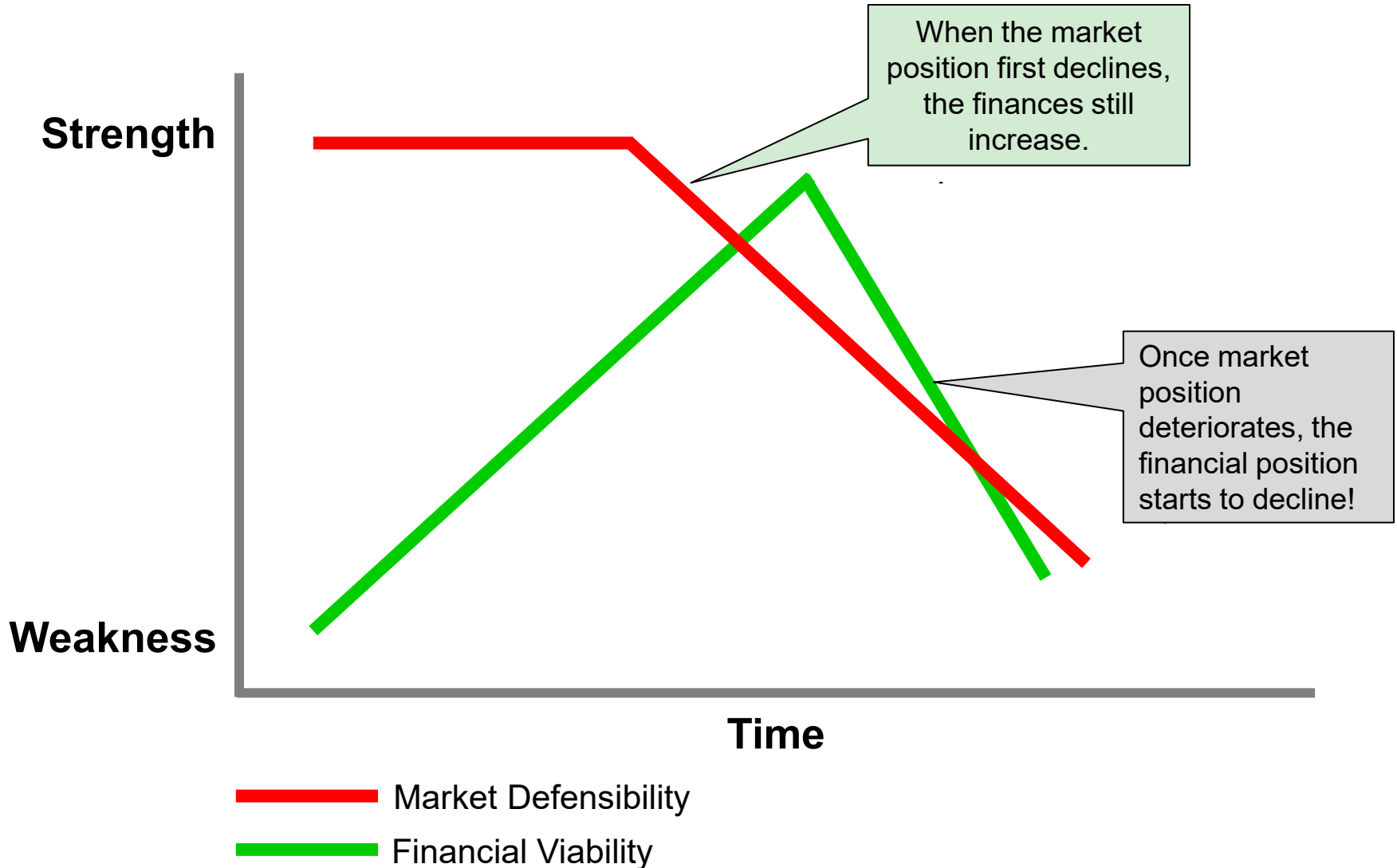
- Occupancy continues to rise, but denominator (i.e. units/beds) has shrunk
 - Nearly 600 nursing homes have closed since/during the COVID-19 Pandemic ⁽¹⁾
- There are now less than 15,000 nursing homes nationwide (11,000 for-profit / 900 government run / 3,000 senior living related)
- 48% of NFP CCRCs have downsized or are in the process of downsizing their nursing footprint ⁽²⁾
 - Further, of the 40 new NFP locations planned to be open in the next 5-years, 30 (75%) will exclude skilled nursing on the campus
- Multiple headwinds
 - Workforce (new staffing mandate among others), reimbursement trends, hospital referral patterns, consumer preferences, declining length of stay



(1) Source: "Access to Care Report," AHCA, August 2023.

(2) Ziegler CFO SM Hotline, August 2023.

CCRCs MUST CONSTANTLY REINVEST IN FACILITIES TO MAINTAIN CONSUMER APPEAL



CHARACTERISTICS OF SUSTAINABLE ORGANIZATIONS



Profitability, measured including philanthropy



Cash reserves, including for growth and/or re-development



Located in an area demographically consistent with needed pricing, services, labor pool, etc.



Solid competitive market position / ideally not land-locked



Nimble and strategic Board and leadership team who are aligned and willing to innovate and take measured risk



Continual investment in physical plant

BENCHMARKING CAN BE HELPFUL IN ANALYZING PERFORMANCE

- **CARF Publication**

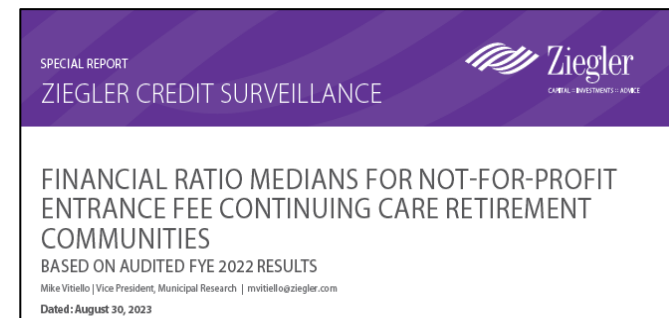
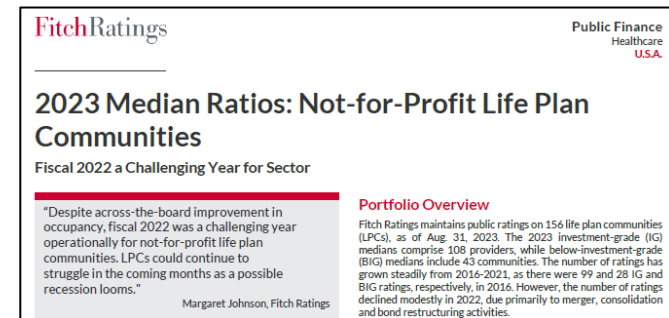
- 2023 marks the 31st publication
- Single-sites (76) and multi-sites (22)
- Ziegler is a key partner in the publication

- **Fitch Ratings Publication**

- 2023 publication include a total of 156 CCRC organizations
- Provides medians based upon rating, contract type and single/multi-site

- **Ziegler Credit Surveillance**

- Annual study of 19 financial ratios
- Includes 132 not-for-profit CCRC borrowers
- Tracks single- and multi-site comparisons



KEY PROFITABILITY / OPERATING RATIOS

Net Operating Margin: measure of core operations, Resident Revenue minus Resident Expense

Net Operating Margin-Adjusted: adds net entry fees received to resident revenue

Operating Ratio: how much does it cost to make a dollar, includes interest/dividend income, interest expense and net assets released for operations (expenses over revenues, cash based)

Operating Margin: includes the impact of non-cash operating items such as entry fee amortization and depreciation

Total Excess Margin: builds on Operating Margin but adds impact of realized gains/losses on investments, contributions and other non-operating revenues

CORE
SERVICES

ALL
RESOURCES



Source: Financial Ratios & Trend Analysis of CARF Accredited Organizations, 2023.

(1) Excludes non-resident revenues, interest/dividend income, interest expense, depreciation, amortization, taxes, contributions and entry fee amortization.

KEY LIQUIDITY AND CAPITAL STRUCTURE RATIOS

Days Cash on Hand: measures days of cash & unrestricted investments available to cover cash operating expenses

Cushion Ratio: measures cash & unrestricted investments to annual debt service

Cash-to-Debt: measures cash & unrestricted investments to long-term debt

Debt Service Coverage Ratio: measures the ability of an organization to pay its annual debt service through operations

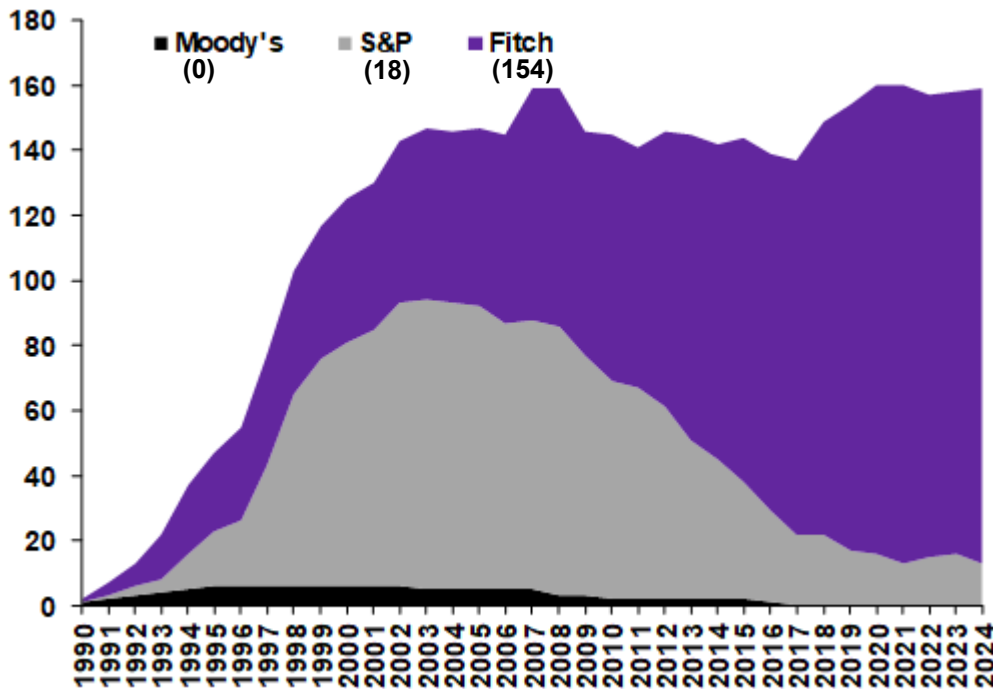
Debt Service Coverage-Revenue Only: more stringent measure than Debt Service Coverage by excluding net entry fees received

Average Age of Plant (Years): shows evidence of a commitment to renewal through and/or replacement of the physical plant

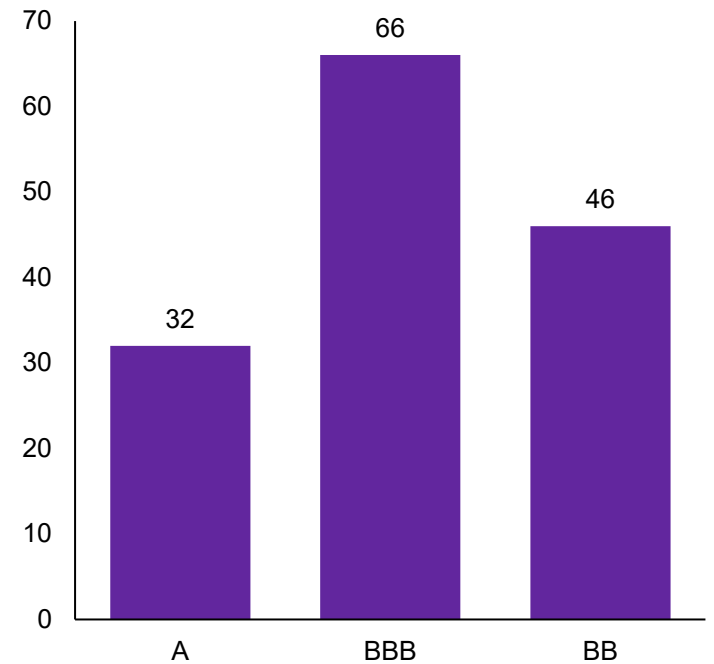
NOT-FOR-PROFIT SENIOR LIVING CREDIT RATING TRENDS

- Of the 1,911 CCRCs across the country, roughly 20% are rated, which includes individual communities that are part of a multi-site organization

NFP SENIOR LIVING CREDIT RATING TRENDS



RATINGS DISTRIBUTION BY CATEGORY



Committed to Improving PA Senior Lives



Through Resident Involvement



CCRC FINANCING OPTIONS

PRIMARY SOURCES OF CAPITAL TO FUND PROJECTS



Cash

Typical uses of cash:

Non-revenue producing projects

Smaller projects

Programming without bricks &
mortar

Growth exploration or seed capital

Ineligible items



Debt

Typical uses of debt:

Any type of capital projects

Revenue producing projects most
logical

Specific Use Contributions

Taxable debt can be used to cover
ineligible items

OVERVIEW OF DIFFERENT DEBT SOURCES

THREE BASIC TYPES OF DEBT

**Tax-Exempt
Debt**

**Taxable
Debt**

**Alternative
Debt
(Gov't
Programs/REITS)**

For not-for-profit 501(c)(3) organizations, most projects can be financed with tax-exempt debt which generally has a lower cost of capital (or interest rate)

CCRC DEBT BASICS



Public Bonds

Public securities sold to investors

Typically have fixed interest rates for 30-35 years

Terms structured by Underwriters and sold to the public (both institutional and retail investors)

Fully funded at closing



Direct Bank Loan

Loan sold to a bank

Variable or fixed rates (naturally or with a swap)

Terms of 7-15 years, with amortizations of up to 30-years

Proceeds may be draw-down over construction period

CCRC DEBT BASICS



Govt. Programs

HUD/FHA

USDA

Fannie/Freddie

Low-Income Tax Credits

EB5 Visa Program



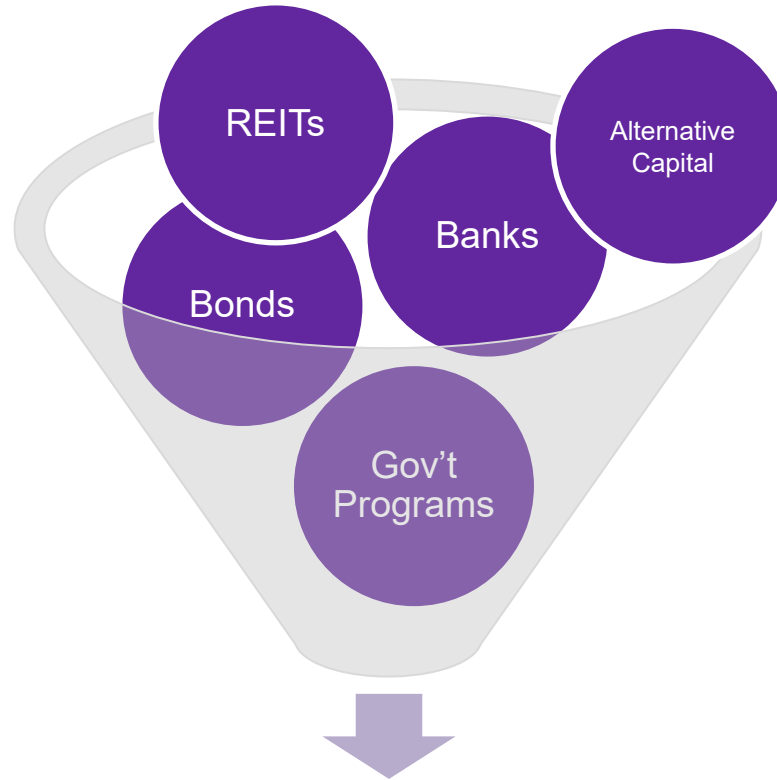
REITs

Large investment funds focused on acquiring or owning assets

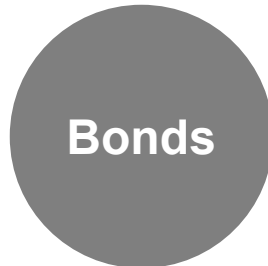
Lease property back from REIT and provide management services to the community

Downside: REITs have control of asset (loss of mission?)

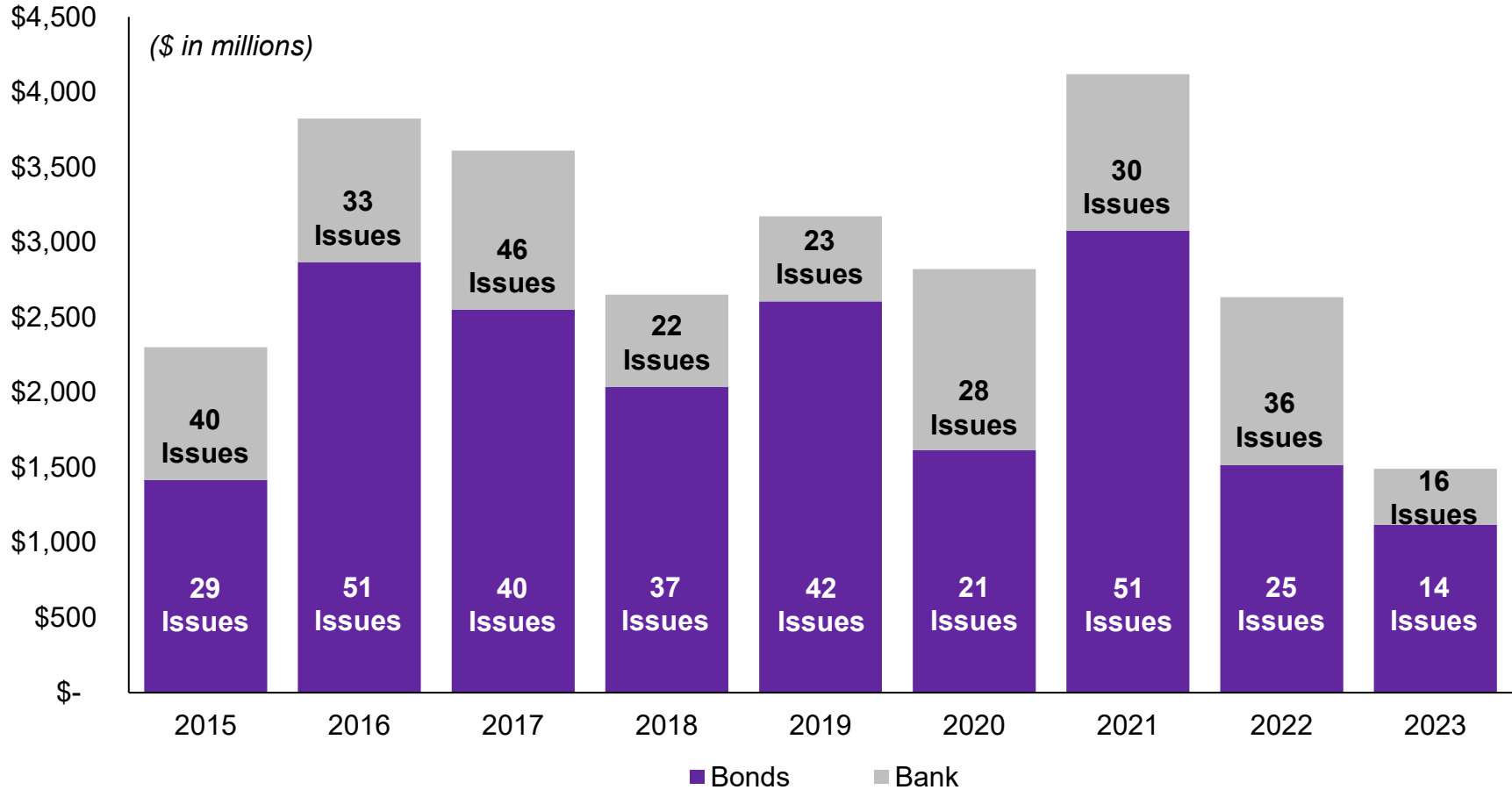
WHEN YOU BOIL IT DOWN...



There are really two primary financing options for not-for-profit CCRCs



ZIEGLER SENIOR LIVING FINANCING EXPERIENCE 2015 – 2023



TYPICAL SECURITY AND FINANCIAL COVENANTS

Master Trust Indenture

Primary legal document that identifies security that can be shared by debtholders and key covenants ⁽¹⁾

Security

- First Mortgage
- Gross Revenue Pledge
- Debt Service Reserve Fund
 - Equal to 1-year of debt service
 - Higher rated credits may be able to avoid funding a DSRF

Key Financial Covenants

- Debt Service Coverage Ratio
- Days' Cash on Hand Covenant
- Permitted Additional Debt
- Transfer of Asset Limitations

QUESTIONS?

ADAM GARCIA

Director

Ziegler Senior Living Finance

agarcia@ziegler.com

P: (804) 793-8495

M: (540) 220-2526

ABOUT ZIEGLER

- Ziegler is a privately-held investment bank, capital markets and proprietary investments firm
- 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

DISCLAIMERS

This presentation is designed to provide information regarding the subject matter covered and is intended for informational purposes only with the understanding that the material contained herein does not constitute legal, accounting, tax, or other professional advice. Although information which may be contained in this presentation has been obtained from sources which we believe to be reliable, we do not guarantee that it is accurate or complete and any such information may be subject to change at any time.

This presentation may contain forward-looking statements, which may or may not come to fruition depending on certain circumstances. In addition, please be advised that past financial results do not predict future financial performance. Portions of this presentation may be presented by non-Ziegler individuals whose opinions and information may differ from those of Ziegler, its employees or its representatives.