


Achieving Critical Operational Improvements While Maintaining Your Mission - A Case Study

CAHSA's "Strategies to Succeed In Today's Economy"
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Mike Slavik, CPA
Principal, LarsonAllen LLP

Angela Larson, CPA
Manager, LarsonAllen LLP



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The Market – What’s on the minds of leading Owners, CEOs and Boards?


- *Demographics*
- *Psychographics*
- *Economy*
- *Work force (care givers)*
- *Financing*



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Critical Issues Facing Our Clients

- The effects of a recessionary economy
- Access to capital
- Negative inflation (shrinking margins)
- Uncertainty of health care reform



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What a Year!!

To commemorate 2008, the Treasury Department has issued a new dollar bill...



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The Effects of a Recessionary Economy

- Depressed housing market is impacting individual's ability to move into a senior living venue
- Significant potential for impact on Medicaid rates as state governments deal with budget shortfalls
- Consumer worry and uneasiness
- Available workforce
- Uninsured increase as people lose their jobs and/or employers reduce benefits; Greater use of emergency rooms; growing bad debts and charity care; Individuals delaying elective surgeries and outpatient procedures

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Access to Capital

- Health care is a capital intensive / low margin business
- Much of health care was historically financed with inexpensive debt (last 20 years):
 - Leveraging investments and investment income
 - Minimal equity
 - Nominal spreads between rated or unrated instruments
- Today:
 - Organizations have seen their cash and investment reserves decline dramatically
 - High interest rates on long-term fixed rate debt
 - Low institutional demand for unrated tax-exempt bonds
 - Rating matters!

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Project financing is dependent upon:

- Operating performance, not only balance sheet strength
- Ability to assemble multiple lenders with tiered payment structures
- Lowered construction costs, shortened construction periods, practical plans, solid operating assumptions and proven management teams

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Negative Inflation

- Simply: unmanaged, costs are expected to escalate faster than revenues
- Historically, this was mitigated by increasing services per patient, provider productivity, and case-mix... revenue grew rapidly
- Operational excellence and willingness to use new operational practices, technology, and every option for reducing overall costs is critical!

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The President's Plan for Healthcare Reform



The "Obama Health Care Summit" – March 2009
Congressional Debate and Legislation – July / August
Signed by President – September ??

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Health Care Reform

Three areas and their potential impact on profitability:

- Medicare payments to SNFs beginning in 2010 (negative)
 - ◊ Could reduce Medicare payments by over \$20 day
- Bundled payments for post-acute care (positive)
 - ◊ A government developed plan that will detail specifications for bundled Medicare payments for post acute services to occur within three years after enactment of healthcare reform bill
- Nursing facility transparency rules (negative)
 - ◊ Aims to standardized nursing facilities through more easily accessible information, stronger enforcement and staff training



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The "American Recovery and Reinvestment Act"



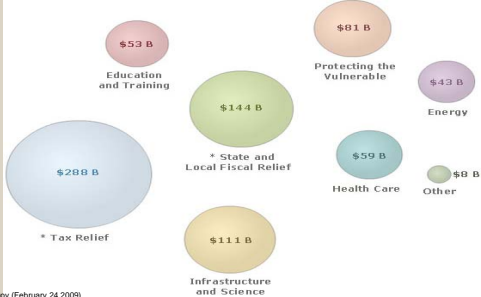
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Where the Money is going...

The American Recovery and Reinvestment Act targets investments towards key areas that will save or create good jobs immediately, while also laying the groundwork for long-term economic growth. The charts and numbers below give you an idea of where the money is going.



Recovery.gov (February 24, 2009)

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What Does This All Mean?

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Culture Change in the Senior Living Field

- Our operating practices need to change
- The venues we provide care in may need to change
- The use of technology to support our operations needs to change
- The corporate structures we utilized in the past may need to change
- The management structures we have in place may need to change
- Our referral relationships may need to change
- The way we finance our operations may need to change
- Our Mindset needs to change!

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How to Translate Change to Your Organization

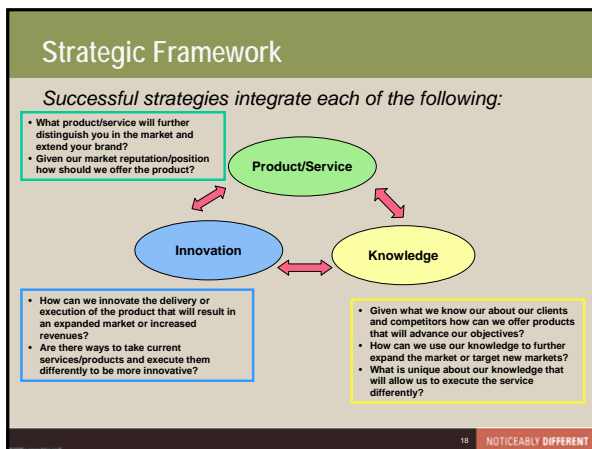
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- Advancements in Change Management...
- Errors in Change Management
1. Not Establishing a Great Enough Sense of Urgency
 2. Not Creating a Powerful Enough Guiding Coalition
 3. Lacking a Vision
 4. Not Communicating the Vision by a Factor of 10
 5. Not Removing Obstacles to the New Vision
 6. Not Systematically Planning for and Creating Short-Term Wins
 7. Declaring Victory too Soon
 8. Not Anchoring Changes in the Corporation's Culture
- Source: John P. Kotter, *Leading Change: Why Transformation Efforts Fail*, Harvard Business Review on Change
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Key Strategic Questions

- What will the potential target senior health care market be in the next 2, 5, 10 & 25 years?
- What role will you play in serving the needs of older adults? Are changes to the current role appropriate and how will that impact the Vision?
- What role will you play in the future health care model and in the social model of aging services?

Key Strategic Questions (Continued)

- What are the key services that you should provide based on the demographic and market information? What is your competitive advantage?
- What will you need to do in order to compete effectively, to better serve the seniors in your market area in a cost effective manner?
- What specific actions should be taken to secure and sustain a dominant position for senior services in the local market?

Key Strategic Questions (Continued)

- What changes to the current facilities will be required to keep you competitive? What are the capital requirements for competing in the anticipated market place?
- What are the likely financial, clinical, organizational, operational, and cultural consequences of actions taken?
- What is the priority of your strategic initiatives?

How are leading providers reacting?

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Enterprise Excellence

- Strategic Planning
 - Strategic Capital Planning
- Operational Excellence

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Understand Where You are Going

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What is a Strategic Capital Plan?



- Strategic Capital Planning is defined as the process of **linking capital financing to your strategic, operational, renovation, repositioning or replacement plans.**
- This is performed by:
 - *understanding your strategic initiatives*
 - *clarifying key issues required to build financial performance targets*
 - *Preparing a financial analysis of the goals and outcomes*

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Financial Comparisons - Cash Position Matters

Funds needed to act strategically
Your decision based on strategies you will pursue and how much capital they will demand

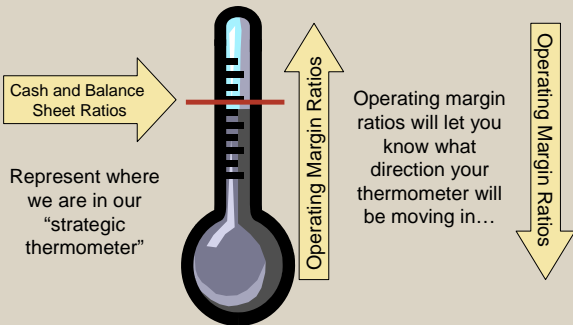
Funds needed to weather a storm
CCAC Benchmarks; Fitch/S&P Ratings

Funds needed for current operations
"Minimum Covenants"

Cash to Debt and Days' Cash on Hand Ratios are the two key ratios used to monitor "liquidity"

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Putting it Together



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Operational Excellence

- Developing a rigorous action plan to reduce expenses: look at niceties vs.. “must do” projects
 - Becoming more nimble in an uncertain environment
 - Optimizing current revenue streams
 - Making sure that current operations are as efficient as possible
 - Delaying capital expenditures
- Using the economic conditions as a reason to make decisions that might be unpalatable in better times

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Operational Excellence (continued)

- Top providers are engaging residents, not hiding the issues from them.
- In other words, everyone is challenged. Informed residents are more willing to accept changes in service plans or cost reductions.

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Operational Excellence (continued)

- Developing creative ways of maintaining occupancy
 - Accepting notes for entrance fees
 - Discounts on entrance fees and monthly fees
 - Accepting property in lieu of entrance fees
 - Purchasing houses from prospective residents
- Increasing the number of short-term post-acute (Medicare) clients - even if their overall focus is on independent living and longer stay LTC clients
 - Looking at data relationships differently

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Operational Excellence (continued)

- Looking at ways to strengthen referral relationships with hospitals and physicians
- Implementing systems/processes for measuring the quality outcomes
- Implementing systems to measure the cost of their services
- Implementing a technology infrastructure to support work flow and quality measurement initiatives

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Operational Excellence (continued)

- Looking for ways to integrate home and community based services into their service offering
- Searching for additional financing opportunities
 - Bank loans versus tax-exempt debt
 - HUD
 - Department of Agriculture

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Maintain a Balanced Approach to...

- Growth
- Profitability
- Risk Management



All are important and must be considered in every strategic decision.

It is imperative to continuously evaluate because one could easily become seemingly more important given circumstances at that time

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Operational Improvement Process

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Process Overview

Operational Improvements represent operations effectiveness, service excellence and financial stewardship

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Establish Operational Goals

Prepare a "sizing" of the operational goals based on financial Targets

- Why is the process of establishing operational targets important?
 - Allows the organization to define "success" and provides a method to monitor progress towards "success"
 - Creates tangible goals that can be utilized to monitor progress both during the planning process and during implementation
 - Establishes agreement among management and the Board/Owners of the desired financial position of the organization
 - Acts as a "roadmap" for the operational improvement process

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“Size the Problem”

It is essential to provide a clear definition of any financial problem.

- What level of revenue enhancement or expense reduction is necessary to sustain operations?
- Break-even is not good enough
 - Margin is necessary to reinvest in the future
 - ◊ Plant and equipment
 - ◊ New programs
 - ◊ Legal Issues
 - ◊ Staff development
 - ◊ SUSTAIN THE MISSION!

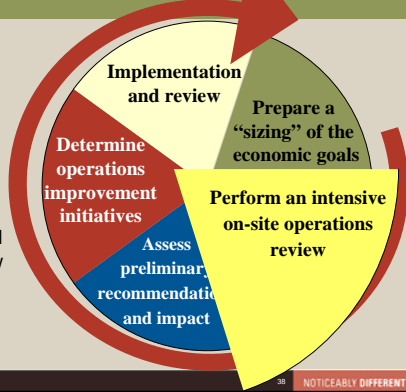
We call this... the “opportunity”

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Engagement Process – Intensive Analysis

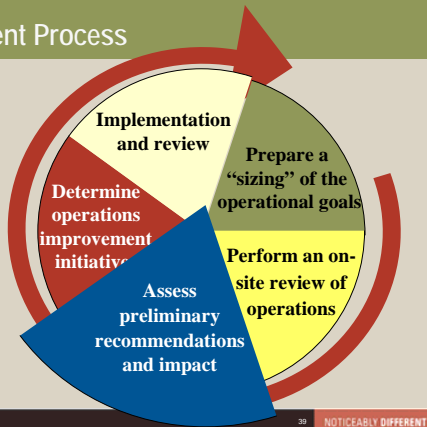
Intensive on-site review process

- Interviews with management team
- Performance Indicators
- Operational and Process Review
- Clinical Review



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Engagement Process



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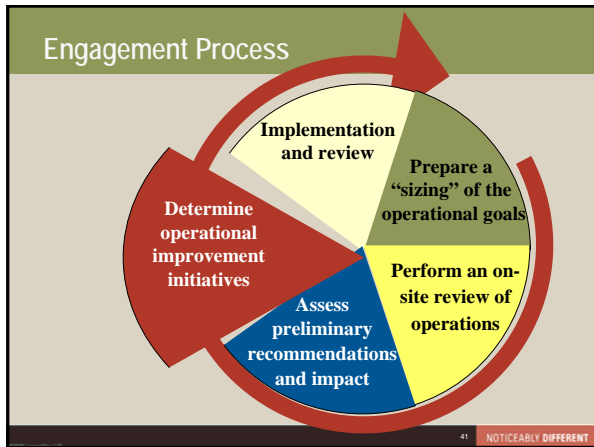
Assess Preliminary Recommendations and Impact

Important

Project facilitators (Consultants) will formulate three factors for each recommendation:

1. Detailed observation and recommendation thoughts
2. Financial impact
3. Potential timeframe for implementation (including mile-stones)

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Determine Operational Improvement Initiatives

Determine operational improvement initiatives

The most important step in the process:

Converting the consultant's recommendation into **Management's Initiatives**

Initiative: readiness to undertake something on one's own¹

¹ Merriam Webster's Dictionary

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Determining Operational Improvement Initiatives

On the Shelf....
• On-Site Findings and Recommendations

In the Cart....
• Revised Recommendations Requiring Further Internal Discussion and Consultation

At the Register....
• Management's Initiatives

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Implementation and Review

- Create tools to assist management implementation
 - master action plan
 - dashboard reporting of progress
 - communication points
- Create a process for review
 - Monitoring
 - ◊ management reports
 - ◊ board involvement
 - ◊ incentive-based
 - ◊ covenants
 - ◊ short-term milestones
 - Correction – make change and especially correction a consistent part of your culture

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Lessons Learned

- A reduction in costs does not mean a reduction in quality
- The Process is Important – Design a process that will allow you to create change
- No Sacred Cows – The only factor that can't be changed is excellent customer service
- Customer Service is defined by the consumer and customer
- Top down operations assessments don't work in today's complex environment
- Board/Ownership involvement in the process is critical to the success of the process

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Questions?

Michael F. Slavik, CPA,
Principal
(781) 986-3322
m Slavik@larsonallen.com

Angela Larson, CPA, CFE
Manager
(480) 615-2313
a Larson@larsonallen.com



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