

Portage County Health Care Center

Senior Living Update and Assessment Approach

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor



Create Opportunities
We promise to know you and help you.

Agenda

- Introduction
- Demographic Trends
- Skilled Nursing – An Industry in Transition
- Assessment Approach





Introduction

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

Introduction

- The number of Wisconsin seniors is increasing and those individuals will require health care services
- Where / how services are received continues to evolve:
 - Ease of access
 - Low cost / high value
 - Services traditionally provided in a facility are now available in their homes (Hospital at home, skilled home health, supportive services, etc.)
- Significant pressure on providers to limit price increases, due to decreasing personal funds



Introduction

As a result of this, post-acute providers expect to experience increasing pressures from payment rate reductions coupled with increased expectations for delivering higher value care – care of higher quality at lower overall costs.

Following are brief examples of some specific challenges senior living providers will need to be prepared to overcome in order to be successful in the coming years:

- **New payment contracting** – Negotiating adjustments in payment rates will not be the only critical negotiation item. As payment systems evolve, successful negotiations of quality performance measures, cost targets, attribution methodologies, etc., will become increasingly critical to financial success.
- **Elevating the value of care delivered** – Over the course of the next few years quality expectations will continue to increase, and efficiency metrics will be added to these expectations. This is a change many in the industry view as a “game changer.” For the first time in the history of health care, financial success is directly tied to your ability to deliver high quality care in a cost effective manner.



Introduction

- **Continued demands for access to capital** – The demand for access to capital will continue to be a top priority. In many regards, the drive to population health management will escalate these demands as providers invest in health information technology that will be necessary component of success in this type of environment. Meeting this demand in an environment with downward reimbursement pressure will push health care leaders beyond any historical limits experienced to date. It will require new strategies, “out-of-the-box” thinking, and new attitudes to be successful.
- **Ever changing regulatory environment will continue to put providers at risk** – The rate of change in the regulatory requirements of health care is taking place at a faster pace than virtually any time in history. In addition the movement to an electronic environment for storing and exchanging patient health information will drive up HIPAA compliance enforcement. These changes will continue to increase and expand expectations around compliance.

In addition, many variations of hospital and post-acute partnerships are forming in response to payment reform, including bundled payments, Medicare shared savings programs and narrow networks. Providers will need to best determine key strategies to accept risk in these types of arrangements and manage additional costs to the overall infrastructure.



Introduction

- **Care continuum collaboration will be mandatory** – Collaboration across the full continuum of care will mandate levels of trust and coordination that has not been the trademark for the vast majority of providers. Understanding the value of effective handoffs from one setting to another, understanding the new value proposition each type of care brings to population management, and having clear pictures of quality in each setting and what will drive up this quality will all be critical success elements.
- **Gaps in current service offerings** – Consumer demand for expanded innovative services will necessitate identification and remediation of gaps in the current service offerings (i.e. memory care programming, assisted and independent living capacity and semi-private SNF rooms).





The Aging of Wisconsin

Demographic Trends

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

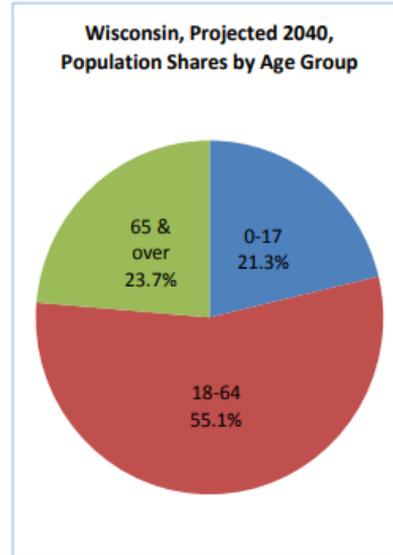
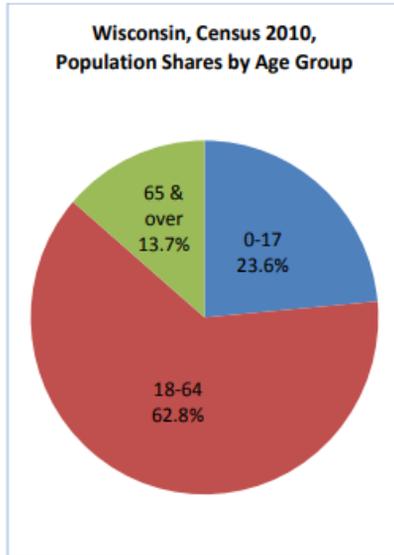
Generations Defined

The Silent Generation/ Traditionalists	The Baby Boom Generation	Generation X	The Millennial Generation
Born 1928 to 1945	Born 1946 to 1964	Born 1965 to 1980	Born after 1980
Age 73 to 90	Age 54 to 72	Age 38 to 53	Age 21 to 37
12% of Adult Population	32% of Adult Population	27% of Adult Population	27% of Adult Population
			

Source: Pew Research Center



The Aging of Wisconsin

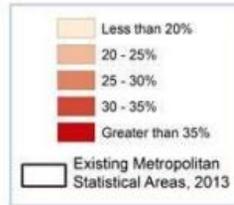
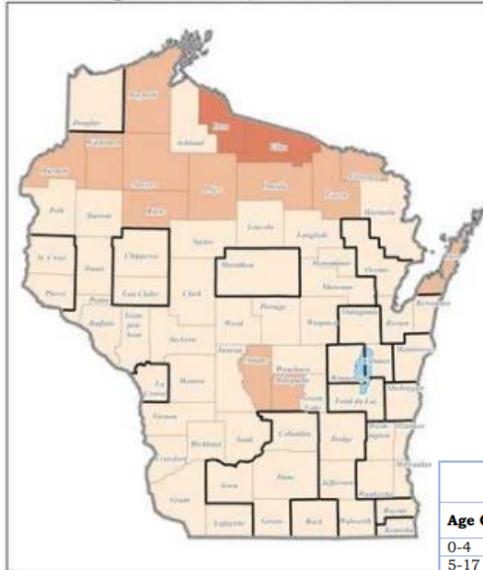


Wisconsin Population, 2010 - 2040, by Broad Age Groups							
Age Group	Census 2010	Projected 2015	Projected 2020	Projected 2025	Projected 2030	Projected 2035	Projected 2040
0-17	1,339,492	1,311,425	1,338,370	1,366,010	1,385,735	1,390,055	1,381,310
18-64	3,570,180	3,576,670	3,602,780	3,580,325	3,565,855	3,577,580	3,574,960
65 & over	777,314	894,920	1,063,930	1,257,515	1,424,320	1,508,635	1,535,365

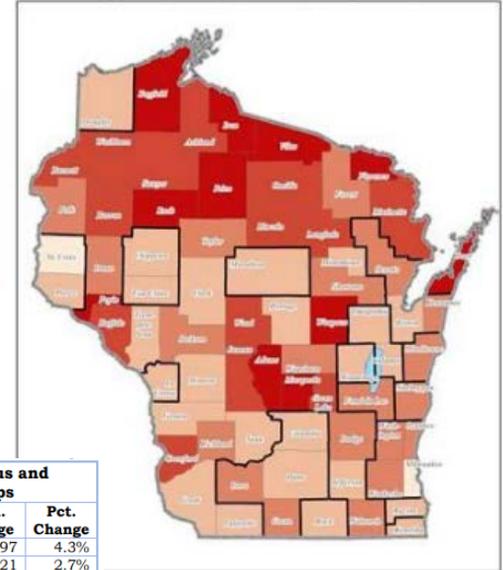


The Aging of Wisconsin

Percentage of Population
Age 65 & over, 2010 Census



Percentage of Population
Age 65 & over, 2040 Projection



Wisconsin Population, 2010 Census and 2040 Projection, by Age Groups				
Age Group	Census 2010	Projected 2040	Num. Change	Pct. Change
0-4	358,443	373,940	15,497	4.3%
5-17	981,049	1,007,370	26,321	2.7%
18-24	549,256	563,995	14,739	2.7%
25-44	1,447,360	1,493,595	46,235	3.2%
45-64	1,573,564	1,517,370	-56,194	-3.6%
65-84	658,809	1,251,765	592,956	90.0%
85 & over	118,505	283,600	165,095	139.3%
TOTAL	5,686,986	6,491,635	804,649	14.1%

Thinking Beyond the Silver Tsunami

Potential strategies in addressing the needs of senior through 2040 and beyond:

- Expansion of senior services, rather than infrastructure
 - Home health
 - Palliative care
 - Hospice
 - Support services
- Renovation of infrastructure should allow conversion to another use in the future, as care needs will continue to evolve under various license types
- Define strategic competencies:
 - Medical model
 - Specialties
 - Residential complement
- Create strategic partnerships that allow focus on your core competencies
- Embrace technological advances that allow seniors to stay in their home longer





An Industry in Transition

Driving forces behind changes in senior living

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

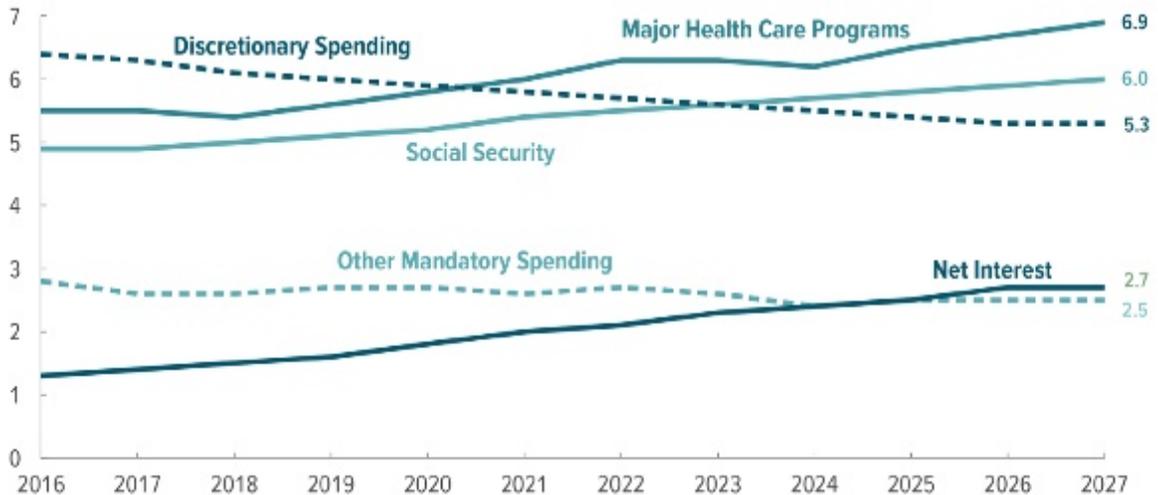
Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

Health Care Spending – Unsustainable

CBO

Projected Outlays for Major Budget Categories

Percentage of GDP



Medicare Spending Trends

Figure 6

Actual and Projected Net Medicare Spending, 2010-2028

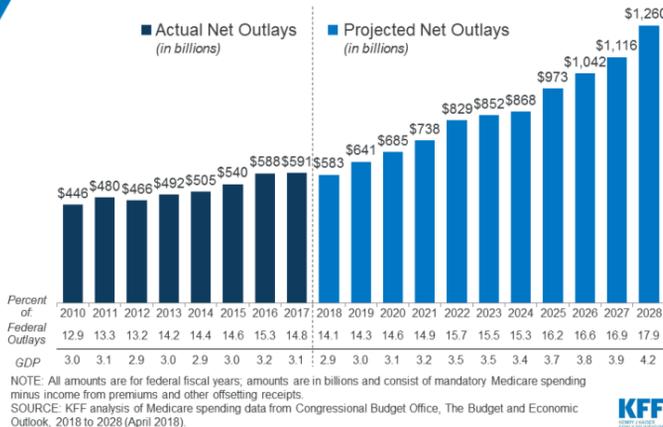
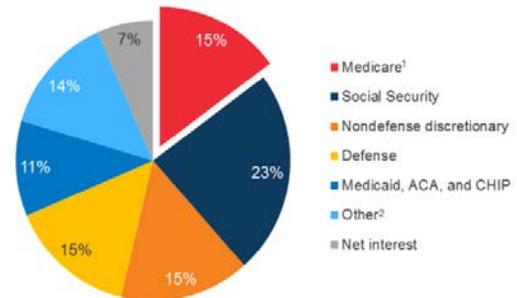


Figure 1

Medicare as a Share of the Federal Budget, 2017

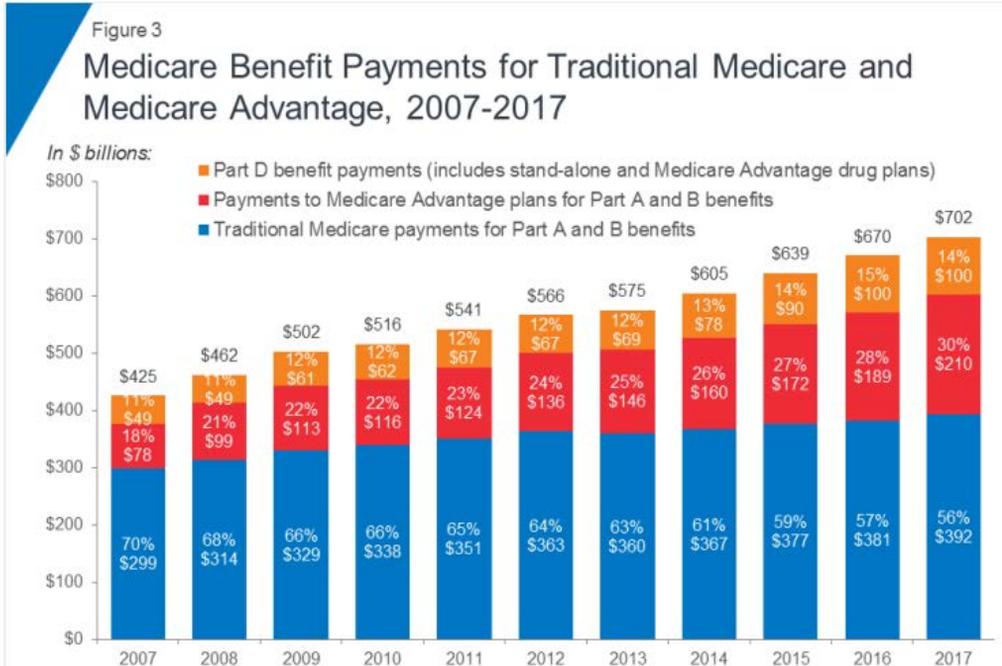


Total Federal Outlays, 2017: \$4.0 trillion
Net Federal Medicare Outlays, 2017: \$591 billion

NOTE: All amounts are for federal fiscal year 2017. ¹Consists of mandatory Medicare spending minus income from premiums and other offsetting receipts. ²Includes spending on other mandatory outlays minus income from offsetting receipts. ACA is Affordable Care Act. CHIP is Children's Health Insurance Program.
SOURCE: KFF analysis of federal spending from Congressional Budget Office, The Budget and Economic Outlook, 2018 to 2028 (April 2018).



Medicare Advantage Trends



SOURCE: KFF analysis of Medicare spending data from the 2008-2018 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, Table II.B.1.



33rd Edition SNF Cost Comparison

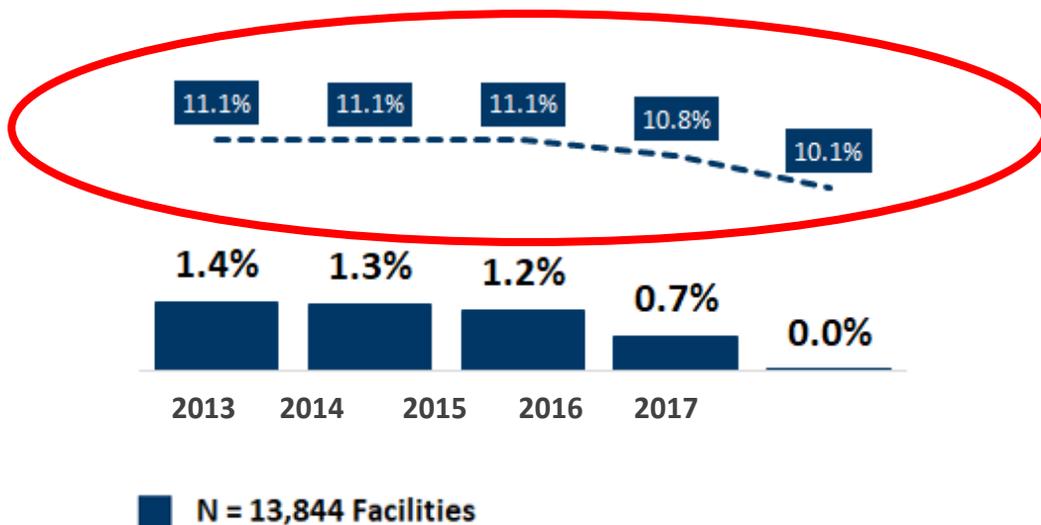
Totals	Quartiles		
	25th	Median	75th
2014	-3.8%	1.3%	6.0%
2015	-4.2%	1.2%	5.9%
2016	-5.4%	0.6%	5.5%
2017	-6.0%	0.0%	4.7%

It is particularly alarming that the median operating ratio is now 0 percent, which is a 60 basis point decrease from 2016.



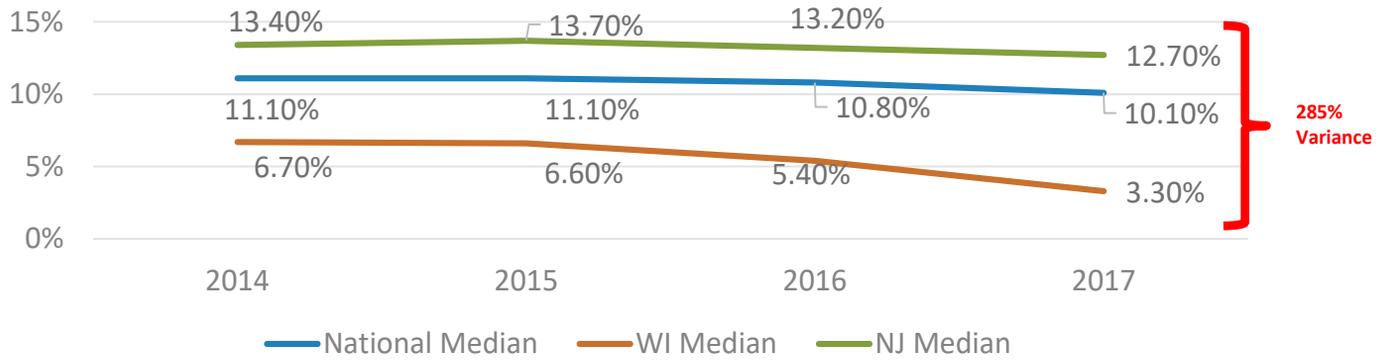
33rd Edition SNF Cost Comparison

Operating EBITDA and Operating Margin %



33rd Edition SNF Cost Comparison

Median Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)





Assessment Approach

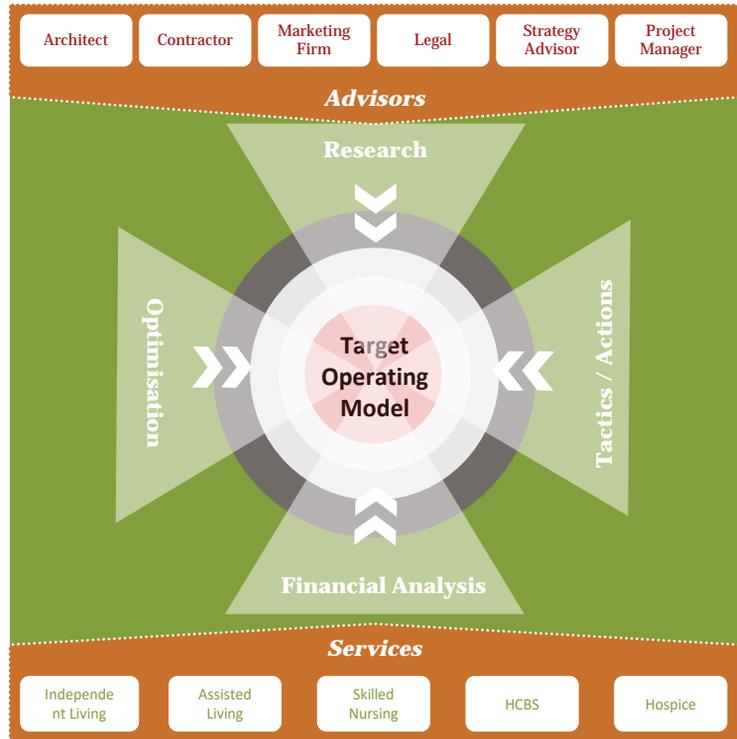
WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

A Process Focused on YOU

The CLA Intuition™ Strategic Planning Process is intended to integrate with your organization's leadership and external advisors while providing thoughtful advice and structure

CLA's team members have a deeply seated knowledge of your operational, market and strategic needs while bringing intuitive tools to aide you along the way



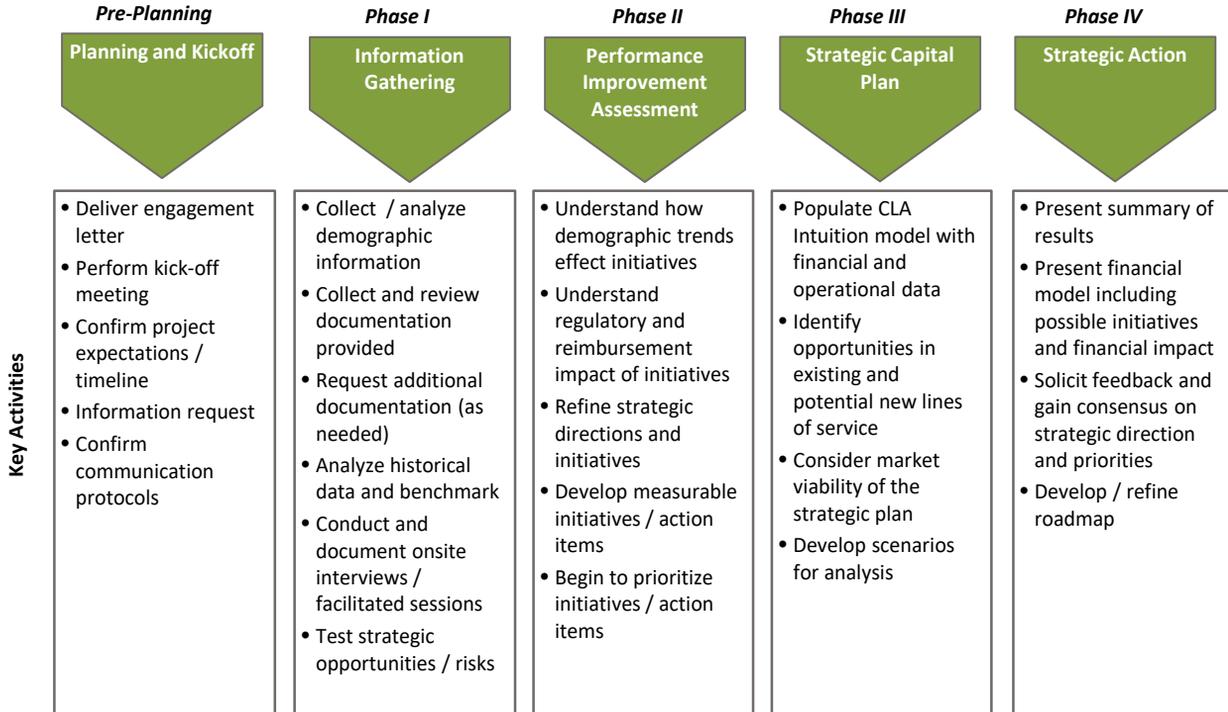
Service Integration

The CLA Intuition™ Strategic Planning Process is intended to integrate with other professionals. CLA's team members have worked directly with a variety of industry professionals so that you may be best served!



Project Overview

Project Management, Communication of Real-time Observations and Status Updates



CLA Intuition Dashboard

Sample Senior Provider

SCENARIO SELECTION
 Model Scenario Selection = Interactive

BASLINE OPERATING PERFORMANCE
 2017 Baseline Performance 2017 Budget

REVENUE INFLATION 2018 +
 Private Pay 3.5% per annum
 Medicare 1.0% per annum
 Medicaid 2.0% per annum

EXPENSE INFLATION 2018 - 2020 2021+
 Labor 3.00% 3.00%
 Non Labor 3.00% 3.00%

BASLINE GROWTH
 Nursing 0.0% / year
 Independent Living 0.0% / year
 Assisted Living 0.0% / year

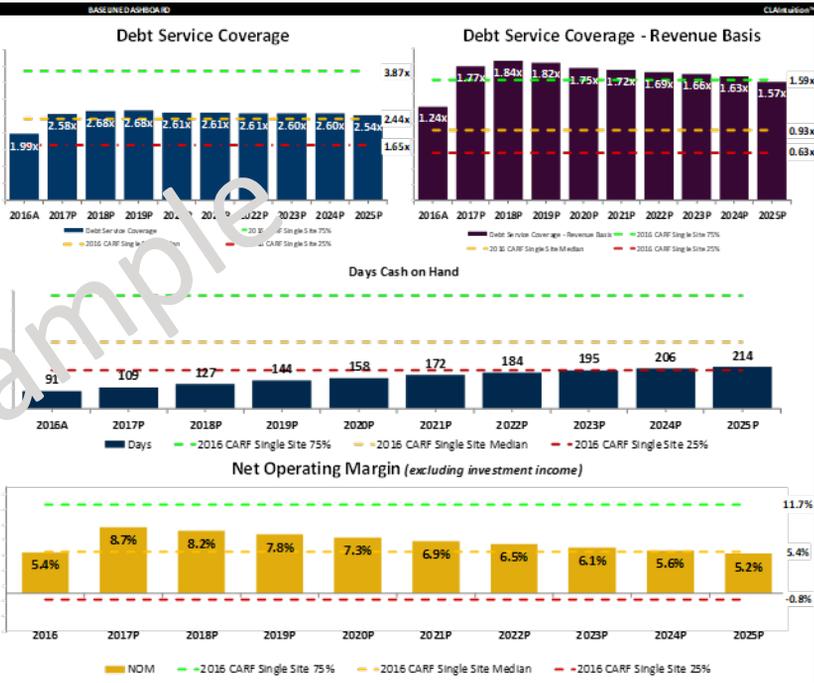
NON-OPERATING ACTIVITY
 Unrestricted Contributions \$50 per year
 Investment Income 3.0% per year

ENTRANCE FEES
 2016 Proceeds \$650
 Entrance Fee Inflation 3.0% per year

SNF Payer Mix Shift to MA
 Reduction in SNF Beds
 Construct Additional IL Units

PERFORMANCE IMPROVEMENT
 No Net Labor Performance Improvement
 No Net Non Labor Performance Improvement

CAPITAL
 Routine Capital 3.50% of Revenue
 No Studio Conversion



Strategic Alternatives Overview

Close Campus and Sell to Developer / Non-Health Care Entity

Engage a broker to sell the land to a real estate developer for use other than a healthcare facility. Transition current residents to other nursing care settings as required by state and federal law.

Renovate Campus and Continue Operations

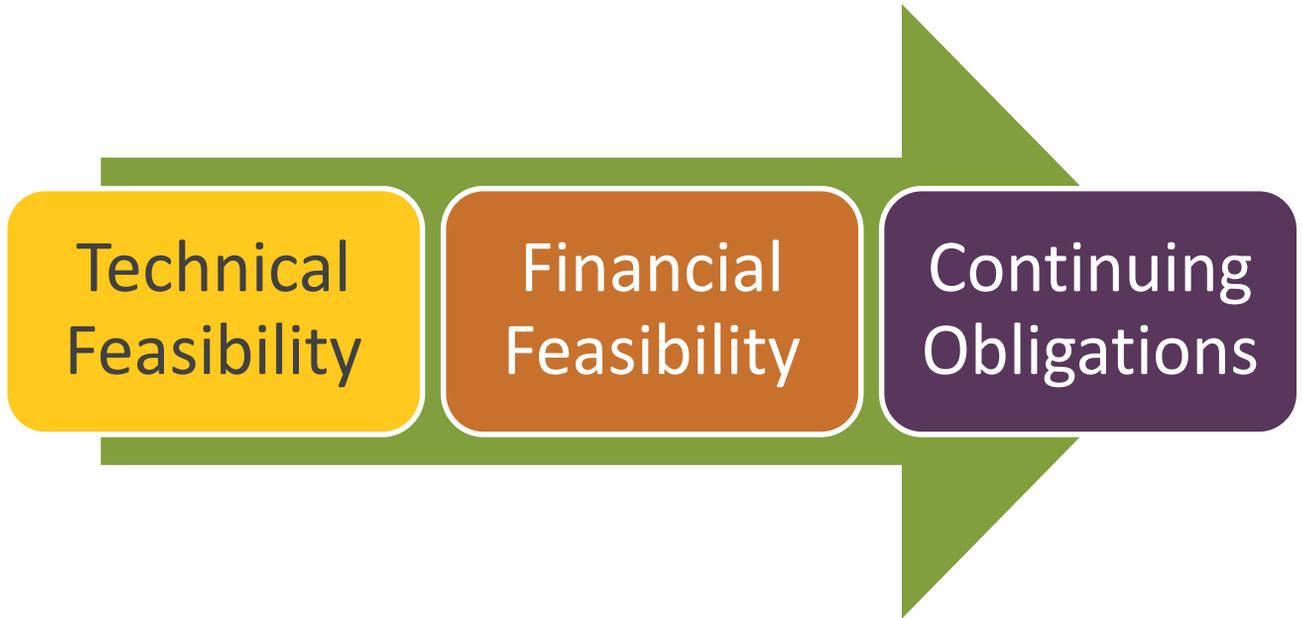
Campus upgrades to short term care units, common areas and technology support to be relevant to the needs and families in the County. Operational changes will be made to continue to balance cost reimbursement.

Sell to External Nursing Care Provider

Engage a broker or independently market the SNF to a provider that will maintain the mission to focus on unmet nursing care needs of families in the County.



Decision Framework



Decision Framework



Technical Feasibility

- Public relations will be critical during any strategic transition phase.
- If capacity is decreased or the property is sold, current residents will need to be placed in alternate care settings which must be agreed to by the resident families, including:
 - The State of Wisconsin requires a 120-day notice and a transition plan for each resident.
 - Once a plan is submitted, the State will approve the closure date or alter it, based on their review.
 - Federal Medicare and Medicaid laws require a 60-day notice to residents. Once announced, the facility is not allowed to accept additional admissions.



Decision Framework



Financial Feasibility

Optimize Opportunities and Continue to Operate

- Identify and implement operational efficiencies
- Engage staff to make lasting operational changes
- Determine the current and 10-year financial impact
- Quantify the financial impact of infrastructure renovation
- Quantify the financial impact of new / modified services

Sell the Facility

- Broker fees will range from 4 – 8% of the sales price and legal fees in excess of \$100,000 to sell to a third party
- Very likely to incur short-term operational losses during a transition.

Decision Framework



Continuing Obligation

Depending on the strategic direction, it is critical to identify and quantify potential obligations resulting from a particular course of action. These impacts could include:

- Impact of additional borrowing
- If Medicaid reimbursements decrease, outside facilities may require a larger payment to continue serving Private Placement county residents.
- Residents may move out of county to receive services if beds are not available within the County.



Michael Peer, Principal
414-721-7580
michael.peer@claconnect.com

