

OPTIONS FOR THE MANAGEMENT AND SPONSORSHIP OF YOUR SENIOR LIVING COMMUNITY

Considerations for Not-for-Profit Senior Living Organizations in an Uncertain World

FALL 2020 | INDUSTRY WHITE PAPER





INTRODUCTION

It is widely agreed that governance responsibilities, operational demands, and the financial oversight of senior living organizations have grown in complexity in recent years. This situation was heightened with the COVID-19 pandemic. Many provider organizations are faced with significant decisions as they plan for their future and consider long-term financial stability. One of the major considerations is determining the right governance and sponsorship structure. This white paper outlines four options to consider:

1

Stay the course under the current governance structure and oversight.

2

Seek assistance from a professional management company for third-party management services.

3

Affiliate with another organization; one of a similar size or a larger organization that can bring more resources to the table.

4

Sell the community to another organization.

When having these internal discussions, several factors come into play. This document outlines key questions providers need to ask themselves and educates readers on the potential benefits and drawbacks of various options for the management and sponsorship of your community. It is also important to note that these decisions are incredibly personal to each organization.

1 STAYING THE COURSE

There are great examples across the country of successful stand-alone senior living communities or smaller multi-facility organizations that have stood the test of time. These organizations typically have the following key elements for success and sustainability.

Engaged Board of Directors

To be effective, it's critical to have an engaged board of directors with diverse backgrounds. Quality boards drive the long-term success of the community and the residents. They do so by continually protecting the organization's mission, looking to the future, and challenging senior leadership as to the quality and efficiency of day-to-day operations. Engaged boards are not heavily involved in the ongoing operations; instead, they hold senior leadership accountable for executing board-approved policies, procedures, operating standards, and financial results.

The best interests of the community always require an active and engaged board. If members are not invested, other board members must challenge them or support efforts to bring in new members. Implementing terms, along with term limits, can preserve an ongoing knowledge base and bring in new ideas and a fresh perspective to the board.

Experienced CEO With No Fear of Change

The board's ability to retain an experienced chief executive officer who isn't afraid of change is paramount in keeping the community relevant in the marketplace. Staying current with new technologies, addressing the ever-changing needs of residents, and being knowledgeable in all operational areas

It's in the best interest of the community to have an active and engaged board.

If this is not the case at your community, implement efforts to bring in new members.

is critical to the community's success.

Cohesive Senior Leadership Team

The CEO must establish a cohesive senior leadership team that will provide stability and growth for the community. Executive directors, administrators, and department directors should be incentivized to meet board-established goals for the community, both from a financial and quality of resident life perspective.

Access to Experienced Advisors

The board and senior leadership team need access to experienced advisors to supplement internal expertise. These advisors can provide additional stability and fresh ideas to the operation of the community. Consider engaging human resources, financial, and legal subject matter experts to provide their expertise.

Financial Discipline/Strong Balance Sheet

To remain relevant and financially successful, communities must evolve to meet the ever-changing needs of residents. Your organization must be financially strong, with significant reserves and debt capacity. Organizational leaders need to adhere to the "only the strong will survive" mentality.

Clear Strategic Plan and Vision

Boards must develop and maintain a strategic plan. This road map holds senior leadership accountable and provides metrics to measure the organization's success. The plan should have input from all community stakeholders. It should be a living document that is challenged regularly with attention to changes in operations, governance, and social environments that may impact the community.

A board functioning at its optimal level will help smooth the way for ongoing success in senior living housing and services for many years to come. For more information about a board-led organization, contact LCS and request Governance in Action, LCS Survey Statistics and Recommendations for Senior Living Not-for-Profit Boards.

2 UTILIZE THE RESOURCES OF THIRD-PARTY MANAGEMENT

Working with an experienced senior living management company gives board members the freedom to focus on governance issues such as the community's vision, mission, and strategic direction. Supervision of the senior leadership team and the day-to-day operations rest with the management partner. The board retains ultimate control and responsibility of community operations, yet a management company provides resources to streamline operations and provide guidance.

Above all, selecting a management partner comes down one's ability to develop and maintain a successful working relationship.

It starts with the senior living management company's relationship with board members and being able to meet expectations aligned with your mission and vision.



Partnering with a management company provides community leadership teams immediate access to a network of colleagues who they can collaborate with on similar issues and challenges. The management partner, with board input, conducts performance evaluations of senior leadership and handles performance issues. The board is then responsible for evaluating the management company for leadership and performance, ensuring board-established goals are being met. In the situation of unexpected turnover in the leadership team, a management partner can provide continuous oversight by assigning an interim executive director or tap into corporate resource teams for assistance in placing department leaders.

Contracting with a management partner provides easy access to experienced advisors in a single source. Comprehensive and coordinated services in compliance, human resources, technology, accounting, risk management, safety, health care consulting, marketing and sales, training, and group purchasing are typically brought to the community when working with a management partner. Guidance for complying with HIPAA, the Affordable Care Act, and other government initiatives is also provided.

Looking for a management partner? Consider these factors.

- ☐ Aligns with your mission and values
- ☐ Provides financial ratios
- ☐ Provides a continuum of service expansion
- ☐ Previous experience
- ☐ Has a strong reputation
- ☐ Progressive information technology
- ☐ Financial strength
- ☐ Board integration expectations
- ☐ Service delivery model aligns with your mission
- ☐ Executive talent
- ☐ Can demonstrate growth history and trajectory
- ☐ Strategic planning initiatives

3 EXPLORE AN AFFILIATION OR MERGER

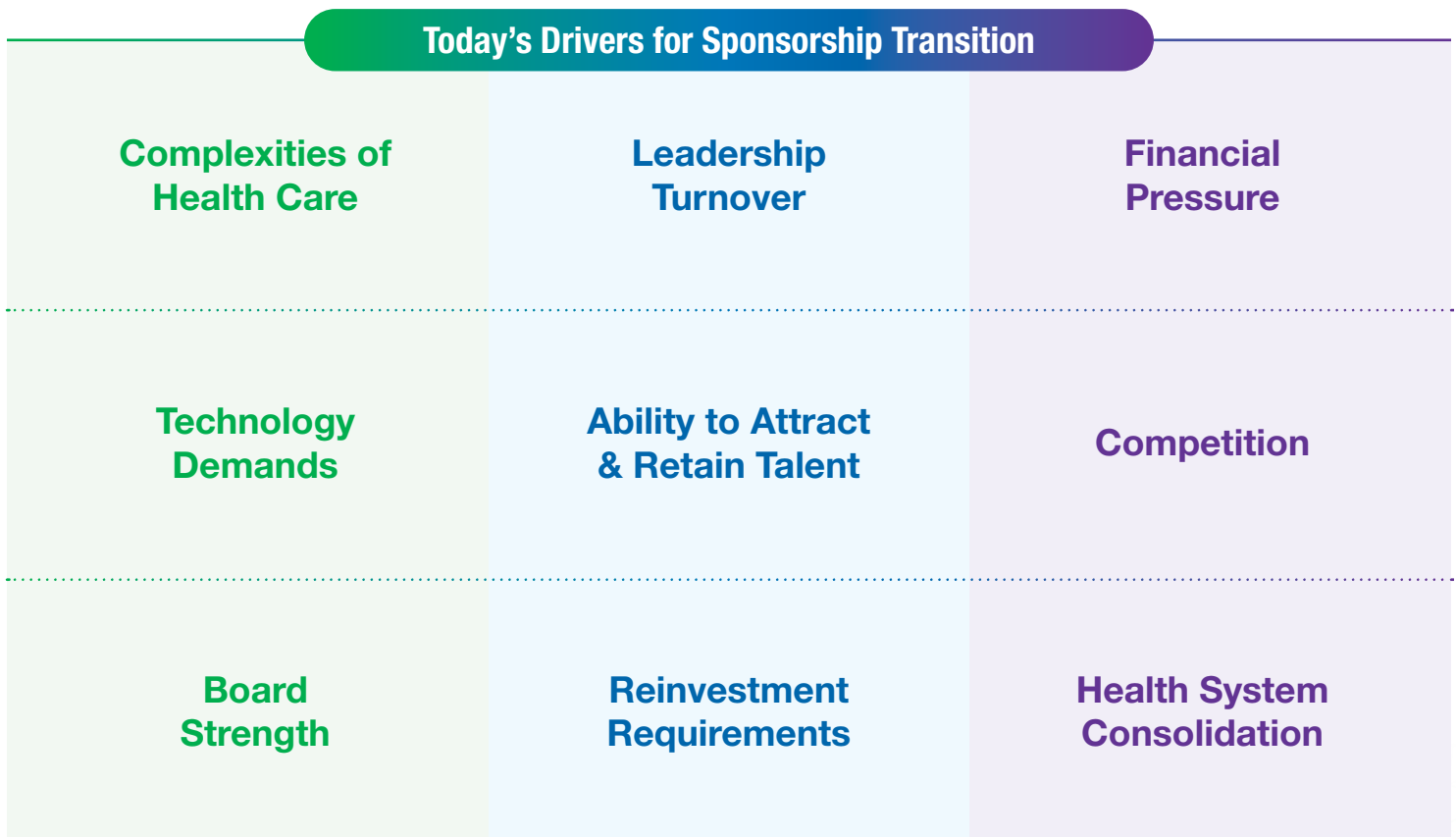
In recent years, many boards and leadership teams have participated in affiliation readiness exercises. This practice helps ensure alignment and identify a clear path forward if the community has determined to grow through affiliation, either as the affiliate or an affiliator. These conversations reflect smart governance, particularly given current consolidation trends.

Ziegler and others have widely adopted the label, “sponsorship transition,” to refer to any activity in which a not-for-profit senior living organization changes owner or sponsor of a specific community. This includes not-for-profit affiliations, mergers, acquisitions, and dispositions, each of which involves a different type of transaction, yet includes a not-for-profit on one side of the equation.

The term sponsorship transition refers to any activity in which a not-for-profit senior living organization changes the owner or sponsor of a specific community.

Understanding the Drivers for Sponsorship Transition

It is essential to understand the landscape for the current pace of affiliations, mergers, acquisitions, and dispositions in the not-for-profit senior living and care sector. The following graphic outlines the primary drivers in today’s senior living and care marketplace.





Why Would We Consider an Affiliation?

The reasons for affiliating or merging with another not-for-profit organization are varied and unique to each. However, when the circumstances involve financial pressures and near-term distress, organizations must not wait too long to decide. Such a decision can be an emotional one, yet providers cannot ignore their mission's business purpose. Sample generative questions include:

1. **Is our size and scope of services large enough to be a provider with influence and leadership in our local/regional market?**
2. **Do we have the financial resources, human capital, and competitive products/services to keep up with the fast-changing marketplace?**
3. **Even if we can survive long-term, can we thrive?**

If the answers to these questions indicate an uphill battle, it is likely the organization can be an ideal candidate for exploring an affiliation partner.

There are benefits, as well as drawbacks to any sponsorship transition and each organization needs to weigh the pros and cons of each option.

Seeking an Affiliation Partner

A prerequisite of a successful sponsorship transition is understanding what criteria are important to each entity. Which principles need to align to be a match for your organization? It's likely that no organization will be a 100% fit, yet the non-negotiables need to be identified and met. While the criteria can vary, common elements include geographic proximity, alignment of mission and values, previous affiliation experience, financial stability, and perhaps control/governance considerations. Many organizations partner with an outside facilitator or consultant to work through these "must-have" criteria.

Once an affiliation partner is selected, it is vital to have a robust plan to announce the affiliation and enter into the partnership. While not addressed in this document, it is essential to talk through these items in advance and develop a proactive communication and integration strategy.



4 SELL ASSET

Some communities sell to the private sector out of choice. However, most dispositions from the not-for-profit sector occur when there are financial and operational pressures, and other not-for-profit entities are unable or unwilling to take on that level of risk. From a mechanical standpoint, when a not-for-profit provider transitions ownership to a private-sector buyer, there is a cash transaction or asset sale. Since 2010, Ziegler has found that roughly 55% of not-for-profit sponsorship transitions have been

dispositions to the private sector. An additional 10% of the not-for-profit transitions since 2010 have been closures.

When selling the asset is a consideration.

Be proactive and don't wait too long to make the decision.

The underlying message for those in a financially pressured situation is do not delay your decision.

Ziegler research has tracked nearly 900 not-for-profit communities that have changed owners or sponsors between 2010 and mid-2020.

CONCLUDING THOUGHTS

When deciding the future of your community, make time to consider options before it is necessary. Having the benefit of time increases the number of choices to consider. Your approach should be strategic, and the process should evaluate the pros and cons of each, while keeping in mind that each senior living community is unique.

Being open-minded, honest in evaluation, and committed to the final decision can create a promising future for your senior living community.

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About LCS

As a pioneer in the senior living industry since 1971, making a difference in the lives of seniors has been our sole focus since day one. The dedicated LCS Family of Companies is designed to help fulfill your community's mission. This structure allows us to develop and share expertise across our company to deliver innovative solutions to partners, seniors and their communities. From third-party management to development services, LCS has the experience, leadership, and integrity to meet unique needs of your community. When you partner with LCS, you receive more than just a single perspective; you get the experience of six senior-focused companies working together as one. In the field of senior living, Experience Is Everything. For more information, visit LCSnet.com.



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About Ziegler

Ziegler is a privately held, national boutique investment bank, capital markets and proprietary investments firm. It has a unique focus on healthcare, senior living and education sectors, as well as general municipal and structured finance. Headquartered in Chicago with regional and branch offices throughout the U.S., Ziegler provides its clients with capital raising, strategic advisory services, fixed income sales, underwriting and trading as well as Ziegler Credit, Surveillance and Analytics.

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