The Uncertain Future of Skilled Nursing

What does the future hold for you?

Session 10 | June 1, 2017 | 10:15 - 11:45 am
Presenters....

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Objectives

• Gain insights from experts on the direction of skilled nursing today.

• Compare and contrast tactics and strategies of providers investing in skilled care and providers reducing or eliminating skilled care presence.

• Take away insight into how to best position your organization for future success in this uncertain sector.
Today’s Agenda

Section 1 – Trends, Opportunities and Challenges

Section 2 – Investing in Skilled Care: Sun Health Senior Living

Section 3 – Eliminating Skilled Care: La Posada

Questions and Answers
SECTION 1

Trends, Opportunities and Challenges
Supply of SNFs/Age of Plant
Occupancy/Length of Stay
Reimbursement
Staffing Shortage
Tech Needs/Cost
Home Care and Asstd Living Competition
ACA/Networks/ACOs

Aging Population
Increasing Lifespans

DISRUPTORS

DRIVERS
Single and looking, age 70 and up: Inspired by ‘Age of Love,’ Enfield to host speed-dating event for seniors

By Annemarie A. Smith Journal Inquirer

ENFIELD — Move aside Millennials—there are some new speed daters in town, and they are senior citizens.

Some of the town’s older residents are participating in the nationwide dating trend that is coming to the Enfield Senior Center on Thursday, April 9, from 6 to 8 p.m.

Speed dating is a way of meeting a potential date through one-on-one conversations of just a few minutes. After each date, participants indicate on a slip of paper whether they would like to meet up with that person again. At the end of the event, everyone is told of their matches.
Today’s Retirement Options
A Look at Seniors Housing Supply

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Number of Communities</th>
<th>Number of Units</th>
<th>% NFP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Plan Communities</td>
<td>1,961</td>
<td>600,000 units</td>
<td>80%</td>
</tr>
<tr>
<td>Adult Day Programs</td>
<td>4,800 programs</td>
<td>289,400 participants/day</td>
<td>51%</td>
</tr>
<tr>
<td>Hospice</td>
<td>4,000 agencies</td>
<td>1.34 mill discharged/yr.</td>
<td>26%</td>
</tr>
<tr>
<td>Nursing Homes</td>
<td>15,600 homes</td>
<td>1,663,000 units</td>
<td>24%</td>
</tr>
<tr>
<td>Freestanding Memory Care</td>
<td>1,100 communities</td>
<td>53,000 units</td>
<td>22%</td>
</tr>
<tr>
<td>Assisted Living/ Residential Care</td>
<td>30,200 communities</td>
<td>1 million residents</td>
<td>17%</td>
</tr>
<tr>
<td>Home Health</td>
<td>12,400 agencies</td>
<td>4.9 mill discharged/yr.</td>
<td>15%</td>
</tr>
<tr>
<td>IL Housing</td>
<td>1,100 properties</td>
<td>184,000 units</td>
<td>3%</td>
</tr>
</tbody>
</table>

Sources: Ziegler National CCRC Listing & Profile, LeadingAge, NIC MAP® Data and Analysis Service, The National Center for Health Statistics, Centers for Medicare and Medicaid Services
Skilled Nursing Supply

• Over 15,600 nursing homes across the US with just under 1.7 million beds
  • 16,389 nursing homes in 1995, a **decline of 5%** over 20 years
  • 1.751 million beds in 1995, a **decline of more than 3%** over 20 years
  • Number of nursing home residents **declined nearly 7.5%** in the same period

• Most SNFs built in the 60s and 70s and many are dated

Arizona Skilled Nursing Supply

Skilled Nursing Occupancy

- 5-Year occupancy low in July 2016

- Reduced average length of stay
  - Managed care
  - Medicare bundles
  - ACA

- Increased reliance on home care and assisted living

Source of graph: NIC
Arizona Skilled Nursing Occupancy

1995-2014 Arizona Change in SNF Residents

1995-2014 Arizona SNF Occupancy Rates

Skilled Nursing Spending

• Aggregate payment to non-hospital based nursing homes and CCRCs increased from $85 billion in 2000 to $155 billion in 2014, an increase of 83%.

• Approximately 65% of those expenditures are from public sources (primarily Medicare and Medicaid).

Shrinking Supply of Workers

- By 2020, the main labor pool of direct-care workers will only increase by about 1% compared to the demand for these workers increasing by 48%.

- Caregiver support ratio began falling beginning in 2011.

(Source: Alzheimer’s Association)

(Source: United Nations, 2011)
Growing Demand for Direct-care Workers in the US, 2010-2030

Percentage increase 2010-2030

- Personal care aides: 71%
- Home health aides: 69%
- Nursing aides, orderlies and attendants: 20%
- All direct-care workers: 48%
- All occupations: 14%

Source: Paraprofessionals Healthcare Institute
Technology – Critical and Costly

• Can you provide a referral source, such as a hospital, data on your:
  • Re-hospitalization rates?
  • Infection rates?
  • SNF length of stay?
  • Incurrence of pressure ulcers?
  • Pain management performance?
  • Electronic patient health records?
  • ...or ????
Reduced Use of SNF

Is your organization experiencing any of the following regarding your healthcare setting? (% Yes Responses)

- Patients with a higher level of acuity than in years past: 86.5%
- Decreased length of stays in skilled care: 84.6%
- Narrowing of networks from area hospitals, physician groups: 51.9%
- Increase in consumers w/ treatment plans that skip skilled care altogether: 44.2%

Source: Ziegler CFO Hotline, August 2016
Competing in Today’s Environment

Sophistication

• Do you have the scale needed to compete in the local healthcare marketplace?

• What expertise do you have regarding the ACA and payment reform (bundles, etc.)?

• Are you technologically advanced with data analytics, outcome-based reporting, etc.?

• What are your CMS quality ratings?

Partnerships

• Are you able to compete and be a player in the new models of care emerging as a result of the ACA?

• Are you engaged in any joint ventures, post-acute networks or bundled-payment agreements?

Source: Ziegler Investment Banking
How the For-Profit World is Responding

“We will further reduce our skilled nursing rent to 1 percent of our total business.”

— Debra Cafaro, Chairman and CEO, Ventas

Welltower Completes Sale of Interest in 28 Facilities to Chinese Investors

TOLEDO, Ohio — A joint venture between Cindat Capital Management Limited and Union Life Insurance, both Chinese investment companies, has completed its purchase of 75 percent interest in a Welltower-owned portfolio of 28 skilled nursing facilities.

Source: Senior Housing Business News, Jan. 3, 2017

Kindred Plans to Leave Skilled Nursing Business, Posts Q3 Loss of $671.3M

Source: Senior Housing Business News, Nov. 8, 2016

HCP Skilled Nursing Spinoff Goes Public

IRVINE, Calif. — Quality Care Properties, the spinoff of HCP’s ManorCare skilled nursing portfolio, has begun trading on the New York Stock Exchange.

Source: Senior Housing Business News, Nov. 21, 2016
Mainstreet – Phoenix and Surprise

• For-profit Mainstreet is building two post-acute rehab communities in Phoenix and Surprise, opening 2017

• Gary Smith, SVP: “Our business model is built around the idea of *payments for an episode of care, not fee-for-service.*” Heavy managed care penetration in Phoenix makes it an attractive market.

Skilled Nursing & Post-Acute: Threat or Opportunity?

Some providers see opportunity:
- New investment groups are forming
- Rise of the hospitality-focused post-acute market
- Overwhelming demographic tide that will eventually need services at some point in the future
- Growth in regional operators

Some providers have concerns:
- Reimbursement pressures
- Growth of bundles & managed care
- Rising labor costs
- Declining occupancy/census
- Patients being discharged directly home
- Aggressive for-profit growth
So... Where’s the Opportunity? What are our Options?

**Maintain Status Quo**
- Legitimate option/strategy?
- Where does this lead?

**Expand into Higher Margin Businesses to Complement/Subsidize**
- Independent living
- Assisted living
- Sub-acute rehab

**Expand Home and Community Based Services (HCBS)**
- Lower required capital investment
- Uneven results
- Build it or buy it?

**Partner or Affiliate**
- Explore options while strong
- Can take many forms

**Exit Skilled Nursing Altogether**
- Increasing trend in the west for CCRCs
- Free-standing SNFs disposing of assets to FPs, mergers, etc.
SECTION 2

Investing in Skilled Care: Sun Health Senior Living
“If you do not change direction, you may end up where you are heading.”

– Lao Tzu
Learning Objectives

• Who We Are
• Our Journey– How do we get from here to there?
• Our Market
• Our Plan
Who We Are – Sun Health

Sun Health is a community-based healthcare organization providing *Pathways to Population Health* through...
Who We Are – Sun Health Senior Living

The Colonnade

Grandview Terrace

La Loma Village

Grandview Care Center

La Loma Care Center
Advocates of Healthy Living
Our Journey –
How do we get from here to there?

• Here
  • Long history
  • Changing market dynamics
  • Declining occupancy and traditional fee-for-service Medicare
  • Managed Care increasing with shorter stays and lower reimbursement

• There
  • Initiated a SNF strategy development process
    • Implement a financially viable strategy for long-term success in changing market
    • Maintain Sun Health’s Commitments to Community
  • Renovate and Reposition the Care Centers
Our Market
Our Market

• Two Hospitals within a 10-mile radius of each SNF comprise:
  • 60% of referrals to La Loma Care Center
  • 86% of referrals to Grandview Care Center

• SNFs within a ten-mile radius of each center:
  • Grandview Care Center has 19 competing SNFs and one high-end luxury specialty SNF
  • Loma Care Center has 10 competing SNFs
Our Market

GCC Medicare Referral Sources
February 1, 2012–January 31, 2013

Del Webb, 69%
Boswell, 17%
Unknown, 4%
Thunderbird, 2%
Good Samaritan, 1%
John C. Lincoln, 1%
Other, 6%

LCC Medicare Referral Sources
February 1, 2012–January 31, 2013

Estrella, 40%
West Valley, 20%
St. Joseph's, 6%
Boswell, 5%
Unknown, 5%
Del Webb, 5%
Good Samaritan, 4%
Other, 15%
Our Plan
Our Plan

1. Be Proactive, Not Reactive
2. Engage our referral partners in conversation early and often
3. Think outside the box
4. Quality outcomes that are measurable and bring value to our referral partners
Keys to Success
Keys to Success

1. Communicate with your referral partners

2. Stand apart from the competition – be your market leader

3. Triple Aim – Reducing Cost, Providing High Quality Care, and Increasing Satisfaction

4. Never take your standing referral sources for granted
““If you want to innovate, to change an enterprise or a society, it takes people willing to do what’s not expected.”” – Jean Riboud
SECTION 3

Eliminating Skilled Care: La Posada
La Posada
Our Campus
Profile

710 Residents
490 Employees
434 Apartments and Garden Homes
34 Park Centre Homes
Living Well Pavilion

**Assisted Living Suites**
- *75 Social Model
- *30 Memory Care
- *39 High Acuity/Enhanced

**Posada Life Community Services**
- * At Home (Home Care)
- *Outpatient Therapy
- *Adult Day Services
- *Pre School

Primary Care offices (Posada Health)
Connect Storefront (off site)
Behavioral Counseling
Community Center
The Shoppes at La Posada
Green Valley: A Quick Snapshot

• Size: 26.5 sq miles
• Limited acute care options
• Population est. (2015) 25,000+
• **Avg. age: 72.5**
• Population over 65 yrs old: 72%
  • (AZ is 13%)
• Population under 18: 1.8%
  • (AZ is 26%)
  • Result = Many people aging at once
La Posada: La Hacienda SNF
La Hacienda

- Private Pay and Medicare Only (No ALTCS)
- SNF 58 bed
- 1990s - 2004 provided mostly long term care
  - small in-house therapy department
- Award winning SNF redesign in 2006 to Person Centered Model
Green Valley / Tucson Landscape 2006-2012

• Sub-Acute becoming increasingly complex
• Complexity creates strain on long term staff
• ACO/Network formations
• Tucson hospitals looking for partners
Payment and Delivery Changes

- More specialty facilities emerge
- Medicare pushes RUG changes
- Assisted Living push/marketing for age in place
- SNF models begin to shift into PAC/Networking
Historical review of changes:
SNF model of care/services
1997-2013

Balanced Budget Act Sets PPS Payment in SNF
Sets up MDS as new tool for payment

44 RUG payment classifications for SNF since 1998,
Ortho rehab high category for payments

2004 RUGS change to 53 categories,
squeeze out high ortho as high paying, high acuity paying more

2006 Rugs up to 66 classes,
Ortho pay gets lowered, high acuity class and pay pay increases

Growth of AL, Outpatient and Home Health as options for rehab care

Affordable Care Act signed. Est. payment models,
one being ACO model for all Medicare, not just SNF

Private sector and CMS Shared savings models increase, over
400 identified ACO or other payment models in place

1997
- AL’s gain momentum as SNF Alternative

2000
- Home Health becomes option for rehab at home via Medicare

2002
- PAPI start in Iowa for SNF payment
- Start of reforming payment to SNF’s (i.e. decrease pay to SNF process starts here)

2006
- Home Health has 10% increases in ortho home rehab nationally

2009
- GAO reports SNF’s nationally billing at higher RUG classes as high acute rehab increases in SNF levels. SNF rates drop. Home Health increases

2010
- SNF’s entering high acute business intentionally to prepare for ACA start (becoming rehab centers)
- For profit SNF enter rehab business See article attached

2011
- Medicare shared saving program starts incentivizes push away from facility high cost centers. 27 ACO’s formed. Drop in SNF rates

2013-beyond
- Decision point for all SNF’s, go all into rehab business or change course
- Tucson data proves most are chasing “all in” path to survival
SNF Operations 2009-2013

• Avg. census
  • 49.8 in 2009 to 28.4 in 2013

• Average length of stay
  • decline from 330.5 to 232.5

• Lack of external / internal private pay/PAC clients

• Less internal resident usage

• Private pay rates climbing - top of market
Historical Losses

Loss/Per MM

Millions

Room Rates 2007-2013

<table>
<thead>
<tr>
<th>Year</th>
<th>Private Costs</th>
<th>Semi Costs</th>
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</thead>
<tbody>
<tr>
<td>2007</td>
<td>$74,460</td>
<td>$57,305</td>
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<tr>
<td>2008</td>
<td>$89,428</td>
<td>$68,620</td>
</tr>
<tr>
<td>2009</td>
<td>$96,725</td>
<td>$74,460</td>
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<tr>
<td>2010</td>
<td>$97,692</td>
<td>$75,204</td>
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<td>2011</td>
<td>$100,740</td>
<td>$76,650</td>
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<tr>
<td>2012</td>
<td>$102,200</td>
<td>$78,110</td>
</tr>
<tr>
<td>2013</td>
<td>$103,222</td>
<td>$78,867</td>
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Model Shifts

• Cannot pick and choose “Rehab mix”
• All In or All Out becoming more clear
• Treading water
  • Key staff dependent
Decision Time

- Decide Summer 2012 to make a Licensure change effective January 1, 2013
- Work with DHS: Develop Scope of Services
- New Service: Enhanced Assisted Living
  - Modeled after LTC of past
  - Emphasis on housing with 24 hour nursing services
January 1, 2013: Now What?

- Challenges: Staffing norms/duties
- Breaking the SNF habits/model
- Physician challenges
- Culture change
- Financial impacts
- Defining a new Scope of Services
- Explain/Explain/Explain
# Scope of Service

**La Posada “Cul-de-Sac” Assisted Living Programs**

<table>
<thead>
<tr>
<th>LA JOYA</th>
<th>LA VIA MEMORY CARE</th>
<th>LA HACIENDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>General supportive care, services &amp; activities; residents with minor cognition issues.</td>
<td>Memory care for residents at risk of wandering with mild to advanced dementia. Secured building with walking paths indoors and in courtyards. Quarterly care planning.</td>
<td>High level/advanced assisted living; residents with cognition issues who are no longer wandering risks but medical needs are too high for other levels. Quarterly care planning.</td>
</tr>
<tr>
<td>Minimum of quarterly individualized care plans or as needed.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Three levels of care depending on how much staff assistance is needed and composite assessment:  
**Level 1:** continent, or manages occasional incontinence independently; self-ambulates or uses assistive devices independently; dresses self and eats independently; stable health; chronic conditions managed with minimal interventions. May still be able to drive; arranges own transportation. Able to use call system. **Level 2:** May be incontinent but self-manages. Requires frequent reminders to use call system or to participate in activities. Chronic health issues; occasional emergency calls. Stand by assists in bathing/dressing. **Level 3:** Assistance in dressing, bathing, scheduling appointments and travel. Frequent reminders for many items. Frequent emergency or staff calls for chronic issues; diminishing safety awareness. Fall risk; frequent falls. Bookkeeping assistance. | Three levels of care based on composite assessment:  
**Level 1:** continent and recognizes need to toilet; self-ambulates and sits, eats independently; dresses independently; showers with stand by assist; able to participate in specialized activities. 20 minute checks. **Level 2:** somewhat continent or needs 2 hour reminders to toilet; needs some assistance in sitting and ambulating; needs assistance in dressing and bathing; needs food cut up and/or encouragement to eat. Some behaviors and interventions. Limited ability to participate in group activities. **Level 3:** challenging behaviors requiring frequent interventions; requires considerable one to one assistance in all activities of daily living; incontinence; wheel-chair bound or requires continuous assistance in ambulating; bathing & dressing by staff; may need to be fed. | Requires 24 hour supervision  
Assistance with multiple activities of daily living  
Assistance in mobility and activities of daily living  
2-person transfers or mechanical lift  
Frequent or complex staff intervention  
Incontinent management  
Oxygen management  
Catheter Care (foley, suprapubic)  
Tube Feeding  
Coumadin & Diabetic Management; sliding scale insulin  
Wound care from general to advanced (wound vacuum)  
Ostomy teaching and care  
Injections (B12, Antibiotics)  
Consult and treatment from outpatient PT, OT, or speech (on site) including recommendations for adaptive equipment.  
Requires bathing and dressing assistance or supervision.  
Assistance in toileting.  
Financial oversight. |

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Changing Face of Assisted Living

“In the years ahead, our role in the delivery of post-acute care will continue to evolve, and likely expand. Trends suggest that we will admit more and more patients following a hospital visit; provide them with specialized care; and send them home”

– Scott Tittle, Executive Dir. NCAL (National Center for Assisted Living)
Current Picture

• Census
• Financial trend
• Resident acceptance/challenges
• Short Term Stay/Needs
• Off – site SNF stays not always popular
• Added Visitation/Care Management rounds in community
Q & A
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