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Operational Solutions to Reignite Strong Financial Results

LeadingAge WA 2023

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Session Objectives



Gain an understanding of the current and projected state of the industry



Explore key metrics and benchmarks to pinpoint strengths and growth opportunities within each organization



Connect financial measures to operational performance and outcomes



Discuss strategies to respond to growth opportunities within departments





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Status of the Industry

Macro Impacts to Senior Living and Care

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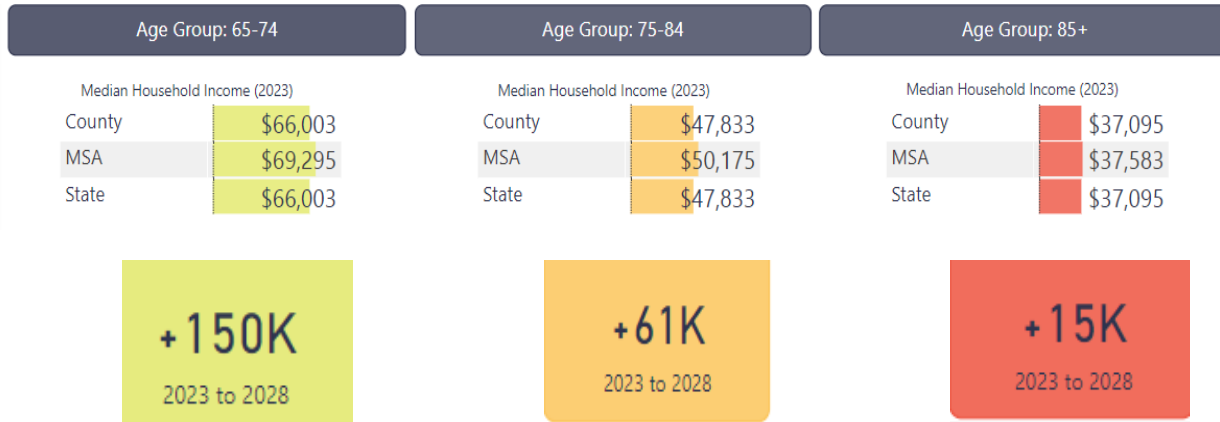
Overview

- Occupancy rates are not expected to reach pre-pandemic levels before 2024.
- Facilities are closing and facilities are reducing the number of licensed beds.
- Payment rates are not keeping pace with inflation which continues to contribute to economic challenges
- Staffing agencies are charging 22-28% higher than pre-pandemic levels for.
- Wages for some health care jobs doubled between 2021 and end of 2022. Pressure will continue but growth will slow.
- Rent or monthly fees have risen in an attempt to keep pace with inflation.



Market Demographics

Senior population growth and household income by age cohort are important factors in identifying future demand for senior housing in a market, along with the price point they can afford. Articles from Senior Housing News and U.S. News and World Report indicated, the average move-in age of a resident entering senior housing has increased from 78 to 83 over the last decade.



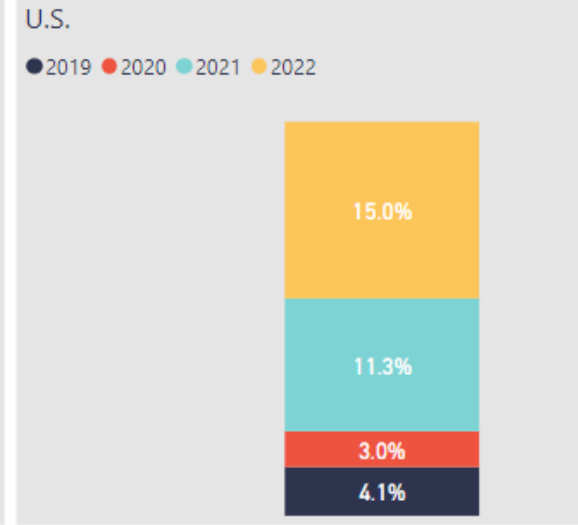
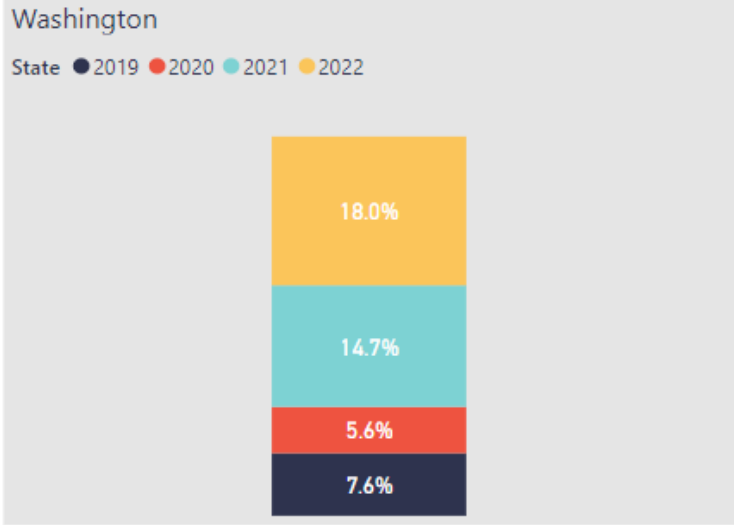
Source Data: Environics Analytics and Senior Housing News and U.S. News and World Report



Washington Housing Market

Historically, if housing values increased, demand for senior housing increased. According to a JLL report, senior housing values dropped to a an 8-year low in 2020 [creating a bargain environment]. JLL and CBRE expect demand for Active Adult and Care Community units to increase beyond pre-pandemic levels as older homeowners sell.

County Name	2023 Est. Housing Values
King County	\$830,606
San Juan County	\$751,005
Snohomish County	\$622,826
Island County	\$549,496
Jefferson County	\$514,240
Whatcom County	\$497,010
Kitsap County	\$484,743
Skamania County	\$483,959
Pierce County	\$482,365
Clark County	\$479,939
Chelan County	\$447,451
Skagit County	\$446,938
Kittitas County	\$446,335
Thurston County	\$429,033
Douglas County	\$417,597
Klickitat County	\$411,116
Clallam County	\$362,162
Spokane County	\$356,416
Benton County	\$354,211
Mason County	\$352,702
Cowlitz County	\$352,360
Walla Walla County	\$350,894
Pend Oreille County	\$350,553
Franklin County	\$327,135
Whitman County	\$326,267
Lewis County	\$320,421
Wahkiakum County	\$318,937

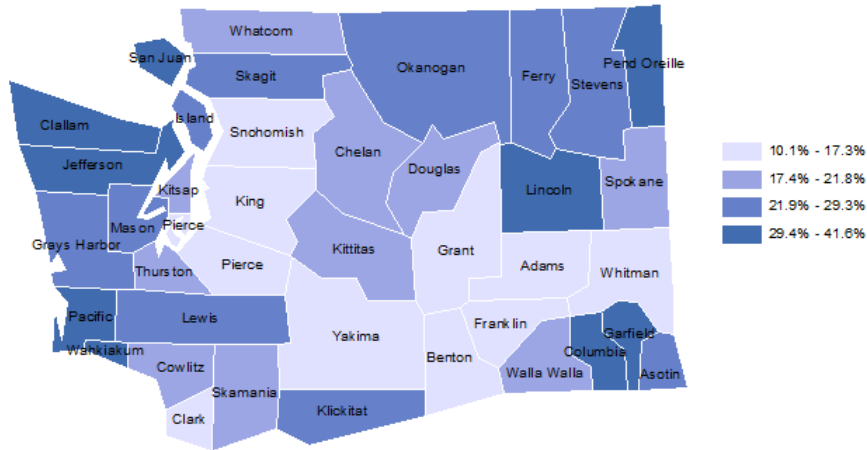


Sources: [With rising demand, the senior's housing sector is positioned for growth \(jll.com\)](https://www.jll.com)
 Metrics for Seniors Housing & Care Property Market (nic.org)

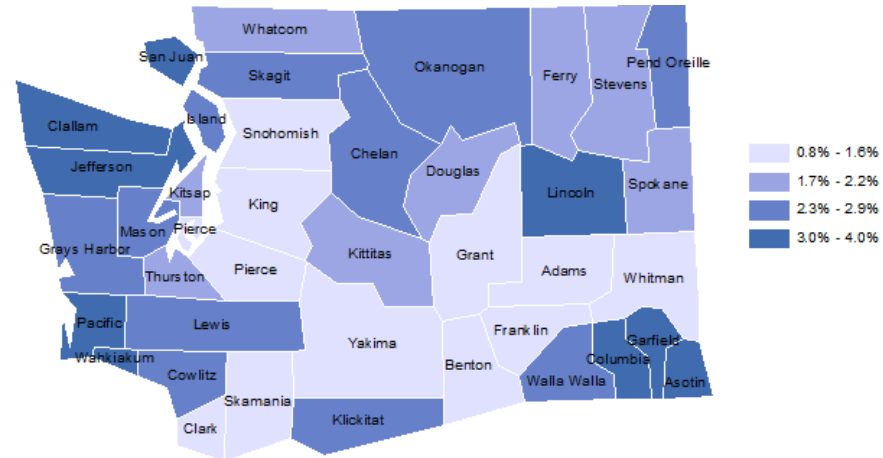


Washington Population

In 2020, 20-30% of the population was over 65 years old in more than 50% of the counties.



In 2020, 2-4% of the population was over 85 years old in more than 50% of the counties.



Source Data: [Population by age, mapped by county | Office of Financial Management \(wa.gov\)](#)

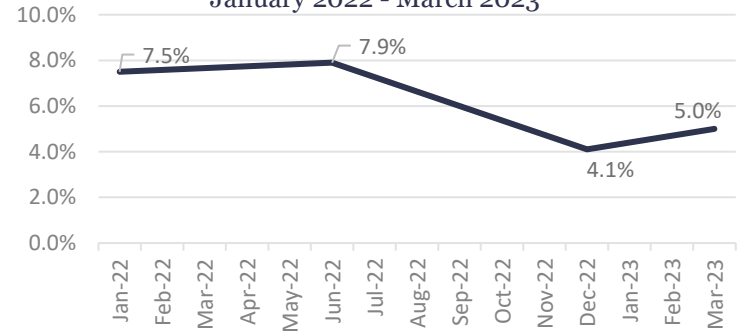


Economy and Inflation

- Current economy is more reflective of a roller coaster than it is a smooth sailing ship
- Inflation was 1.4% in January 2021
- In June 2022 inflation hit a record high of 12.4%
- In November 2022 it was down to 11% and as of Feb 2023 it was 8.0%
- The Fed has been managing the economy with interest rate increases
- Washington's unemployment rate was about 5.8% at the end of 2022.

Source: U.S. Bureau of Labor Statistics

All Item Inflation Trend U.S.
January 2022 - March 2023

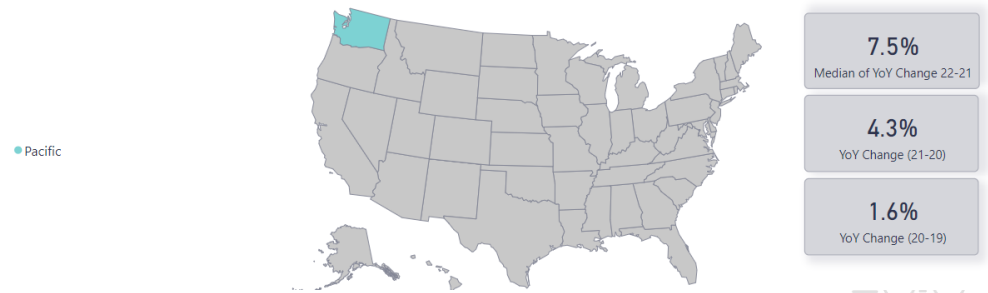


Consumer Price Index

Source: United States Bureau of Labor Statistics

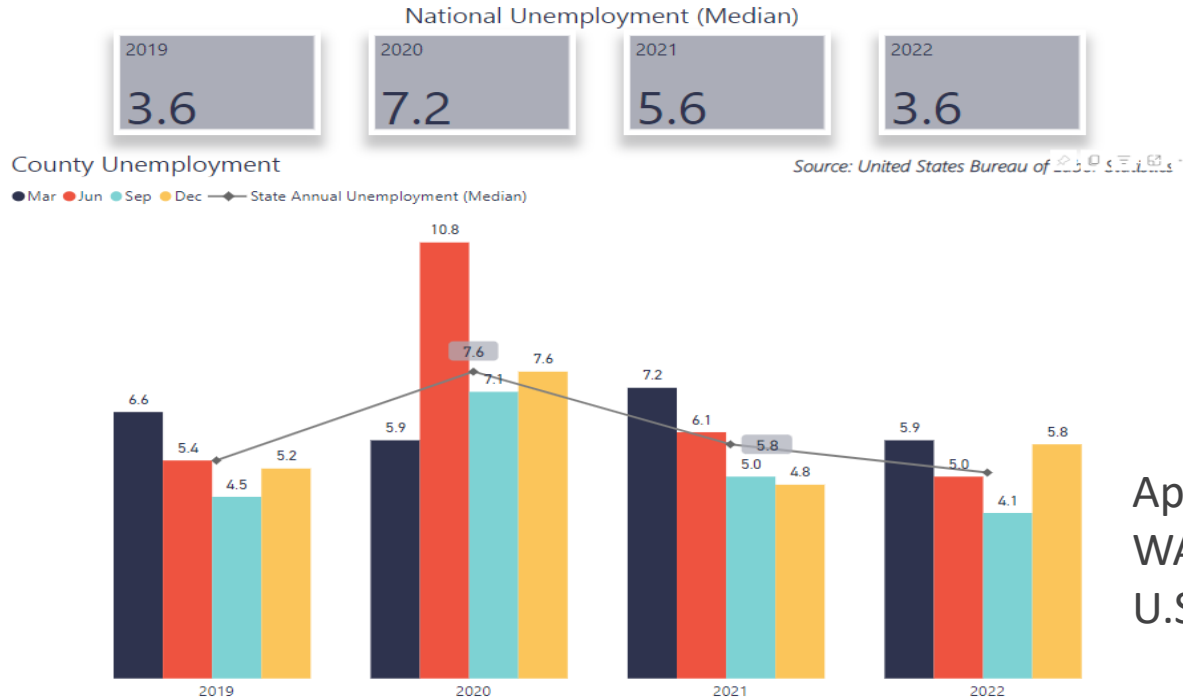
MSA Name	Year Over Year Change (22-21)	Year Over Year Change (21-20)	Year Over Year Change (20-19)	2022	2021	2020	2019
Phoenix-Mesa-Scottsdale, AZ	11.5%	5.0%	2.00%	341.30	306.07	291.45	285.84
Riverside-San Bernardino-Ontario, CA	8.7%	5.8%	1.90%	247.57	227.75	215.34	211.40
San Diego-Carlsbad, CA	7.7%	5.2%	1.50%	688.83	639.52	607.86	598.87
San Francisco-Oakland-Hayward, CA	5.6%	3.2%	1.70%	654.12	619.44	600.17	590.01
Seattle-Tacoma-Bellevue, WA	9.0%	4.6%	1.70%	644.33	591.12	565.39	555.97
St. Louis, MO-IL	7.8%	5.5%	0.70%	529.79	491.64	465.81	462.37
Tampa-St. Petersburg-Clearwater, FL	10.3%	6.0%	2.50%	547.19	495.90	467.69	456.27

Change in Consumer Price Index by Region



Unemployment

Line is representative of the state unemployment median.



April 2023
 WA = 4.3%
 U.S. = 3.7%

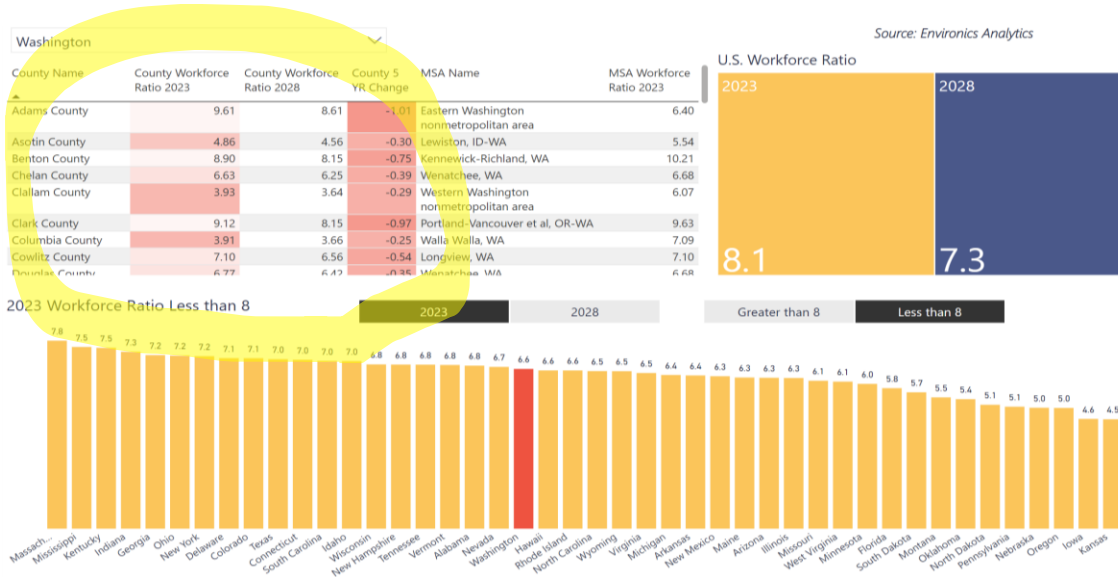
Source Data: United States Bureau of Labor Statistics



Washington Workforce

Workforce availability and the needs of the aging population are going to be challenging for the foreseeable future.

- The entire health care industry has been hit hard by turnover, early retirements and net job losses when compared to pre-pandemic levels.
- For every person over the age of 75 needing care, In 2023 8.1 people are working (in all industries) and contributing tax revenue to help pay for it. That will drop to 7.3 in 2028.



Industry Challenges - Workforce

- As a result of the workforce shortage, providers are dealing with wage increase pressures and reliance on contracted or agency nursing, resulting in significant expense increases.
- In September 2022 there were 2.1 million job openings in health care and social assistance.
- Between 2021 and 2031 overall employment in healthcare occupations is expected to grow 13%, faster than the average for all occupations.
- The 13% growth represents over 2 million NEW jobs over that decade.

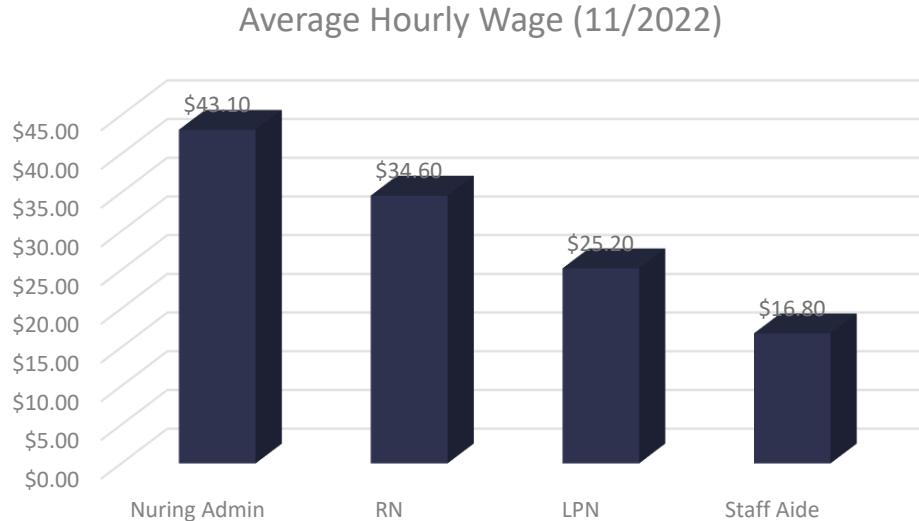
Source: Bureau of Labor Statistics (BLS) February 2020 – January 2022

**Assisted Living BLS data through December 2021*



Hourly Wage Rate Trends in Nursing & Residential Care

- Compounding the challenges associated with available labor is the cost for the labor that is available.
- Nursing costs per patient day continue to increase (approximately 7% increase 2022-2023)

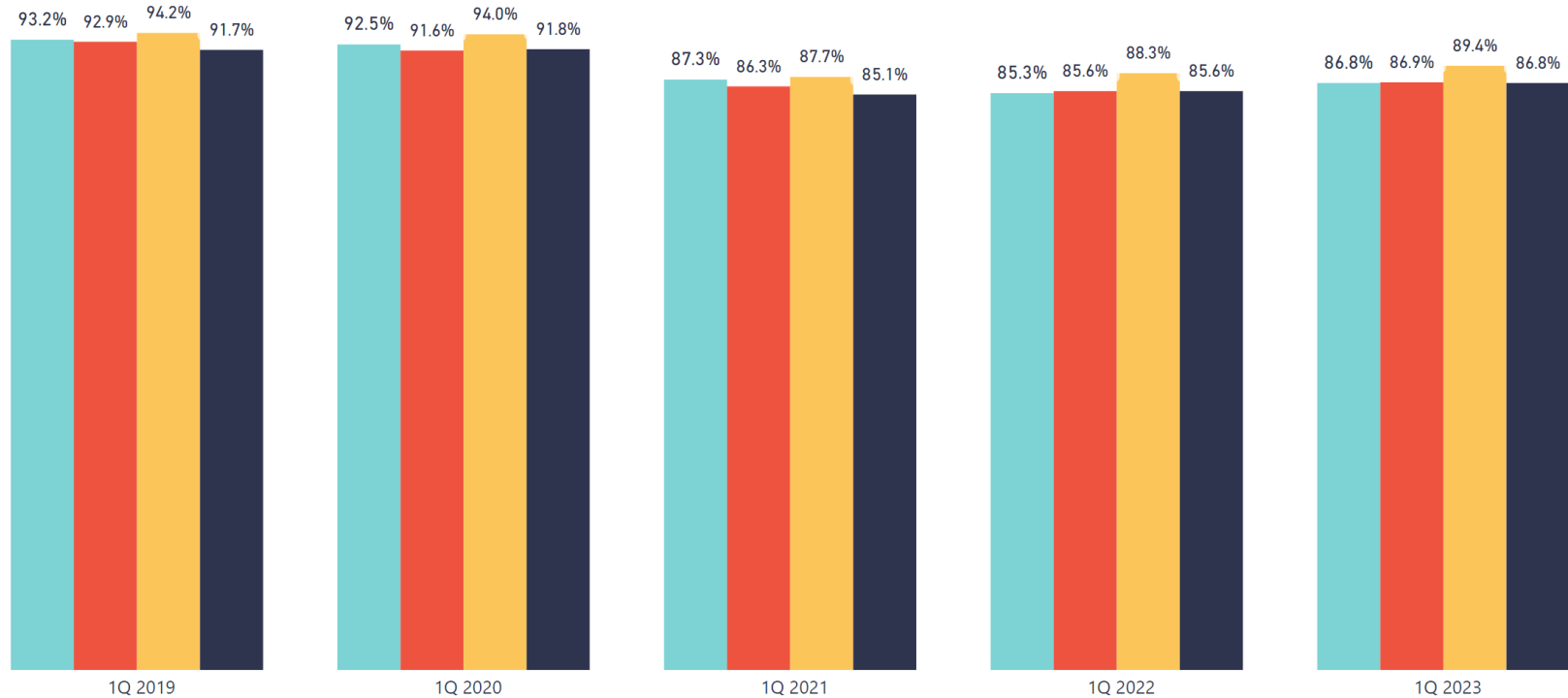


Source: CLArity



Stabilized Occupancy – Independent Living

● County ● MSA ● Region ● National - Primary Mkt

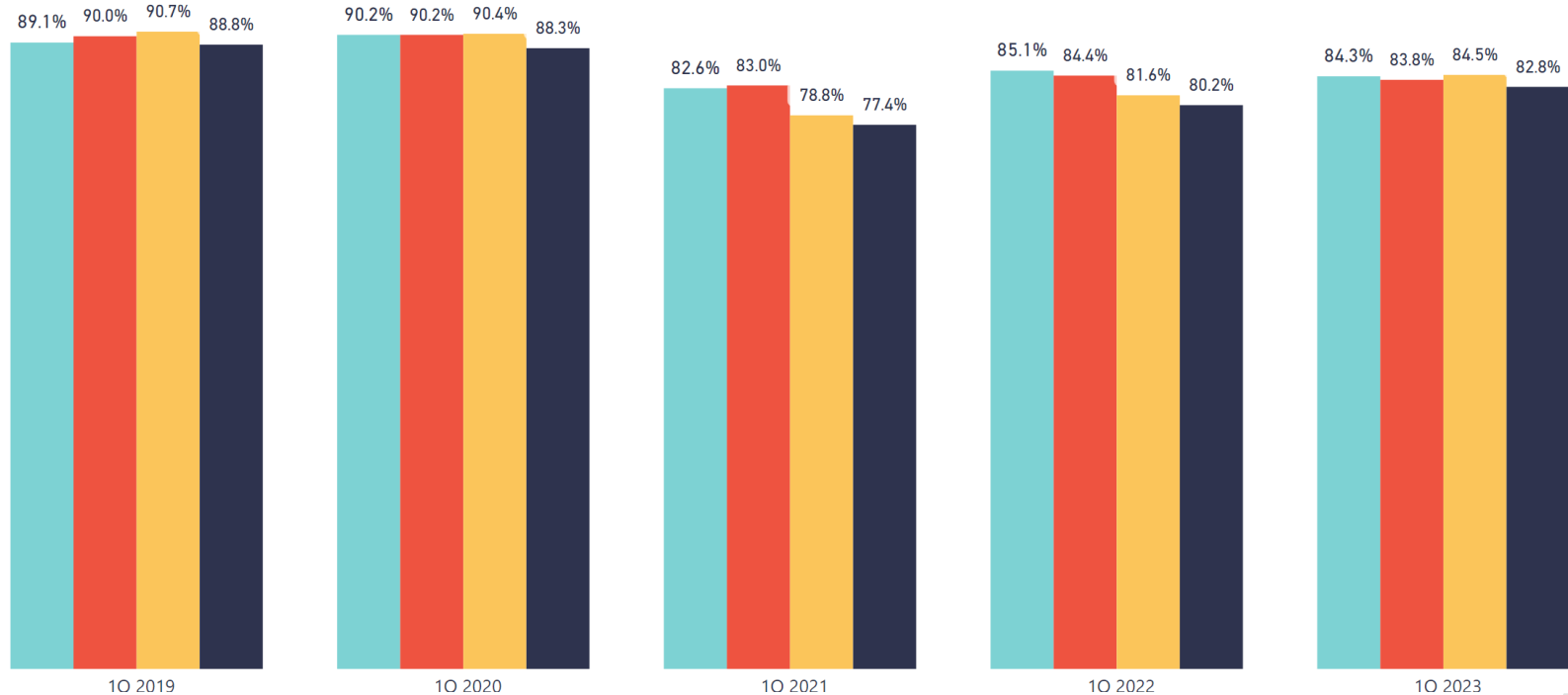


Stabilized Occupancy – Assisted Living

Source: NIC-Map® Data Service, For more information on the NIC MAP® Data Service, please visit www.nic.org/nic-map or call 410-267-0504.

Values are as of quarter end.

● County ● MSA ● Region ● National - Primary Mkt

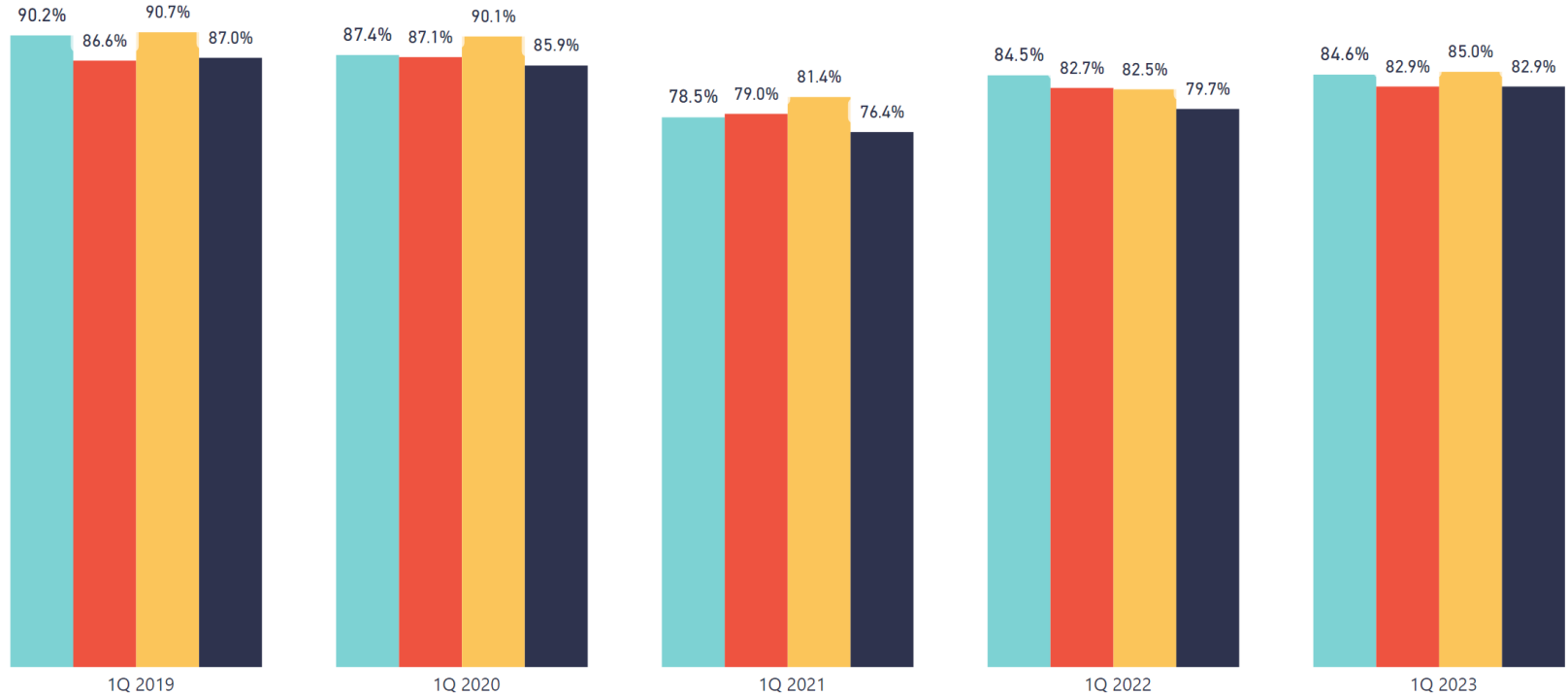


Stabilized Occupancy – Memory Care

Source: NIC-Map® Data Service, For more information on the NIC MAP® Data Service, please visit www.nic.org/nic-map or call 410-267-0504.

Values are as of quarter end.

● County ● MSA ● Region ● National - Primary Mkt

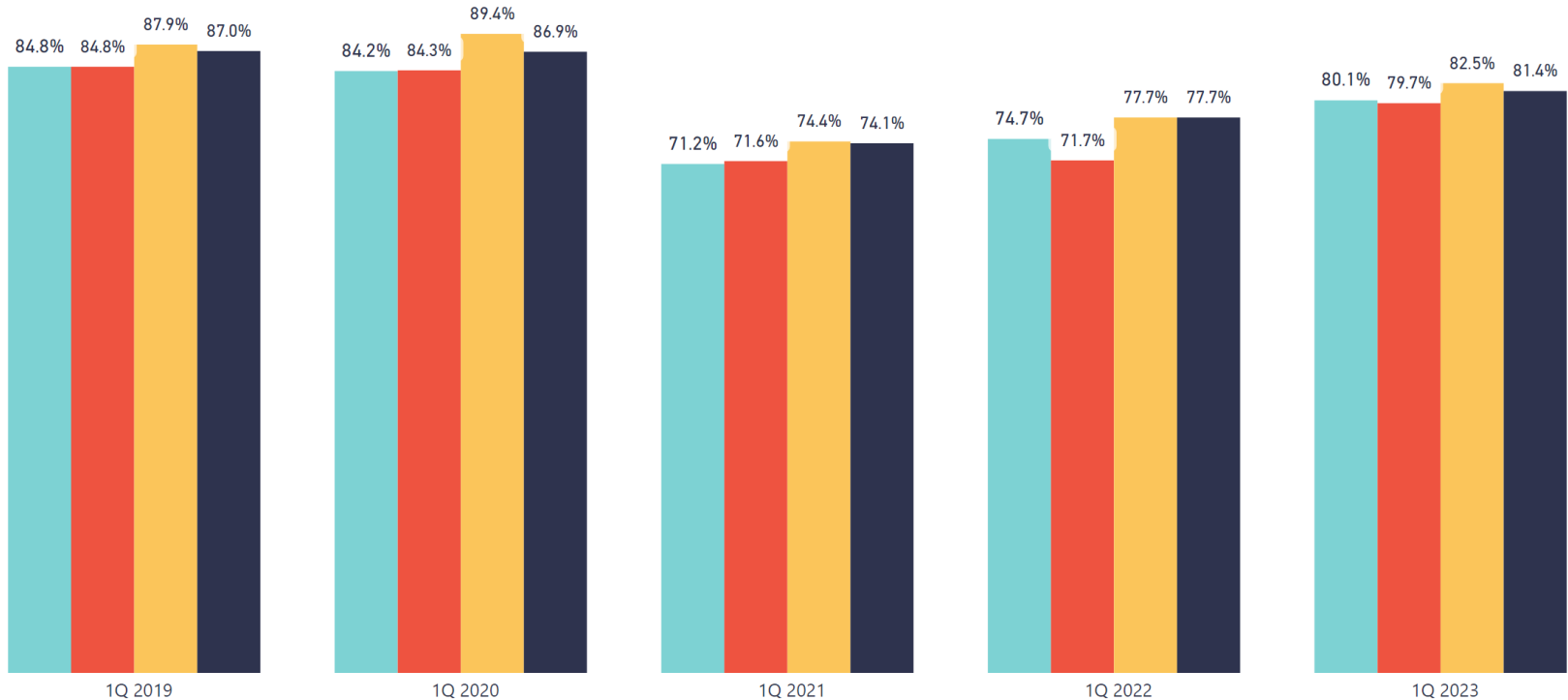


Stabilized Occupancy – Nursing Care

Source: NIC-Map[®] Data Service, For more information on the NIC MAP[®] Data Service, please visit www.nic.org/nic-map or call 410-267-0504.

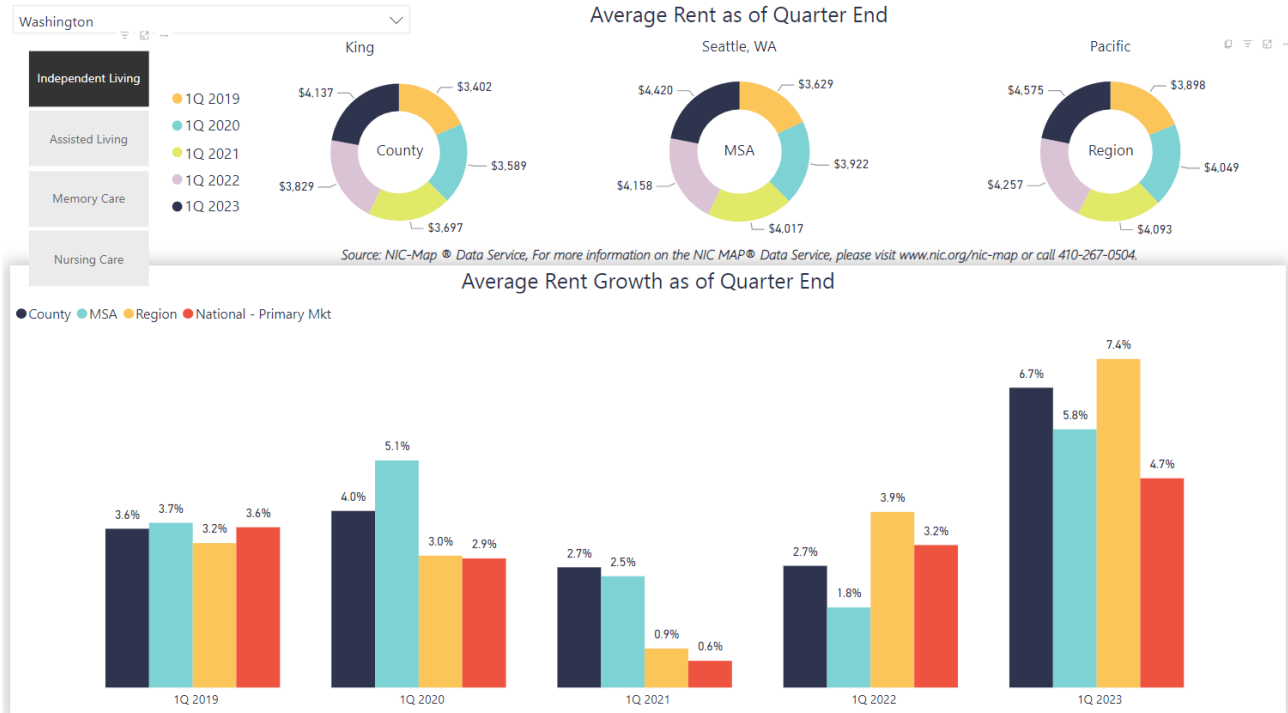
Values are as of quarter end.

● County ● MSA ● Region ● National - Primary Mkt



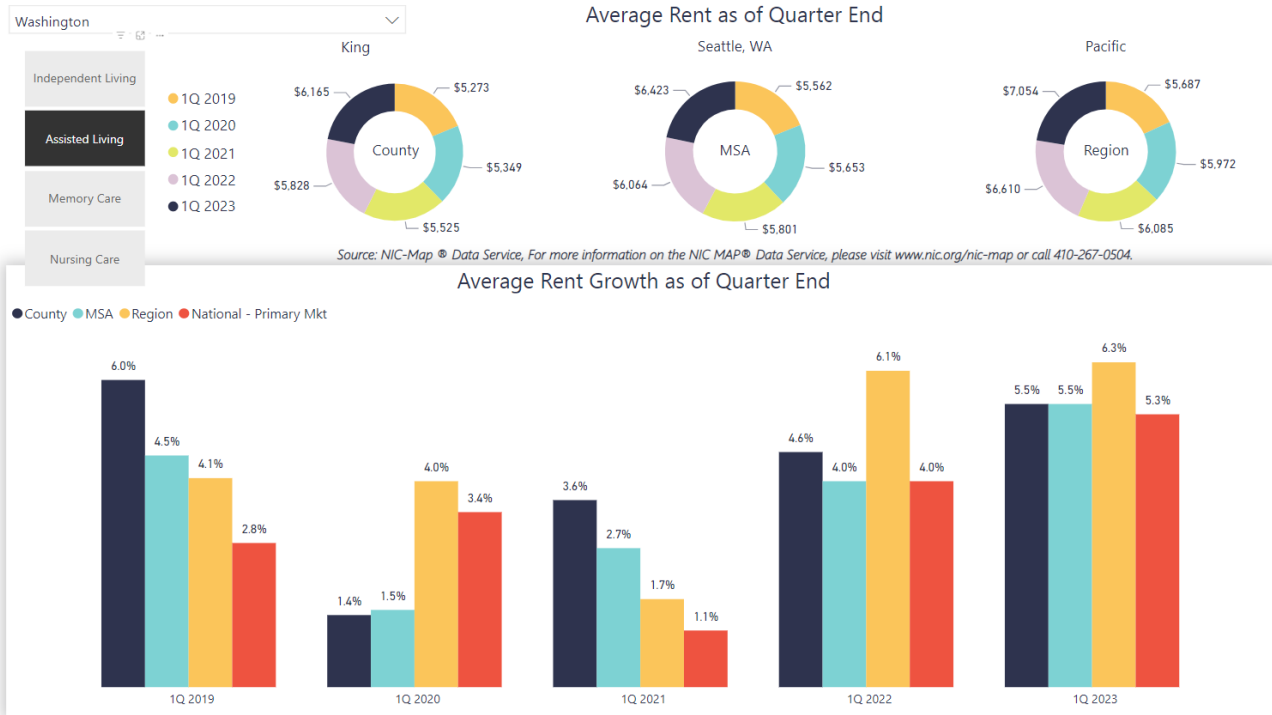
Rent Growth– Independent Living

Market occupancy is generally considered stable at 95 percent for independent living and 93 percent for assisted living. End of year 2022 occupancy rates continue to reflect the impact of COVID-19 on all levels of care in many markets.



Rent Growth– Assisted Living

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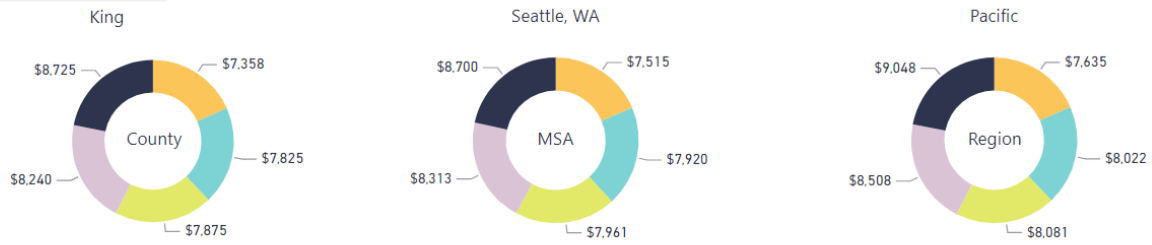
Rent Growth– Memory Care

Washington

- Independent Living
- Assisted Living
- Memory Care**
- Nursing Care

- 1Q 2019
- 1Q 2020
- 1Q 2021
- 1Q 2022
- 1Q 2023

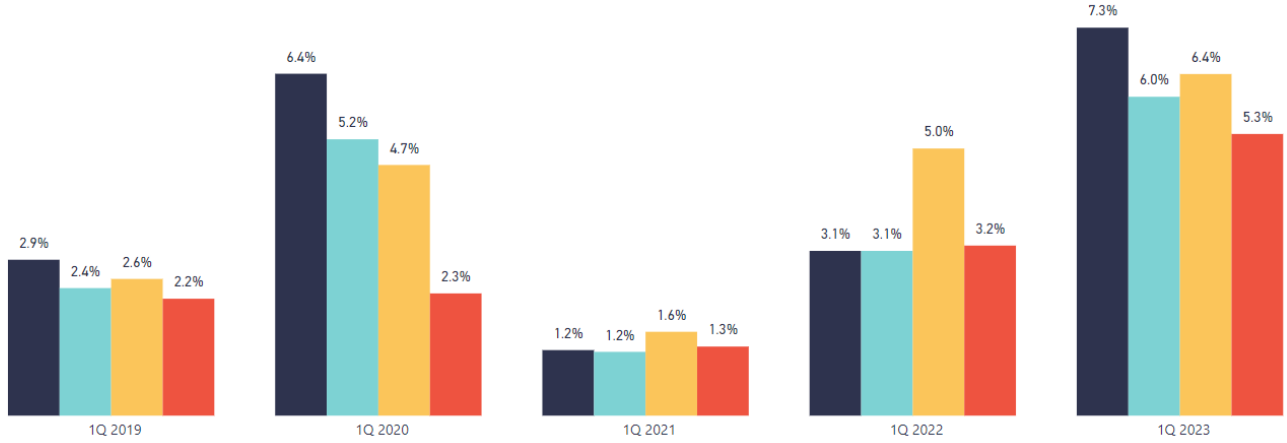
Average Rent as of Quarter End



Source: NIC-Map® Data Service, For more information on the NIC MAP® Data Service, please visit www.nic.org/nic-map or call 410-267-0504.

Average Rent Growth as of Quarter End

- County
- MSA
- Region
- National - Primary Mkt



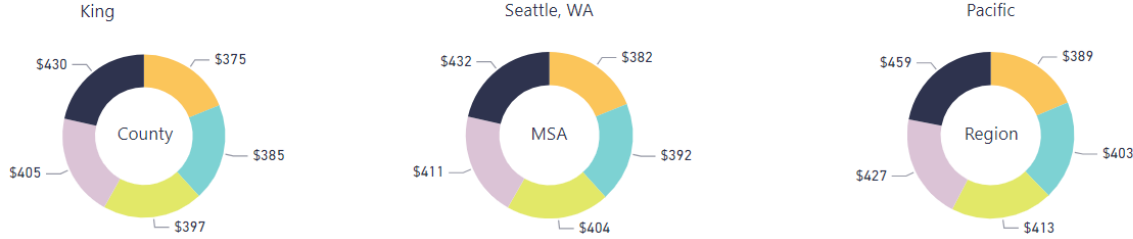
Rent Growth– Nursing Care

Washington

- Independent Living
- Assisted Living
- Memory Care
- Nursing Care**

- 1Q 2019
- 1Q 2020
- 1Q 2021
- 1Q 2022
- 1Q 2023

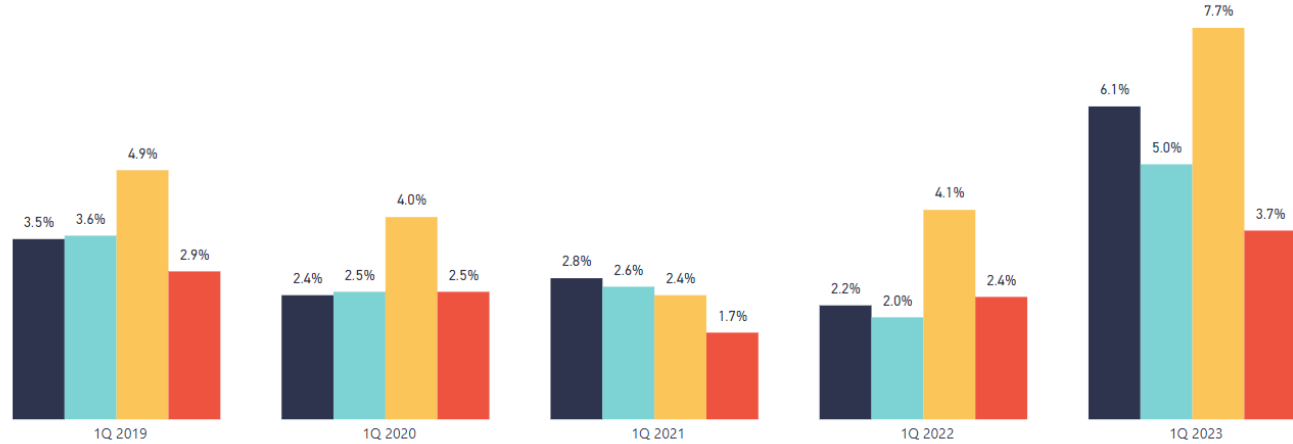
Average Rent as of Quarter End



Source: NIC-Map® Data Service, For more information on the NIC MAP® Data Service, please visit www.nic.org/nic-map or call 410-267-0504.

Average Rent Growth as of Quarter End

- County
- MSA
- Region
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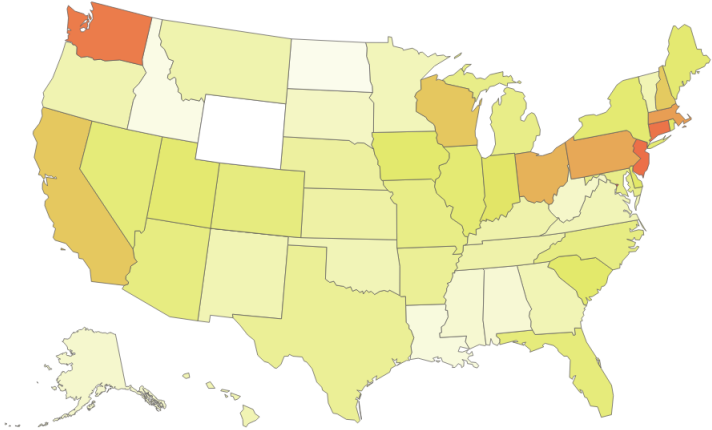


Implications of Facilities at Financial Risk*

The 2022 outlook indicates a significant negative shift in financial performance since 2019. The maps below compares the percentage of counties with nursing facilities at financial risk* by state in 2019 and in the 2022 outlook assuming loss of state Medicaid PHE funding and a 5% PDPM budget neutrality reduction.

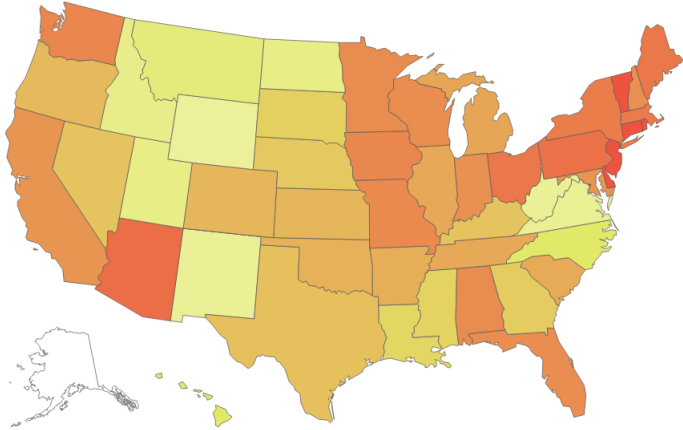
2019: % of Counties with Financially at Risk Nursing Homes

37% of Counties
172,000 (15%) ADC



2022: % of Counties with Financially at Risk Nursing Homes

68% of Counties
417,000 (40%) ADC



0% 40% 90%+

* Facilities at Financial Risk defined as facilities with operating margins in the lowest quintile of performance based on 2019 industry performance (operating margins < -7.5%)





Connecting Data with Performance

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Identifying the road to success



Avoid Vanity Metrics:

- Our days cash on hand is over 300 and our debt service coverage ratio is 3.00x. *We are doing great!?*

Support goals with data:

- You can't improve it if you are not measuring it!

Improve the capability and productivity of your employees:

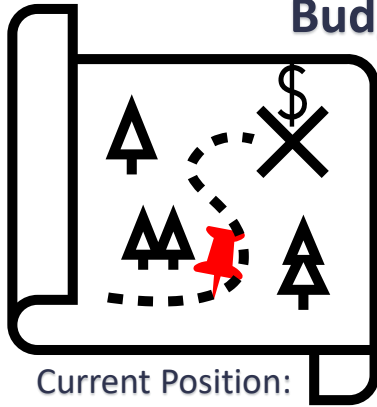
- Get a better ROI from your most expensive asset.
- Educate, empower, and support their accountability.



Know Your:

Financial Destination:

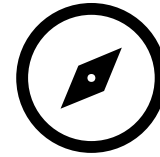
Budget



Current Position:

KPIs

(Key Performance Indicators)



Navigational Tools:

Customer Service

Internal Processes

Innovation

Financial Adjustments

Every employee (passenger and driver) can use
Navigation Tools to keep your car on the road.



Connect the Navigation Tools to KPIs:

All staff need to understand how their performance/behavior can affect the organization and their job.

- PPDs– Per Patient Day metrics
- Net Operating Margin



All staff need to understand how the PPDs are affected by the tools they control through the scope of their job.

- **Customer Service**
- **Internal Processes**
- **Innovation**
- **Financial Adjustments**



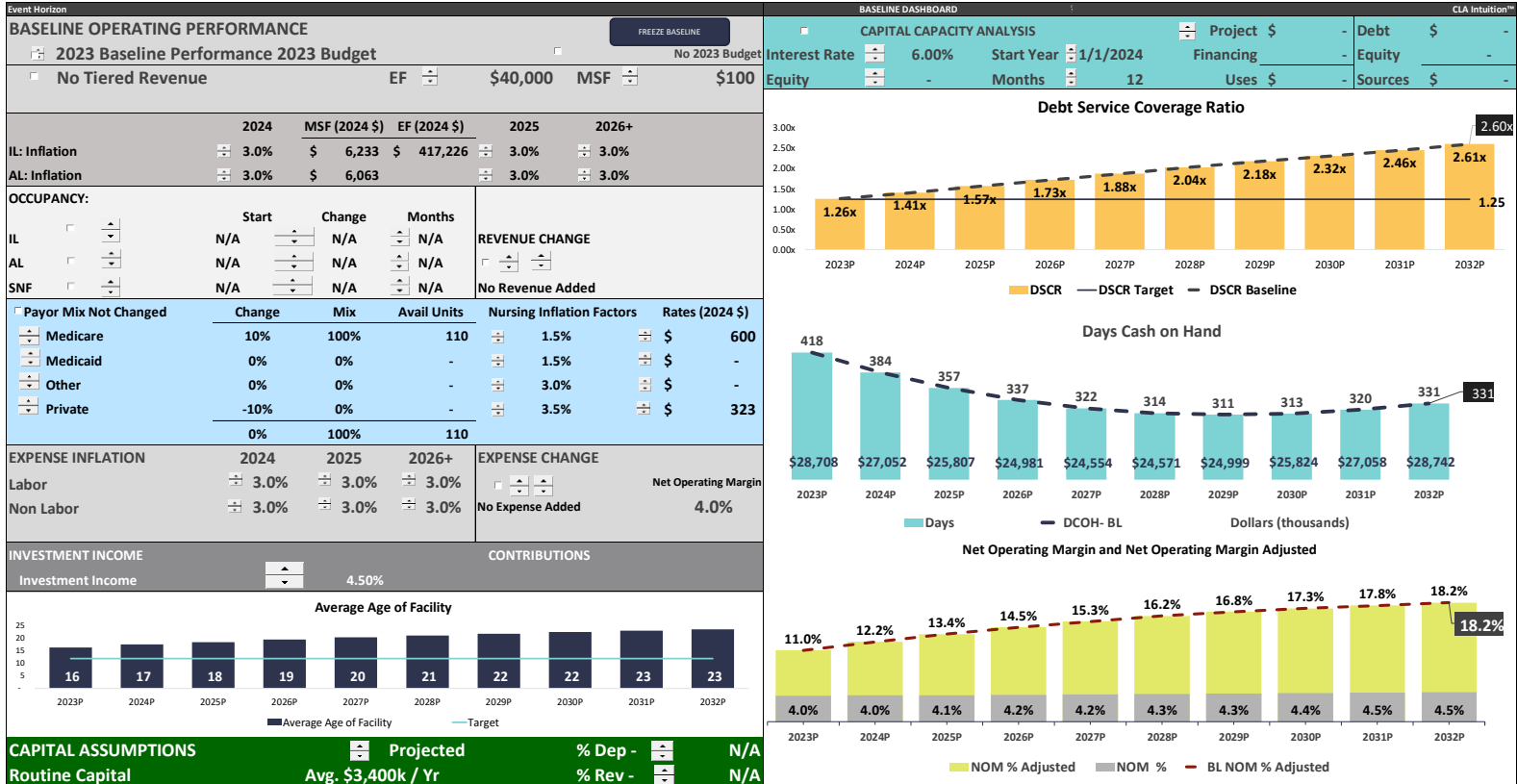
Quick KPI Review

While all KPIs are important, some are more relevant to line staff than others –

- **PPDs**– Per Patient Day metrics = Employee time and other expenses (food, laundry, plant ops, etc.) for every person served.
 - These are Operating Expenses.
 - Every person contributes or influences PPD.
- **Net Operating Margin** = Income – Operating Expenses.
 - Every department has a net operating margin.
 - This is the money available to use to pay off loans, make improvements, give raises, etc.



Sample Dashboard - Things that affect KPIs





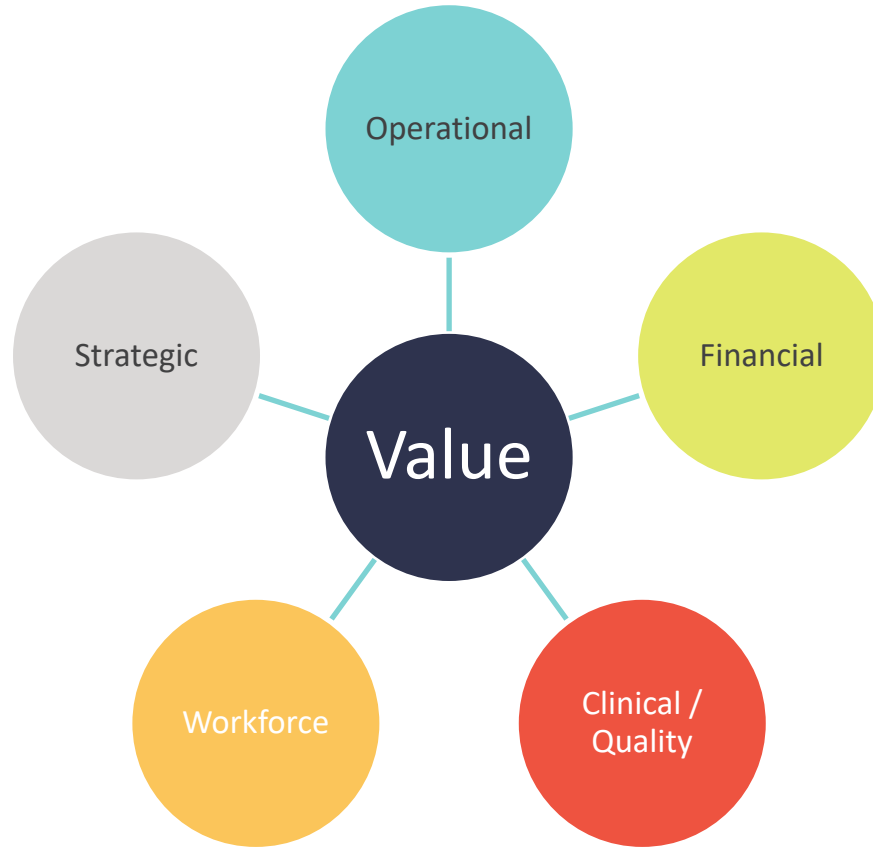
Strategies to educate and empower all levels of decision makers to use metrics/KPIs

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Connect the employee's performance to a value area



Financial Ratio Formulas

$$\text{Operating Margin} = \frac{\text{Net Operating Income (Loss)}}{\text{Operating Revenue}}$$

$$\text{EBIDA} = \frac{\text{Net Income (Loss) or Change in Unrestricted Net Assets} + \text{Interest Expense} + \text{Depreciation Expense} + \text{Amortization Expense}}{\text{Total Revenue}}$$

$$\text{Occupancy Percentage} = \frac{\text{Resident Days}}{\text{Facility Beds} \times 365}$$

$$\text{Payor Mix} = \frac{\text{Resident Day Mix}}{\text{Total Resident Days}}$$

$$\text{Days Revenue in Accounts Receivable} = \frac{\text{Accounts Receivable}}{(\text{Resident Revenue}/365)}$$

$$\text{Average Age of Plant} = \frac{\text{Accumulated Depreciation}}{\text{Depreciation Expense}}$$

$$\text{Capital Spending Ratio} = \frac{\text{Capital Purchases}}{\text{Operating Revenues}}$$

$$\text{Net Margin Ratio} = \frac{\text{Net Income (Loss) or Charge in Unrestricted Net Assets}}{\text{Total Revenue}}$$

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Days Cash on Hand} = \frac{\text{Cash and Cash Equivalents}}{(\text{Operating Expenses} - \text{Depreciation})/365}$$

$$\text{Wages Per Compensated Hour} = \frac{\text{Wages}}{\text{Compensated Hours}}$$

$$\text{Payroll Taxes and Fringe Benefits} = \frac{\text{Benefits Mix}}{\text{Total Salary Expense}}$$

$$\text{Hours Per Resident Day} = \frac{\text{Compensated Hours}}{\text{Resident Days}}$$



Why Reports Matter

- Provides a snapshot look at the operational conditions within an organization:
 - Financial health
 - Employment stability
 - Velocity – Improving or deteriorating
- The employee's role in providing reports
 - Utilized for efficiency and accuracy
 - Illustrates the outcome of the work conducted
 - Supports the decision-making process



Types of Reports

- Payroll
- Financials (Income Statement/Balance Sheet)
- Governmental Publicly Reported (5 Star)
- Key Performance Indicators (Benchmarks, Ratios)
- Quality/Customer Satisfaction (5 Star, Yelp, surveys)
- Human Resource Reports
 - Work schedules
 - Injury reporting
 - Turnover statistics
 - Commitment, satisfaction, & engagement



Key Performance Indicators (KPIs)

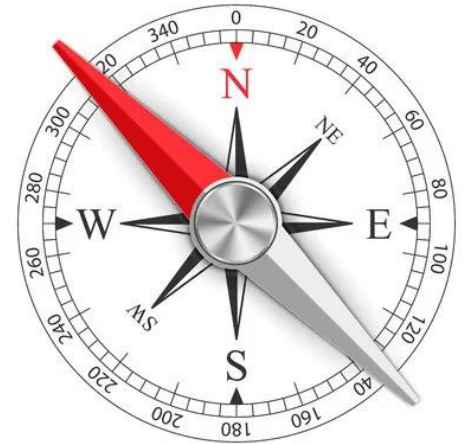


Defining the performance measure that influence the primary business objectives



Determining KPIs

- A well-designed KPI will act as a compass, assisting you and the team understand that you are progressing toward the objective.
- To be effective, a KPI must be:
 - Well defined
 - Measurable
 - Communicated to the entire organization
 - A direct link to achieving an objective



Defining Objectives and Mapping Data

Objective – Increase days cash on hand by \$2M

- **Accounts Receivable KPI** – Decrease days outstanding by 15 days before June 30
 - What – $\text{Accounts Receivable} / (\text{Revenue} / \text{Days in Period})$
 - What report(s) have this data?
 - Frequency – Reported monthly
- **Investment Return KPI** – Maintain average return of 5% through December 31
 - What – Maintain investment strategy to achieve stated returns
 - What report(s) have this data?
 - Frequency – Reported monthly



KPI Examples

Objective – Increase days cash on hand by \$2M

- **Accounts Receivable KPI** – Decrease days outstanding by 15 days before June 30
 - Who – Registration, Billing, Coding, and Collections
 - What – Accounts Receivable / (Revenue/Days in Period)
 - Frequency – Reported monthly

Objective – Reduce agency expense

- **Employee Retention KPI** – Maintain employee turnover rate < X% per month
 - Who – HR, Org Development, Operations, DON
 - What – Monitor commitment ratios, satisfaction scores, and engagement scores and correlate with turnover
 - Frequency – Reported monthly



KPI Examples

Objective – Increase residents served by 10%

- **Vacancy KPI** – Increase average daily census by 3 residents each quarter through December 31
 - Who – Marketing, Registration, and Finance
 - What – Average census level by service type
 - Frequency – Reported daily
- **Unit turnover KPI** – A housing unit will be ready for new admission within 3 days and a SNF bed within 2 hours
 - Who – Maintenance, Nursing, and Marketing
 - What – Maintain investment strategy to achieve stated returns
 - Frequency – Reported weekly





Real time Data

Clarity – Benchmarks made easy to read

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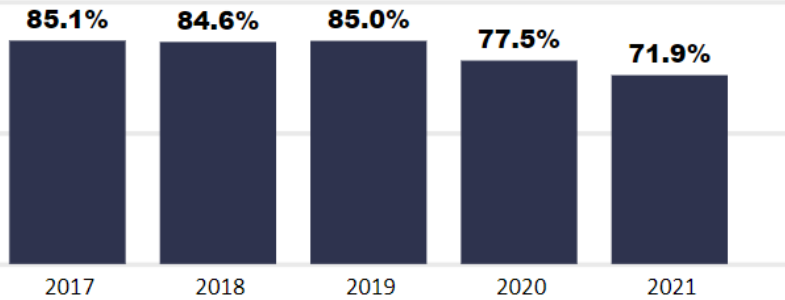
Clarity – A Unique Approach

- CLA Clarity gathers financial, operational, and quality data from every Medicare-certified facility in the country. Then we organize the data, including per patient day (PPD) expenses, CMS Five-Star ratings, and financial outcomes, to show you how the industry is performing and the story behind the numbers.
- Whether you're looking to compare all facilities, just the ones in your state, or find out how you measure up to a nearby facility, our professionals make connections between data points to translate numbers into actionable insights. By exploring the data through conversations, we can help you make decisions that will focus your efforts and resources in the areas that provide the most financial benefit.

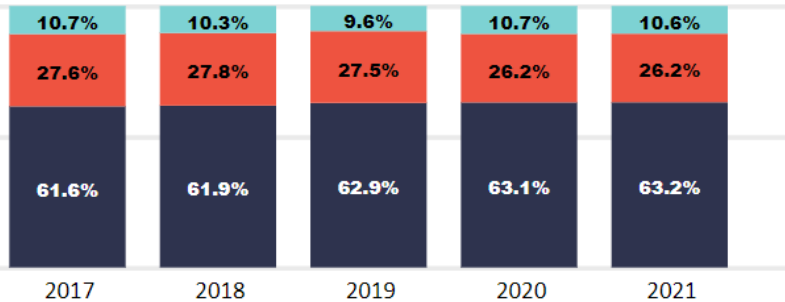


SNF Trends - National

Median Occupancy Rate



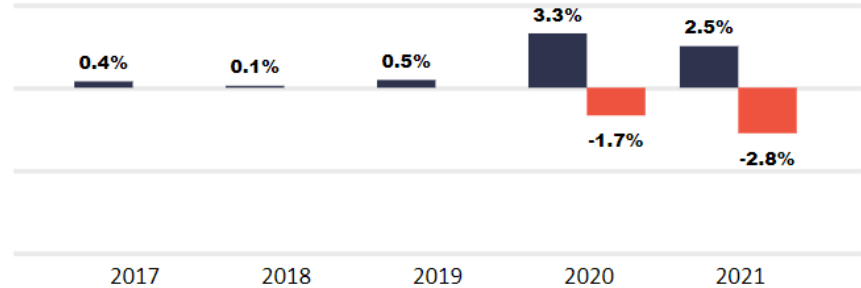
Median Payor Mix



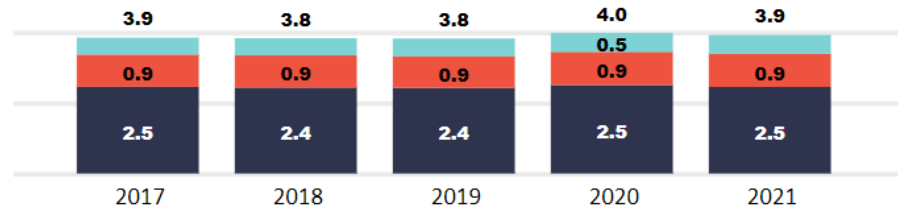
● Medicaid ● Other ● Medicare

Median Operating Margin

● Operating Margin (median) ● Excluding PHE Funding



Median Paid Nursing Hours Per Day



● Aides ● LPN ● RN





Static Sources of Benchmarking – Your Internal Dashboard

i.e., 37th SNF Cost Comparison Report

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Factors Influencing Reduced Profitability

Find your benchmarks (remember the previous slides?)

Hospital
Utilization

Medicare
Advantage /
Managed Care

Workforce
Challenges

Changing
Referral
Patterns

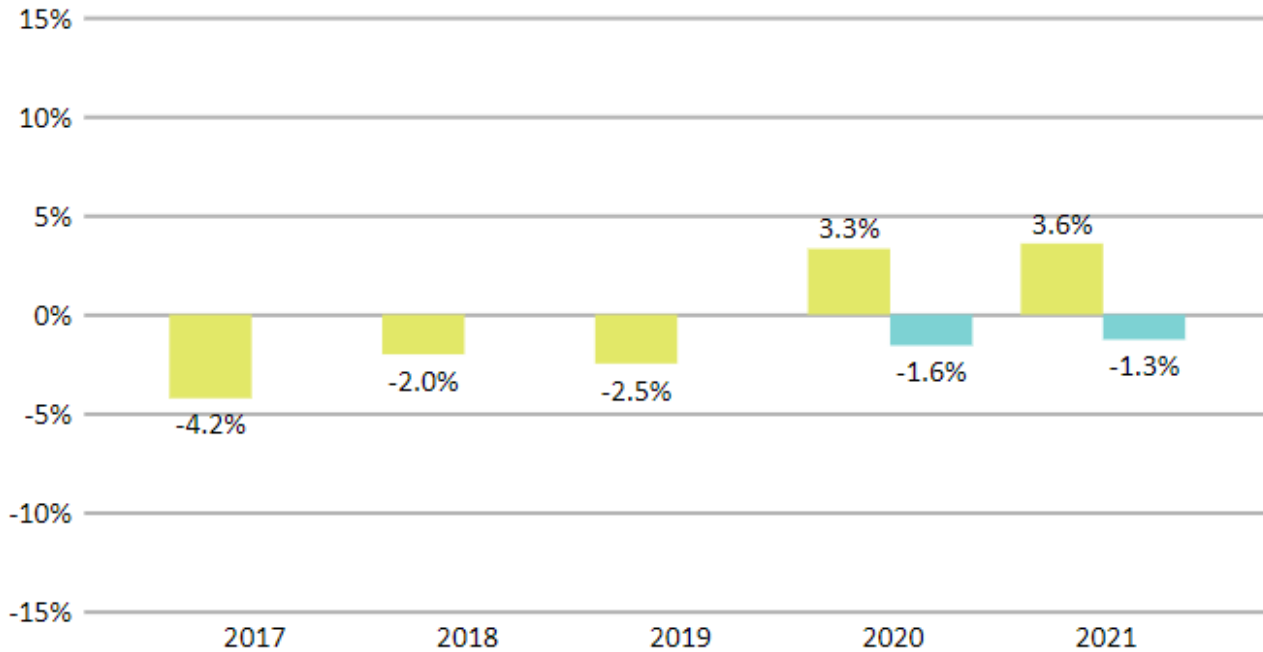
Payor Mix

Current and Future:
COVID, Economy, and
Reimbursement



Operating Margin

● Operating Margin (Median) ● Excluding PHE Funding

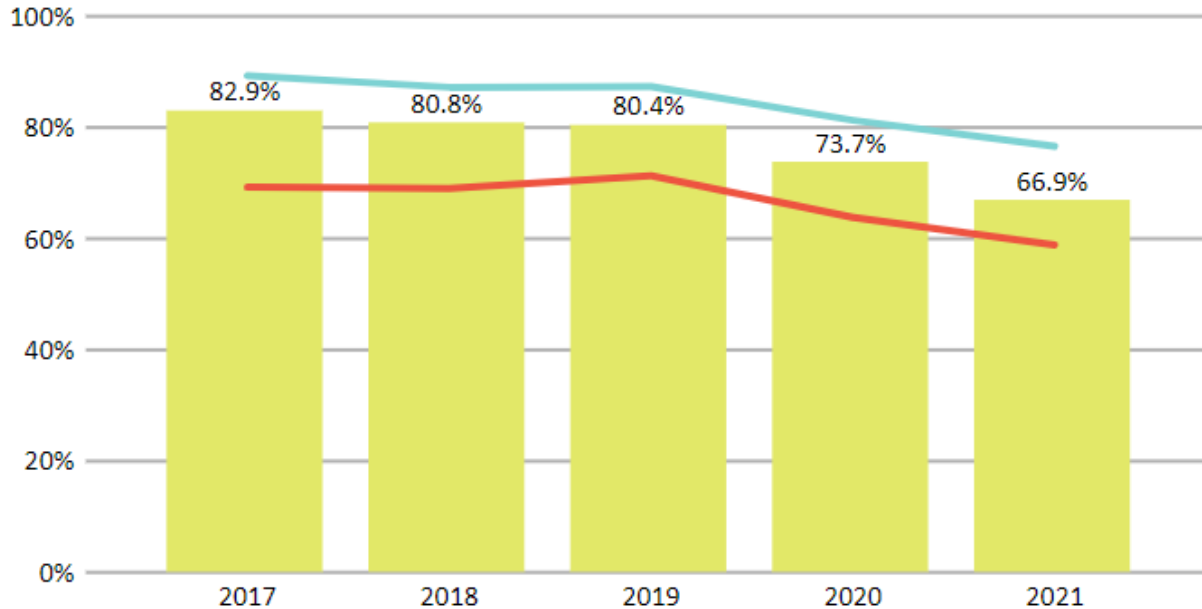


Year	Percentile		
	25th	50th	75th
2017	-10.1%	-4.2%	0.6%
2018	-9.3%	-2.0%	3.1%
2019	-8.1%	-2.5%	2.4%
2020	-3.8%	3.3%	10.7%
2021	-4.5%	3.6%	12.0%



Occupancy Percentage

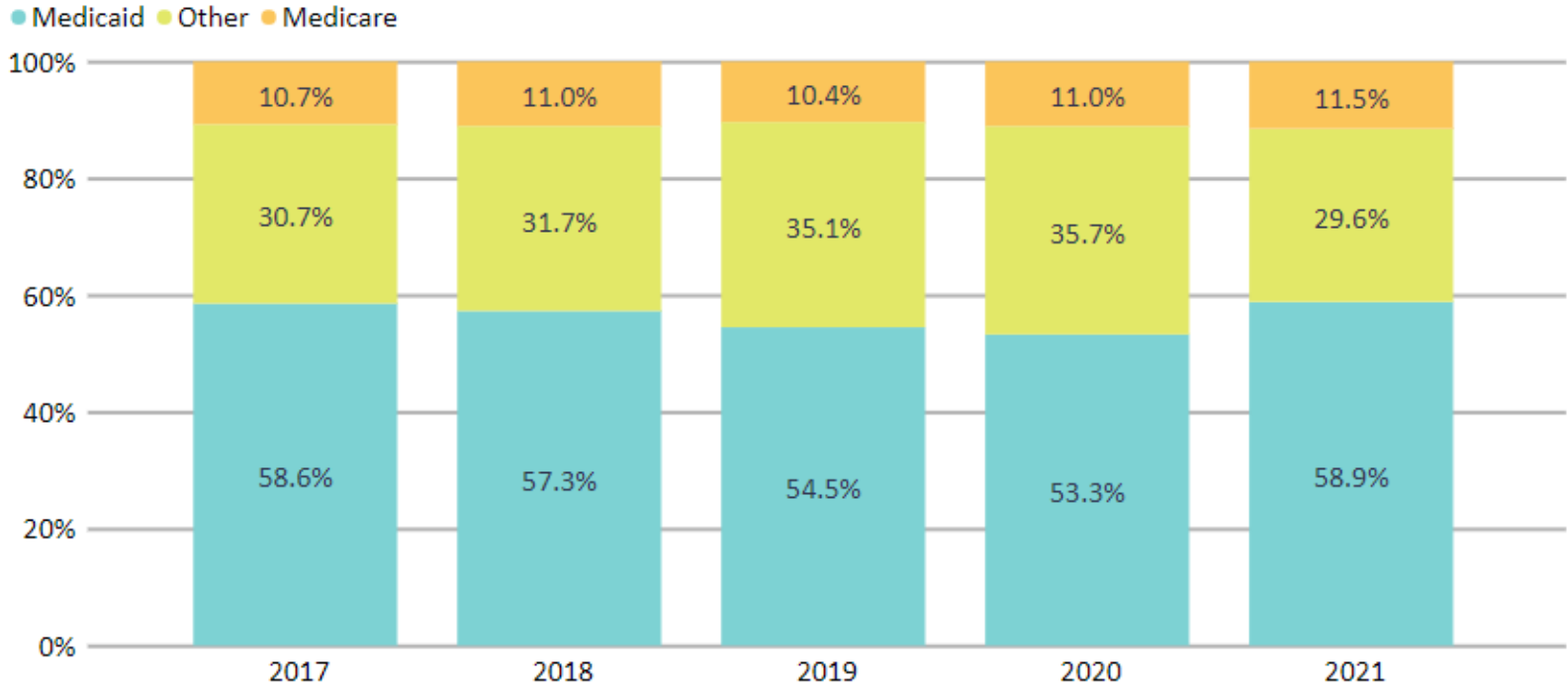
● 50th — 25th — 75th (percentile)



Percentile			
Year	25th	50th	75th
▲ 2017	69.1%	82.9%	89.2%
2018	69.0%	80.8%	87.1%
2019	71.2%	80.4%	87.2%
2020	63.7%	73.7%	81.2%
2021	58.8%	66.9%	76.5%



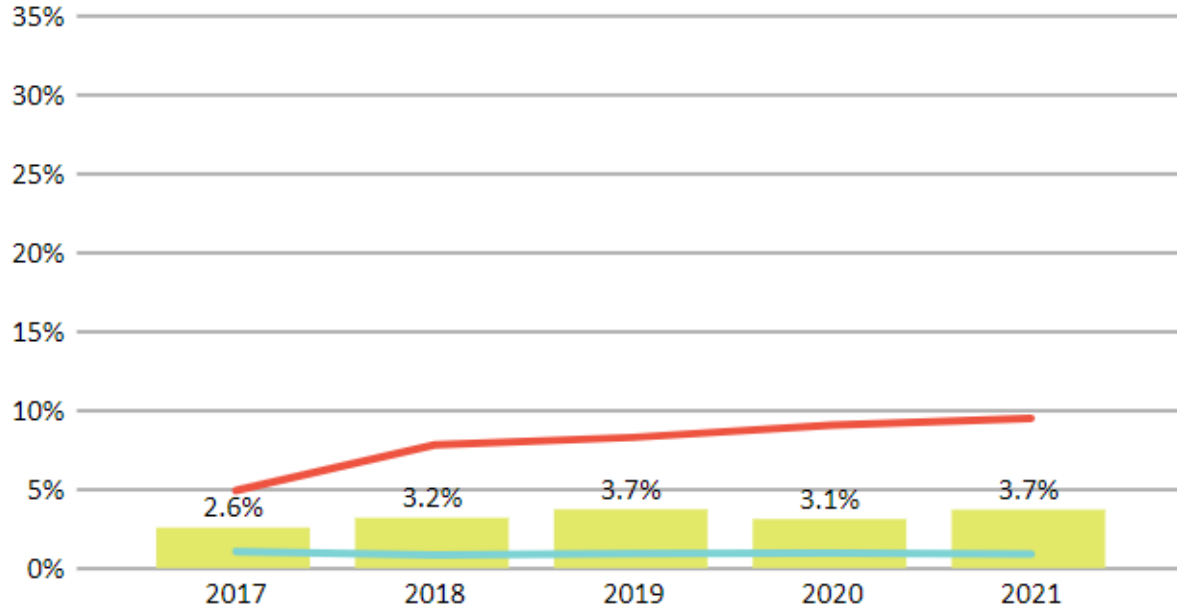
Median Payor Mix by Percentage



Contract Nursing/Staff Utilization

Nursing Contract Labor Hours as Percentage of Total Nursing

● 50th — 25th — 75th (percentile)

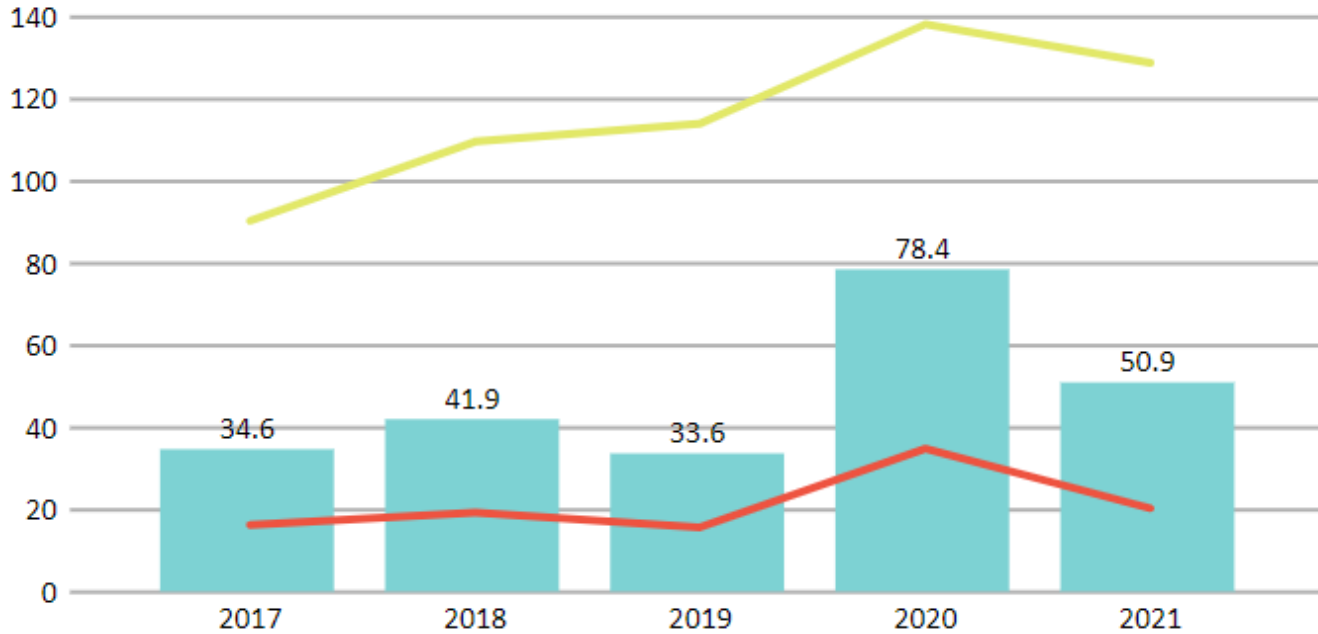


Year	Percentile			Providers using C.L.
	25th	50th	75th	
2017	1.0%	2.6%	4.9%	32%
2018	0.8%	3.2%	7.8%	38%
2019	0.9%	3.7%	8.3%	35%
2020	0.9%	3.1%	9.0%	38%
2021	0.9%	3.7%	9.5%	54%



Days Cash on Hand

● 50th — 25th — 75th (percentile)



Percentile			
Year	25th	50th	75th
▲ 2017	16.2	34.6	90.2
2018	19.2	41.9	109.6
2019	15.6	33.6	113.9
2020	34.7	78.4	138.1
2021	20.2	50.9	128.7



Salaries per Compensated Hour

36th SNF Cost Comparison and Industry Trends (last year)

Percentile	Nursing admin	RN	LPN	Aide	Total nursing	Social services	Plant	Housekeeping	Laundry	Dietary	Admin
25th	\$37.24	\$37.16	\$26.53	\$18.12	\$22.95	\$20.55	\$18.90	\$12.32	\$11.60	\$13.87	\$25.54
50th	\$42.16	\$40.95	\$29.94	\$19.64	\$24.84	\$23.52	\$21.57	\$13.57	\$13.31	\$15.13	\$29.35
75th	\$46.63	\$46.24	\$34.49	\$21.62	\$26.69	\$26.72	\$24.16	\$15.09	\$14.98	\$16.50	\$33.94

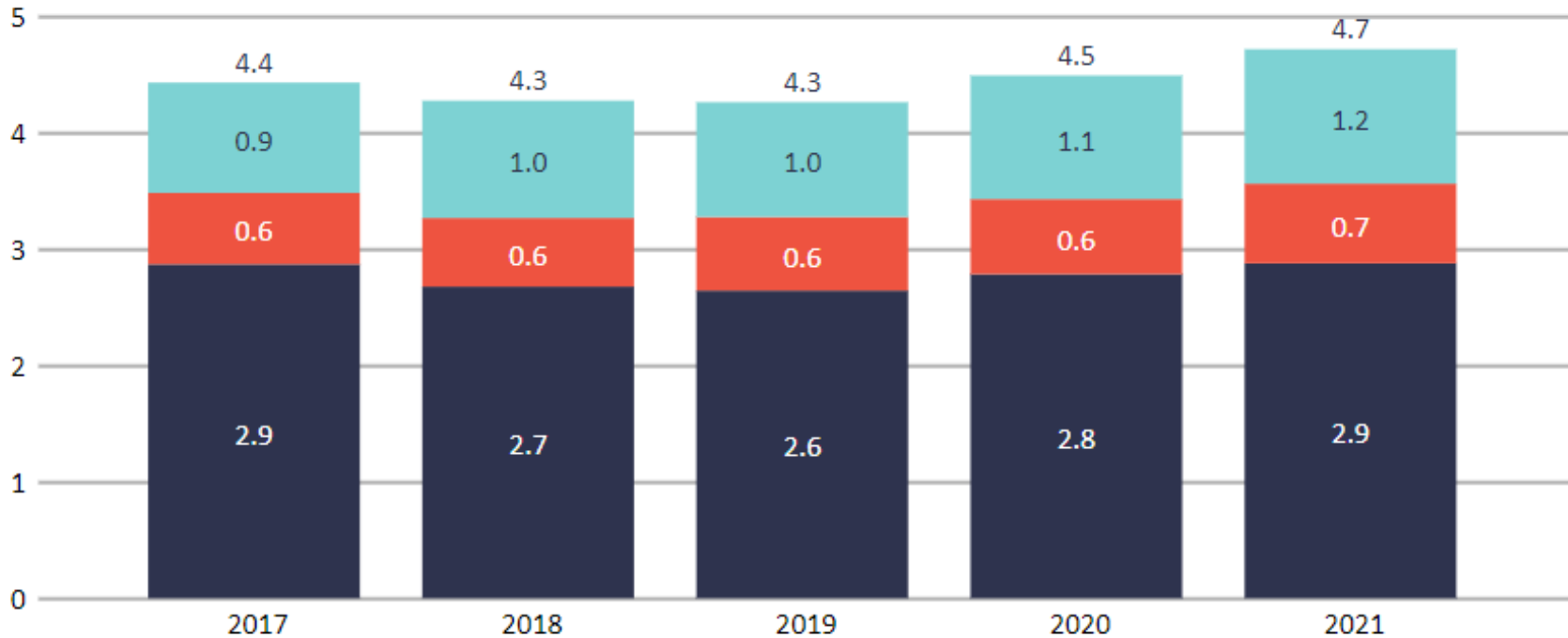
37th SNF Cost Comparison and Industry Trends

Percentile	Nursing admin	RN	LPN	Aide	Total nursing	Social services	Plant	Housekeeping	Laundry	Dietary	Admin
25th	\$39.38	\$37.84	\$26.76	\$17.88	\$21.10	\$20.99	\$20.36	\$12.78	\$12.41	\$14.76	\$26.50
50th	\$43.76	\$42.85	\$31.27	\$20.99	\$24.34	\$23.97	\$22.78	\$14.18	\$13.92	\$15.99	\$30.35
75th	\$48.47	\$48.67	\$36.72	\$23.68	\$28.23	\$27.67	\$25.83	\$15.87	\$15.59	\$17.59	\$34.63



Median Paid Nursing Hours per Resident Day

● Aide ● LPN ● RN



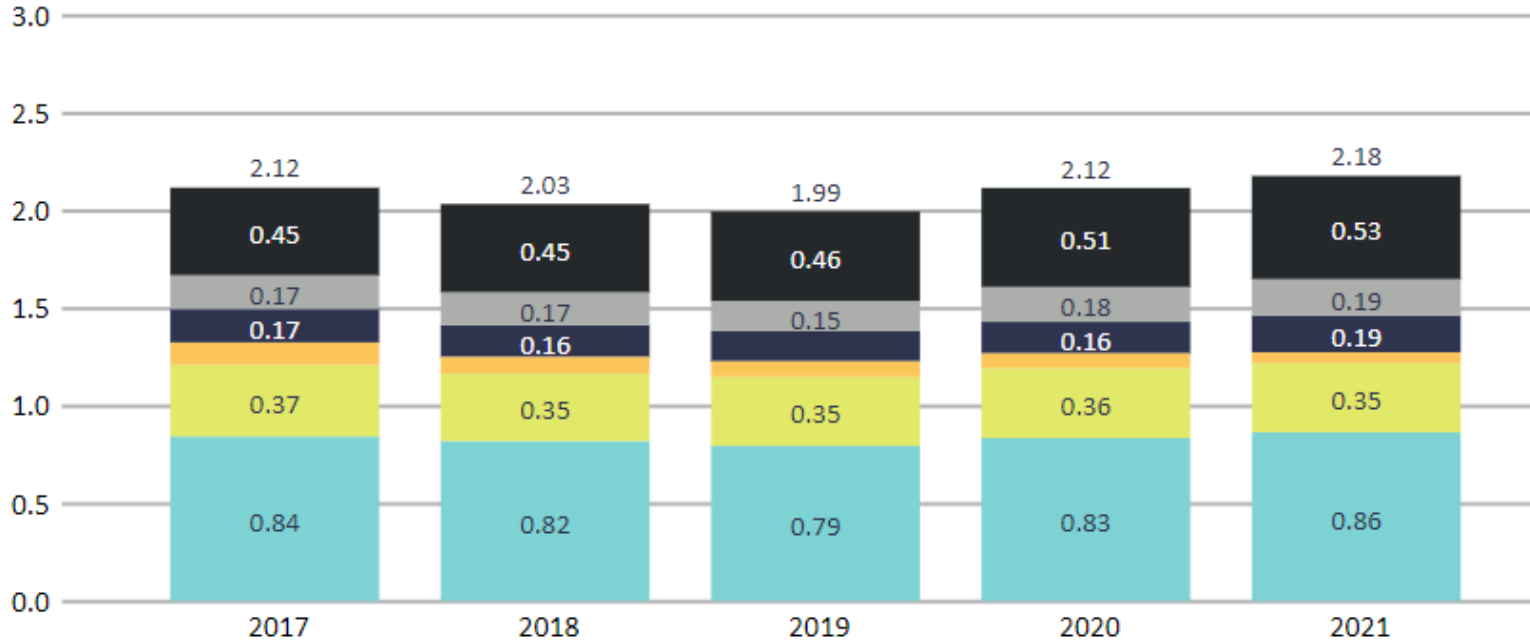
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37th SNF Cost Comparison and Industry Trends Report
State-Specific Data



Median Paid Nursing Hours per Resident Day (Excluding Nursing)

● Dietary ● Housekeeping ● Laundry ● Nursing admin ● Social services ● Plant ● Admin



Total Costs per Resident Day

36th SNF Cost Comparison and Industry Trends (last year)

Percentile	Nursing	Social services	Ancillary	Plant	Housekeeping	Laundry	Dietary	Admin	Benefits	Totals
25th	\$92.77	\$2.59	\$16.89	\$11.13	\$5.25	\$2.05	\$19.81	\$42.19	\$19.07	\$211.75
50th	\$112.31	\$3.71	\$22.33	\$13.85	\$7.17	\$3.60	\$23.96	\$52.94	\$29.66	\$269.53
75th	\$149.73	\$6.08	\$29.67	\$18.95	\$9.69	\$5.43	\$30.30	\$68.26	\$50.99	\$369.11

37th SNF Cost Comparison and Industry Trends

Percentile	Nursing	Social services	Ancillary	Plant	Housekeeping	Laundry	Dietary	Admin	Benefits
25th	\$101.27	\$2.76	\$17.20	\$12.98	\$5.84	\$1.74	\$21.50	\$50.29	\$20.00
50th	\$119.66	\$3.96	\$23.70	\$16.03	\$7.54	\$3.84	\$26.23	\$60.47	\$32.00
75th	\$160.40	\$6.21	\$30.66	\$21.64	\$10.84	\$5.51	\$34.00	\$74.56	\$53.73



Other Sources of Information

- Housing and Assisted Living – *State of Senior Housing* <https://www.ashaliving.org/>
- Not For Profit Healthcare Financial Ratios – Ziegler Median Ratios <https://www.ziegler.com/newsroom/>
- General health care industry data
 - LeadingAge <https://leadingage.org/>
 - Kaiser Family Foundation <https://www.healthsystemtracker.org/dashboard/>
 - National Investment Center <https://www.nic.org/>
 - MedPac <https://www.medpac.gov/data-book-highlight-rates-of-low-value-service-use-and-spending-in-medicare/>
 - Data.Gov <https://data.gov/>





Getting Started

We'll get you there.

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Developing an Action Plan

- Identify your organization's challenges
- Connect federal and state regulations to the areas that Per Patient Day performance
- Define the KPIs and the market and internal benchmarks you can use to guide daily decision making
- Collect data if it is not publicly available



Organizing and Visualizing the Organization's Data

- What are the operational / strategic objectives
- What reports or data do you currently use and is that data available electronically (the answer is yes)
- Create a central database for YOUR data (external comes later)
- Understand how best to illustrate what the data represents using the examples presented today
- Begin simple and add complexity over time
- Realize this is a journey and taking the first step can be difficult



Creating a Database

- Selecting a project champion / leader
- Bring in an IT person whenever possible
- Excel is a good place to start
- It is important to understand how you plan to use the data
 - Trends over a period of time
 - By service or all together
 - Any automatic links

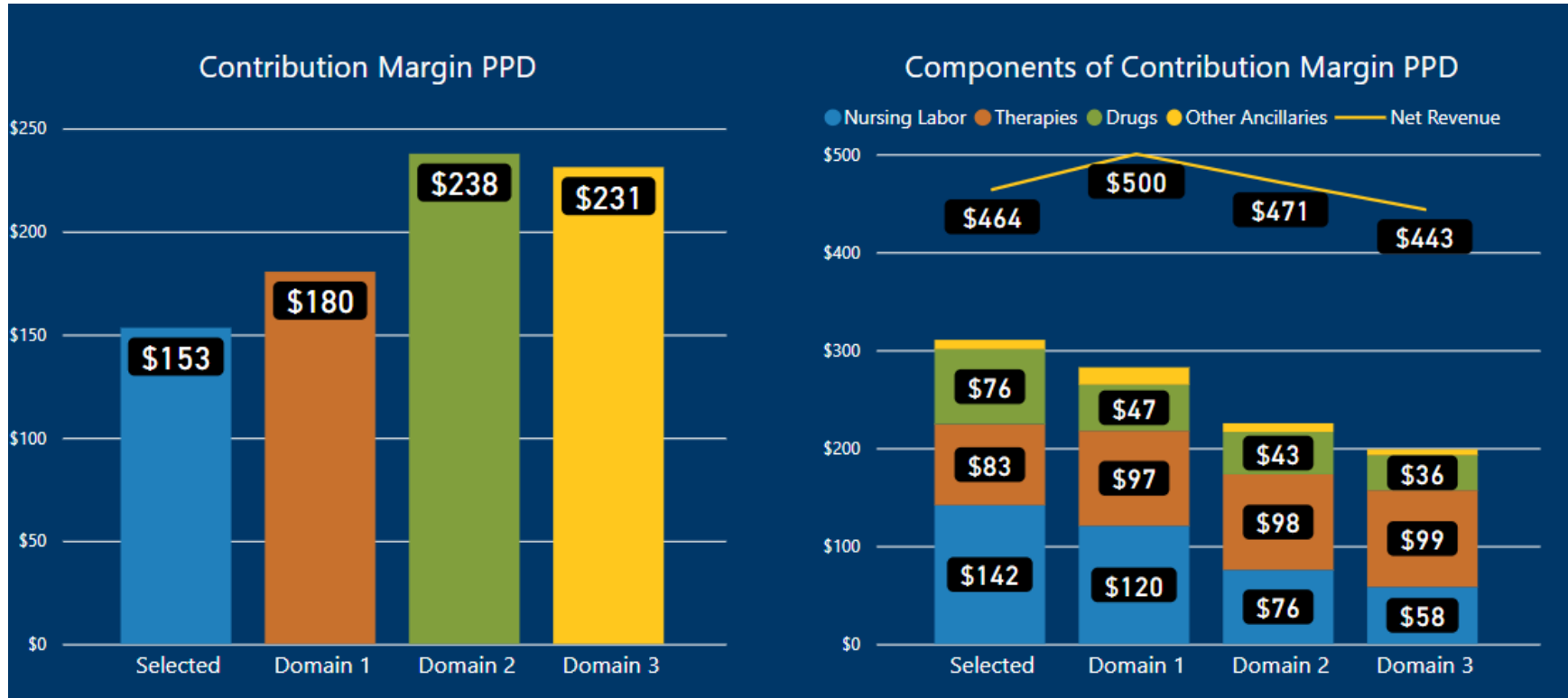


Put the data to use

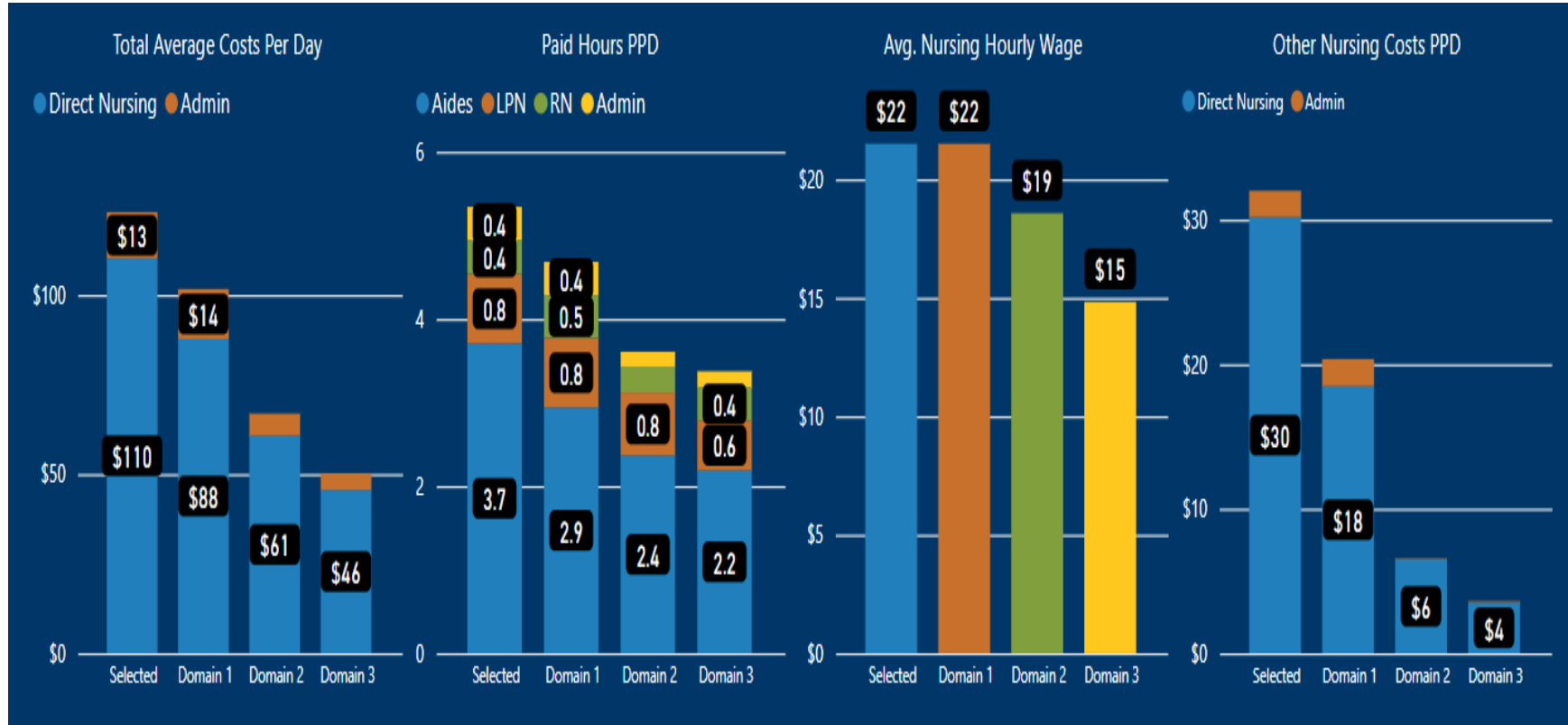
- Connect job descriptions to accountabilities, competencies and checklists
- Integrate check lists into weekly 1:1 meetings with supervised team members - monitor performance and awareness
- Poll your team members



Comparison to Peers – Contribution Margin

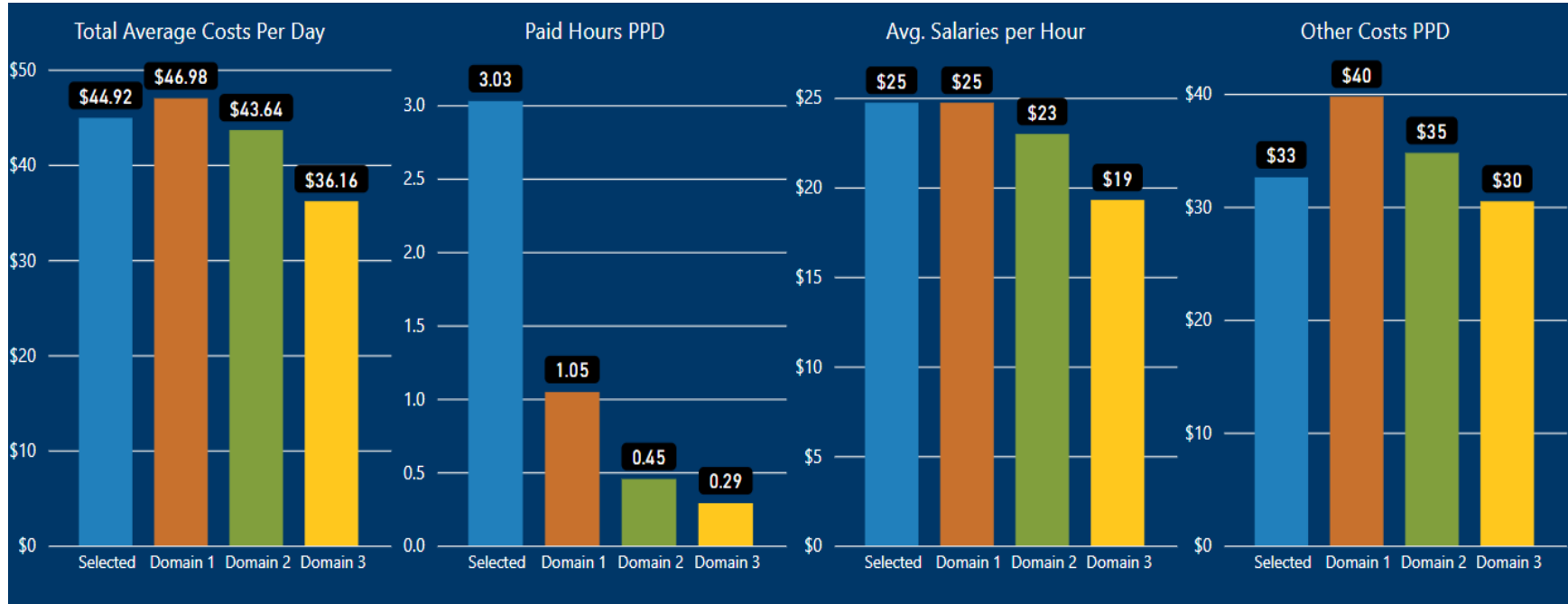


Comparison to Peers – Costs Per Day

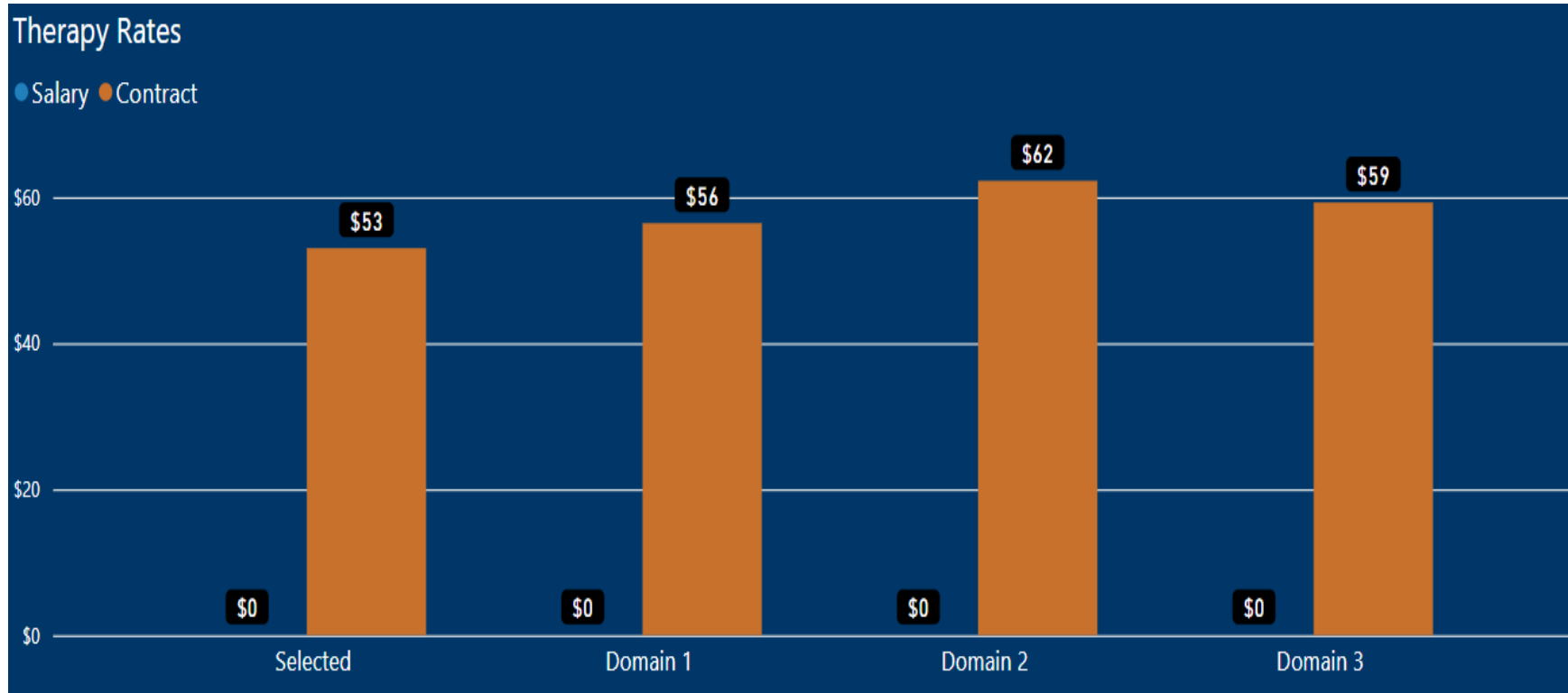


Comparison to Peers – Administration

Administrative and General Costs



Comparison to Peers – Therapy or Pharmacy



2022 Senior Living & Care Trends Survey

Since 2018, CLA has reported on senior living trends to deepen our understanding of the role of disruption in the shifting and evolving market of our industry – and has there ever been disruption! Our goal has been to collect feedback from senior living providers in order to share trends emerging from the responses. We believe the reports provide a platform for health care teams and board members to discuss and identify growth strategies to solidify strategic planning.

This year, we want to take it one step further and are expanding our survey into a multi-part series focused on “Sharing Our Strengths”. Our hope is the culmination at the end of the year will be a trend study that reflects, in part, the answer to “Profile of Success: What Makes a Great Organization?”

The survey topics will include Governance, Fundraising & Philanthropy, Our People, Market & Consumer Expectations, Innovation & Growth and Financial Success & Sustainability

WE WANT TO HEAR FROM YOU!

The first survey on Board Governance is live now and available for you to complete at this link: [2022 CLA Senior Living Trends Board Governance Survey](#)

We will be providing updates on the results of the survey throughout the year.

For a copy of our 2022 Senior Living Trends Infographic Series Report, click here: [2021 CLA Senior Living Trends Survey](#)

For State-by-State Financial and Operational Metrics for 2022, click here: [State-by-State Financial and Operational Metrics : 2022 : Tools : Resources : CLA \(CliftonLarsonAllen\) \(claconnect.com\)](#)



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