

2011 National Skilled Nursing Investment Forum

“Strategies for Dealing with Funding Cuts”

Moderator:

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Presenters:

Gene Curcio
Consulate Health Care

Joseph Steier
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National Investment Center
For the Seniors Housing & Care Industry

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The Situation

- **National Issue** – All State Budgets are Impacted
- **New York** – The Latest Budget Activity

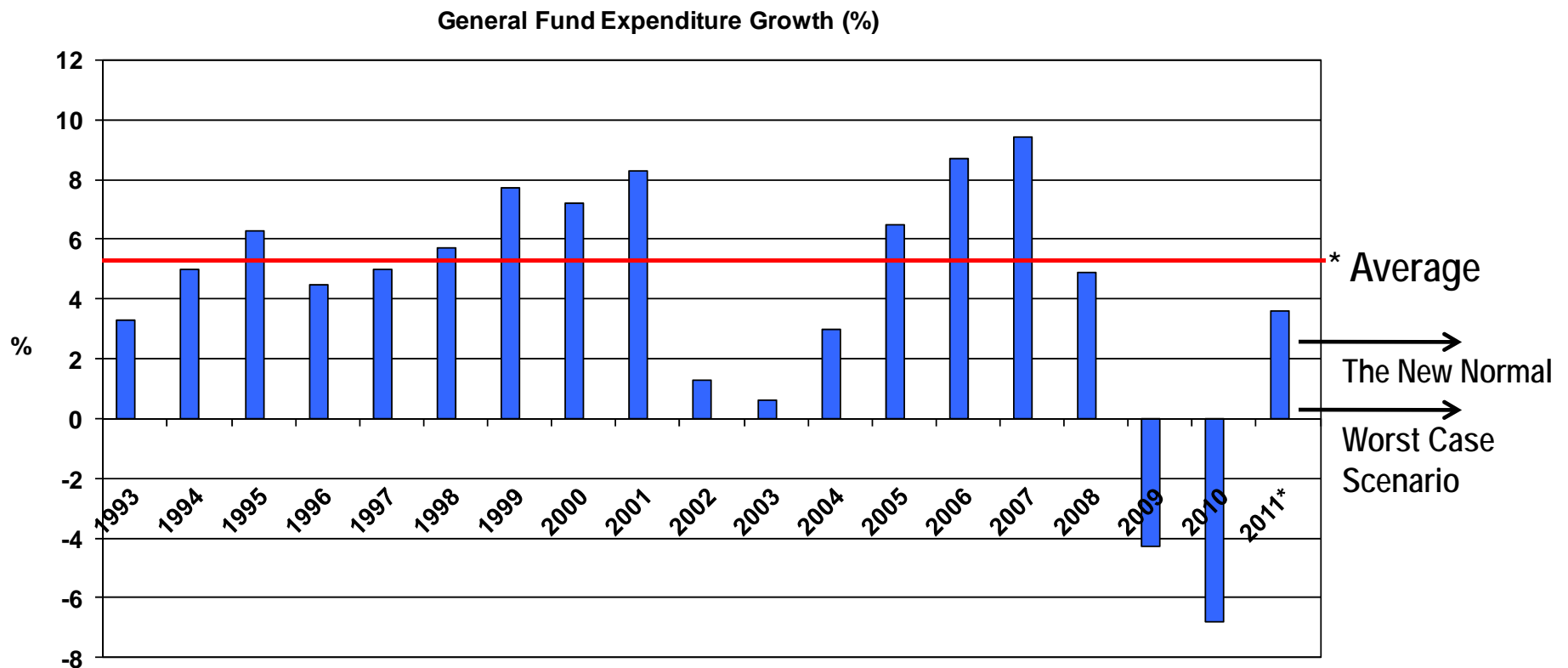
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Overview: State Finances

- Hit bottom – so, only one way to go...
- Austerere state budgets for at least the next several years
- Revenue not *yet* pre-recession
- U.S. States must address budget gaps – both from a short-term and long-term (like, pensions...)

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Negative Spending Two Years in a Row, Slight Increase in 2011



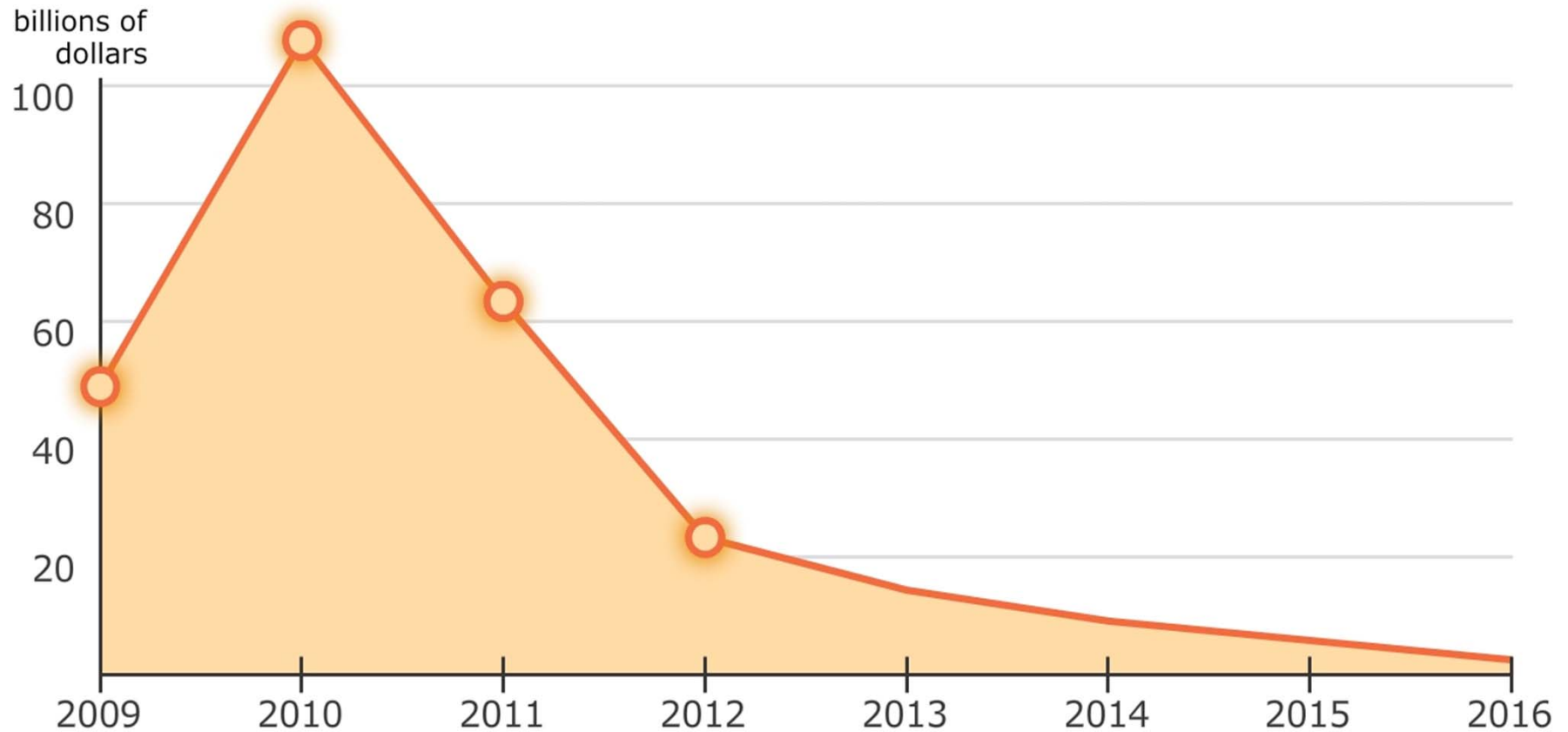
*33-year historical average rate of growth is 5.6 percent
Source: NASBO June 2010 Fiscal Survey of States

*Fiscal '11 numbers are proposed

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The Cliff...

Total stimulus spending by year



Source: Stateline.org

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What Facilities have to do to adjust to the New Economic Environment

- Maximize Quality Revenue
- Broaden Business Base – Complementary Growth
- Create A Cost Reduction Culture

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Gene Curcio

Presents

**“Short Term Strategies
for Dealing with Funding Cuts”**



“You never suffer from a money problem you always suffer from an idea problem.”

Robert H. Schuller

Consulate Health Care & Envoy Health Care

- Operate 81 Facilities in 6 states
- 8,500 beds – primarily SNF w/ALF and ILF
- Rehab and DME
- 10,000+ Employees
- \$750 million in Revenue
- 93%+ Occupancy and 55% Quality Mix

Vendor Partnering

Share the Pain!



Vendor Partnering Participants

- Medical Supply
- Food
- Office Supplies
- Housekeeping Service Provider
- Pharmacy
- Wound Vacs
- Lab Vendor
- Payroll Processing and Benefits



Vendor Partnering Strategies

- Contract Extensions
- Fixed Pricing for multi-year period
- Automate Processes
- Maximize Rebate Opportunities
- Consolidate Vendors
- RFP Process
- Switch Service Provider

Vendor Partnering Results

- Medical Supply - \$450k
- Food – \$220k
- Office Supplies - \$80k
- Housekeeping Service Provider - \$40k
- Pharmacy - \$1.5 mil.
- Wound Vacs - \$321k
- Lab Vendor – Not Sure
- Payroll Processing and Benefits – \$1.6 mil.

Telecom Spending

A train wreck with multiple casualties!

Telecom Audit

- Local Phone Service
- Long Distance Service (LD)
- Conference Calling
- Cell phones, pagers, PDAs & Air Cards
- Broadband circuits
- Phone systems
- Management

Telecom Audit

- 7,000 pages of bills
- 830 active wireless users
- 450 active telecom & wireless accounts
- 45 carriers
- Examined massive amount of detailed data

Telecom Audit - Findings

- Little management/fragmented at best.
- Missing or no contracts
- Paying for accounts with no activity
- Underutilized circuits and accounts
- Unnecessary/unauthorized services
- Inaccurate carrier billing
- Too many hands in the cookie jar

Telecom Audit – Sample of Findings

- Wireless Issues
 - 1/3rd of accounts – no activity
 - Utilization as low as 44% of peak
 - Unnecessary and unauthorized features
 - Too many carriers
 - Unused minutes
 - Individuals on wrong kind of plan

Telecom Audit – Sample of Findings

- Local Phone Service
 - Not using 30% of circuits
 - Underutilization of circuits
 - Unnecessary point-to-point circuits
 - 3rd party service provider abuse
 - No controls over ordering circuits
 - No controls over circuits once in place

Telecom Audit- Sample of Findings

- Long Distance
 - Underutilized auto-renewing contracts
 - Too many small carriers
 - Inaccurate overbilling by carriers
- Data
 - Duplicate and incorrect billings
 - Underutilized circuits

Telecom Audit - Action Plan

- Consolidated oversight in IT
 - Implemented Process Management
 - Secured copies of all contracts
- Eliminated unnecessary circuits & services
 - Cancelled contracts
 - Consolidated accounts
- Negotiated new national contracts
 - Data, Conferencing, Wireless

Telecom Audit - Results

\$3.6 million
-\$900k
(25%)

“The pessimist sees
difficulty in every
opportunity.
The optimists sees the
opportunity in every
difficulty”

Winston Churchill



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Leveraging Core Business





The Vision

To radically change the landscape of long term care forever.

The Mission

Our family-based organization will revolutionize the Long Term Care industry through a culture of resident-centered healthcare services, personalized spirituality, real quality of life initiatives and stakeholder education and empowerment, to earn the trust of every resident, family and community we serve.

Care Redefined

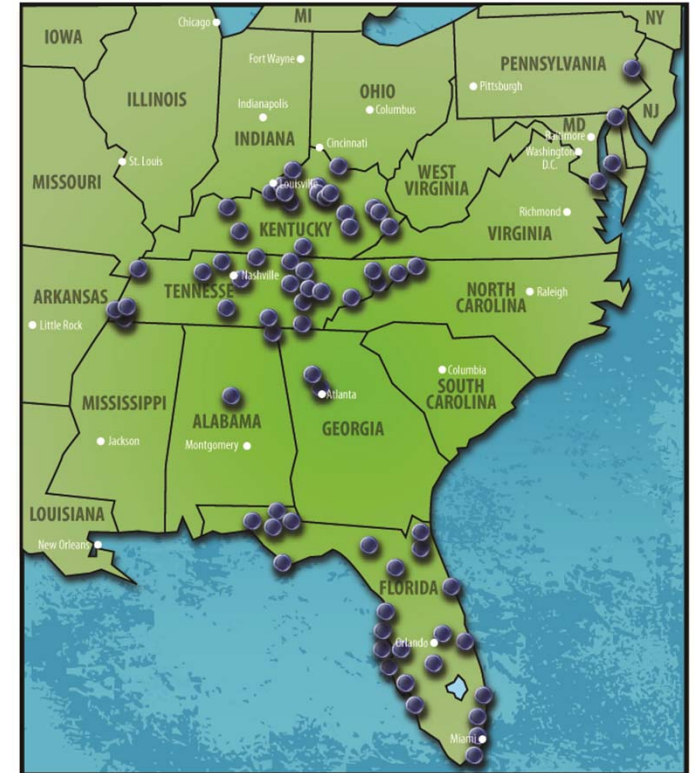
Signature's Three Pillars

- Operates 72 Skilled Nursing Facilities in the Southeast
- Employs approximately 11,000 persons in seven states
- Projected revenues \$700 million; #12 Largest Skilled Nursing Company in U.S.
- One of 4 LTC Chains in Modern HC “Best Places to Work” to win back to back
- Named to Inc. 5000 listing in 2009, 2010 as one of nation's fastest-growing private companies
- National Association of Activity Professionals Business Affiliate award winner
- Named one of 8 top places to work by Louisville Magazine four months after moving to Louisville



Signature Facts

- Operates International Center for LTC Innovation with U of L – 7 new companies planned for 2011
- Started Not for Profit LTC Research & Policy Center – 16 current research projects – big industry impact expected, converting from attached to lead
- University Dean model, design in-house, rich university partnerships, blended approach, in-house CEU's, GED to PHD mapped, growing C of P
- Senior Mgmt C.N.A. Certified by end 2011 with published white paper requirement
- 78 FT stakeholders in Dept of Spirituality leading facilities, interfaith prayer chains, C.N.A led Compassion Fund, facility chaplaincy
- Engagement Scores reached Gallup World Class Level in 2010 at 4.3 with only 7% disengaged





CENTER FOR EXCELLENCE



Integritas™



Signature
CapStone Series



Dove Coalition



INTERACTIVE
HEALTH
NETWORK

SHC Revolution

Changing the Landscape of LTC Forever



Learning Congress

Reflect **N** Us



COMPASSION FUND



Advocacy
Center

Phase I – Leveraging Core Business

20 quick ways to improve EBITDA during
challenging times...we realized a 50%
increase in 3 years!

EBITDA Enhancement Strategies That Have Worked Over the Past Few Years

- Vendor locked contracts
- Extend terms for price reductions
- No skid shoes for WC
- Captive for insurance savings
- Self funded health ins with stop loss coverage
- In-house Therapy
- Piloting new pharmacy
- Launched Partner Perks/Spots
- Created managed care arm
- Developed VOC research
- Comprehensive Construction Division to lower internal Cap-X costs
- Internal based NP organization that lowered pharmacy PPD's
- Formulary compliance
- DSSI adjudication
- Low Med Mal costs
- Increased census through managed care growth
- Work flow automation in key areas
- Opened Signature Way for Lean processes
- Strong innovation focus on all services
- Deep market Segmentation process started

Phase II – Developing A Learning Organization

Still believe there is 40% upside in EBITDA
after conversion!

SHC Knowledge Pyramid



Converted to Learning Organization in 2008

Phase II Highlights

- Lead by former Dean of HC University
- 200+ managers trained as adult educators
- Environmental conditions converted quickly
- Created 83 classes, self paced pre-journey & 5 module mgmt suite
- Annual Learning Congress, 350 participants with company generated CEU's
- 6 career tracks mapped to GED to Ph. D model
- Improved Stakeholder Engagement, Pre-Selection and Leadership Selection
- All core metrics improved

Operating Benchmark Highlights



Facility Scorecard

Report Dates: 02/01/2010 through 01/31/2011

SHC Consolidation

		Best Practice	Benchmark	2009	Spring 2010	Fall 2010				
	Pg	Best Practice	Benchmark	2/01/2010 - 4/30/2010	5/1/2010 - 7/31/2010	8/1/2010 - 10/31/2010	11/1/2010 - 1/31/2011	November	December	January
Stakeholder Engagement										
SNF Participation		100%	90%	86.5%	94%	98%				
Total SNF Rating		4.24	4	3.54	4.04	4.24				
Resident / Family Satisfaction		84%	85%							
CLINICAL OUTCOMES										
Weight Loss	16	0%	6%	10%	10%	9%	8%	8%	8%	8%
Pressure Ulcers	16	0%	3%	10%	10%	10%	10%	10%	10%	10%
Physical Restraints	16	0%	0%	3%	2%	2%	3%	3%	3%	3%
Falls	16	9%	14%	12%	12%	12%	12%	12%	12%	12%
THERAPY OUTCOMES										
Medicare Discharges To Home	30	48%	NA	54%	60%	58%	57%	59%	64%	48%
REFERRAL MANAGEMENT										
Referral Conv Rate	27	80%	50%	53%	49%	51%	52%	52%	53%	50%
Referral Growth Rate	27	83%	10%	5%	4%	(9%)	3%	(10%)	(6%)	3%
Medicare Market Share	27	20%	NA	8.1%	8%	7.3%	7.5%	7%	7.5%	8%
Cost Effective Nursing/Nursing Stability										
NURSING STABILITY										
Retention Rate	15	93%	90%	87.3%	89.1%	89.3%	93.3%	89.5%	94.6%	95.3%
Nursing Turnover Forecast	15	29%	40%	52%	55%	48%	42%	41%	47%	36%
Annual Nursing Turnover	14	NA	NA	50.4%	49.2%	46.9%	45.3%	45.6%	45.7%	45.1%
Actual vs. ABS - NHPPD	18	NA	NA	3.48 / 3.33	3.53 / 3.28	3.49 / 3.30	3.46 / 3.30	3.47 / 3.30	3.45 / 3.30	3.49 / 3.30
Nursing Shift Utilization										
Aides	20	NA	NA	8 / 10 / 16	8 / 10 / 15	8 / 10 / 16	8 / 10 / 16	8 / 10 / 16	8 / 10 / 16	8 / 10 / 16
Nurses	20	NA	NA	18 / 20 / 28	18 / 21 / 28	18 / 20 / 28	18 / 20 / 28	18 / 20 / 27	18 / 20 / 27	18 / 20 / 28
Nursing Wages as % Rev.	22	19%	25%	24%	24%	24%	23%	23%	22%	23%
Overtime	20	3%	3%	4.7%	4.9%	4.9%	4.4%	4.4%	4.4%	4.4%
Act vs Avg Wage Rate	22	105%	115%	110%	112%	112%	113%	113%	114%	111%
% Other Hours	22	0%	30%	31%	30%	30%	30%	30%	30%	31%
Elimination of Agency		\$0	\$0	\$46,256	\$139,407	\$18,667	\$6,160	\$4,158	(\$1,184)	\$3,186
In-House Therapy Management										
STAFFING CAPABILITIES										
Efficiency	25	100%	90%	52%	53%	91%	109%	110%	111%	107%
Therapy Part A Rate	26	NA	\$198	\$197	\$199	\$160	\$169	\$171	\$169	\$169
% Part B	24	30%	20%	27%	27%	26%	26%	27%	26%	26%
Threshold	24	100%	105%	97%	93%	94%	96%	95%	98%	93%
ACPM	25	\$0.73	\$0.80	\$1.44	\$1.45	\$1.06	\$0.98	\$1.00	\$0.94	\$0.99
CPM	25	\$0.51	\$0.65	\$1.09	\$1.10	\$0.81	\$0.73	\$0.76	\$0.72	\$0.72
Therapy Margin	26	65%	60%	61%	61.1%	56.6%	53.1%	52.3%	53.8%	53.3%

Phase III – The Teaching Facility

Create “Teaching Competency” as the only way to:

1. Innovate facility process improvements over standardization
2. Implement change mgmt as primary mgmt process
3. Prepare for deep market segmentation

“Leaders as Teachers” is your biggest upside – *Noel Tichey*

Launch of Teaching Facility

- 30 hour certified educator course for 15 internal CEO's
- 6 month study awarded distinction in doctoral work
- 60,000 surveys, test scores, and business metrics
- Teachers crushed engaged leaders in all key metrics
- Profitability took off in 3rd qtr with 18% increase
- Created facility based Learning Congress for all stakeholders
- Incorporated micro learning, blended into line staff relations
- Used constructivism, social cultural approach, not behavioral
- Experimental group beat our best facilities
- Taking it Company-wide

Engagement, Retention, Knowledge, Transfer, EBITDA

Employee Engagement - Overall Engagement Rating

Group	# SNF	Spring 2010	Fall 2010	Δ	%Δ
Treatment Group	15	4.19	4.37	0.18	19%
Control Group	50	4.04	4.14	0.10	3%

Job Skills/Knowledge Transfer- Individual Tests

Group	# SNF	Winter 2010	Fall 2010	Δ	%
Treatment Group	15	85%	92%	7%	15%
Control Group	50	74%	80%	6%	N/A

Leadership Retention

Group	# SNF	Q1 2010	Q4 2010	%Δ
Treatment Group	45		92%	5%
Control Group	150		87%	N/A

1st vs. 4th Qtr EBITDA

Group	# SNF	Q1 2010	Q4 2010	%Δ
Treatment Group	15	\$2,017,446	\$2,681,980	33%
Control Group	50	\$5,374,807	\$6,999,523	30%

Engagement Results

ENGAGEMENT KEY		
Engaged	Not Engaged	Actively Disengaged

GALLUP – <u>AVERAGE</u> Organization Ratio		
33%	49%	18%
GALLUP – <u>WORLD CLASS</u> Organization Ratio		
67%	26%	7%
SHC ENGAGEMENT – DEC 2010		
69%	24%	7%

EBITDA Summary

EBITDA Improvement					
	Yr 1	Yr 2	Yr 3	Yr 4 (Est)	<u>%D</u>
Phase 1	101	67			168 / 51%
Phase 1, 2 & 3			58	89	315 / 94%

Note: Estimated per facility improvement average for organization during last 3 yr period and this yr projected increase

What Did We Learn and How Did the Money Fall to the Bottom?

- Teachers assume new personal risk levels (not projected)
- Teachers could not pass blame on home office programs (they owned it)
- Facility based Learning Congress drove engagement
- Now, every facility has it and engagement soared
- Education could be customized to the individual locations because teachers could facilitate, create content, and flex learning styles to diverse audience (reduced need for top down traditional standardization approach)
- In-service (prior) never worked and we knew it, rarely used now

What Did We Learn and How Did the Money Fall to the Bottom? (Con't)

- Employees saw leaders differently when they became teachers – surveys showed they really care, they want me to understand
- Had bigger motivation impact that may have been greater to increased job skills for stakeholder
- Learning customized now by facility, we just deliver conceptual framework
- Eliminating most outsourced education costs – CEU's, association based education, reduction in facility oversight expenses
- Could finally validate the theory that strategic growth needs new customized competencies that moved change to facility level in custom grassroots way

Questions and Answers

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