

FEATURED ARTICLE

FRAMING THE NOT-FOR-PROFIT SKILLED NURSING STRATEGY

In the past few weeks, there have been some pretty damning articles published on the country's nursing home industry. Image issues in the nursing home industry are not necessarily a new thing, but sadly, they seem to have gotten worse since the onset of the COVID-19 pandemic. The pandemic has exposed the faults of a broken system and unfortunately highlighted the actions of the low-quality owners and operators. This week's *Z-News* is not intended to go further into this debate about the nursing home system or related concerns. The goal of this newsletter is to provide guidance to not-for-profit providers of skilled nursing services and offer information that they and their boards need to make smart decisions about the future of nursing care within their organization.

Making the Case for Skilled Nursing

There are many data points and trends that tell us the need for skilled nursing services is not going away. According to CMS, there are roughly 15,100 nursing homes in this country and roughly 23% are sponsored by not-for-profit organizations. What those nursing services will look like and where the care is provided is absolutely bound for change, but the need for care is not diminishing.

- **Demographics:** We are a rapidly aging population. The U.S. Census reports that in 2022 we have roughly 25 million individuals 75 and older. In just the next 10 years, that number is projected to rise to nearly 37 million. At the same time, we know that the number of caregivers is going to decrease. Inevitably, there will be a need for aging-related care and the people and organizations to provide it.
- **Hospital demand:** There has been much in the press about the financial losses that health systems across the U.S. are incurring. One trend behind those losses is the increased length of stays and placement difficulty for those needing a rehab stay in a nursing facility. The demand for care is exceeding the nursing homes' ability to provide services.
- **Examples of success:** There are indeed some not-for-profit skilled nursing providers who are doing relatively well with occupancies in the 90s and more limited staffing challenges.

That is not the typical narrative, but there are such cases. So much of this is driven by the local market dynamics (competition, hospital relationships, payor mix).

- **Benefits of congregate care:** At the end of the day, if someone is in true need of 24-hour nursing care and that person lives alone with limited caregiver options, a nursing home setting may be the best, most efficient and cost-effective way to receive care. There are additional social elements related to living in congregate settings. We also know that the ability to procure or afford live-in help for those needing full-time care is difficult for most. For those that are able to pay for 24/7 care in their own home, that cost can often exceed the cost of being in a nursing setting.

Making the Case for Downsizing Skilled Nursing

A 2021 Ziegler *CFO Hotline*SM survey revealed that roughly six out of 10 not-for-profit providers had or were planning to downsize their skilled nursing footprint. The reasons can vary, but most commonly include the following.

- **Staffing pressures:** We could repeat this one several times. The inability to fully staff the number of nursing beds you currently have is a real occurrence. Many providers have shut down wings or units due to the lingering staffing challenges.
- **Reimbursement challenges:** With the increasing operating costs, much of it driven by wage increases and the staffing problems, the gap between what it costs to provide care and what providers are getting reimbursed continues to grow. At a certain point, it does not make economic sense to continue the cycle of financial losses. This can mean downsizing of the nursing exposure for some, as well as careful management of the payor mix.
- **Changing consumer demand:** Where the older adult wants to age and receive care-related services is changing. There are aging-in-place desires among Independent Living and Assisted Living residents who would like to remain where they are

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rather than transfer to the skilled nursing unit. There is also the preference to go directly home with home health services following a hospital stay rather than a brief period in skilled nursing for rehab. An additional downsizing trend related to consumer preference is private rooms. Many not-for-profit providers have downsized through the conversion of semi-private to private rooms.

What Strategic Questions Should We Be Asking?

The questions below can be used by leadership teams and boards as they evaluate the short- and long-term decisions related to their skilled nursing commitment.

- Are current skilled nursing challenges a short-term issue or a longer-term trend that necessitates change?
- Can we financially continue to subsidize losses in our nursing center? How much mission can we afford?
- What would a downsizing of the nursing home footprint mean to our mission?
- What do our consumers want? Can we safely provide aging-in-place options?
- Are some of our nursing home challenges a function of a lack of reinvestment and dated offerings? Can we modernize into small house or Green House type of models and yield better performance?
- Are we holding onto a legacy skilled nursing facility that may have been around since the founding of the organization simply because we are reluctant to let it go?
- How does the downsizing of skilled nursing impact fundraising and philanthropic endeavors?
- If we downsize nursing, will there be staffing impacts to consider (e.g., dining, billing, housekeeping, etc.)?

These discussions can often have meaningful impact on the identity of the organization and they are not easy conversations. There is no one strategy that fits all providers in all markets. What is predictable, however, is the need for change. We need to spend time in dialogue about what decisions need to be made to be financially viable, true to your mission, and aligned with the trends shaping our sector moving forward. An unwillingness to adapt will result in unfortunate outcomes for the organization. This topic is a worthwhile one to carve out time during a board meeting for generative conversation. These are not easy times in the skilled nursing space, but not-for-profit providers have been around for a very long time and have continuously changed along the way. We know there will continue to be high-quality care provided to older adults for many more decades, even if how that care looks and feels may be different from what we have known it to be.

If readers have any specific questions about this topic or if Ziegler can assist in navigating these discussions, please reach out to the Ziegler representative in your region to learn more.

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NOT-FOR-PROFIT SENIOR LIVING RATINGS ACTIONS

AS OF DECEMBER 5, 2022

ORGANIZATION	RATING AGENCY	RATING/ OUTLOOK	TYPE OF ACTION	DATE
Oak Crest Village (MD)	Fitch	A Stable	Affirmed Rating Affirmed IDR* Revised Outlook	11/30/22
Bishop Gadsden (SC)	Fitch	BBB- Stable	Affirmed Rating Affirmed IDR*	12/1/22
Lutheran Retirement Ministries of Alamance County dba Twin Lakes Retirement Community (NC)	Fitch	BBB Stable	Affirmed Rating Affirmed IDR*	12/2/22
Brazos Presbyterian Homes (TX)	Fitch	BB+	Rating Watch Evolving	12/5/22

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* IDR – Issuer Default Rating (FitchRatings)

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INTEREST RATES/YIELDS

WEEK ENDING DECEMBER 2, 2022


	CURRENT	LAST WEEK	52-WK AVG
30-Yr MMD	3.48%	3.59%	2.85%
Senior Living 30-Yr “A”	5.00%	5.15%	4.14%
Senior Living 30-Yr “BBB”	5.50%	5.65%	4.51%
Senior Living Unrated	6.24%	6.35%	5.27%
Senior Living New Campus	7.15%	7.10%	6.25%
SIFMA Muni Swap Index	1.85%	1.90%	0.98%

	CURRENT	WEEKLY AVERAGE	SPREAD TO MMD
ZSLMLB Index [†]	5.48%	5.52%	2.00%

[†] Ziegler Senior Living Municipal Long Bond Index

Source: Bloomberg BVALS

FEATURED FINANCING



BREWSTER PLACE

BREWSTER PLACE
Topeka, Kansas

City of Topeka, Kansas,
Health Care Facilities Revenue Bonds,
Series 2022

\$49,525,000
November, 2022

MARKET REVIEW

MONEY MARKET RATES

	12/2	`
Prime Rate	7.00	7.00
Federal Funds (weekly average)	3.82	3.82
90 Day T-Bills	4.18	4.16
30-Day Commercial Paper (taxable)	4.07	3.98
Libor (30-day)	4.17	4.02
SOFR	3.81	3.79
7 Day Tax-Exempt VRDB	1.85	1.90
Daily Rate Average	1.12	0.96

COMPARATIVE YIELDS

TAXABLE REVENUE									
	GOVT	A		MMD	NR*	BB	BBB	A	AAA
2 Year	4.23	5.33	1 Year	2.39	4.59	4.24	3.54	2.79	2.47
5 Year	3.66	5.01	5 Year	2.53	4.83	4.48	3.78	3.03	2.68
7 Year	3.59	5.09	7 Year	2.57	4.97	4.67	3.97	3.17	2.82
10 Year	3.50	5.35	10 Year	2.61	5.11	4.81	4.21	3.26	2.91
30 Year	3.60	6.00	30 Year	3.48	6.23	5.88	5.33	4.48	3.98

(* Representative of institutional sales)

TAX-EXEMPT MARKET INDICATORS

	THIS WEEK	LAST WEEK	CHANGE
Bond Buyer			
20 Bond Index	3.65	3.72	-0.07
11 Bond Index	3.55	3.62	-0.07
Revenue Bond Index	3.93	4.00	-0.07
30 Year MMD	3.48	3.59	-0.11
Weekly Tax-Exempt Volume (Bil)	2.86	2.86	0.00
30 Day T/E Visible Supply (Bil)	7.99	6.52	+1.47
30 year "A" Rated Hospitals as a % of 30 Year Treasuries	124.4	125.7	-1.30

Source: Bloomberg