Finance Committee Minutes

Quarterly Meeting with CFO Xan Smith

March 15, 2023

Chair Wayne Kelley called the meeting to order at 3 p.m. in the Pointe Conference Room. CFO Xan Smith and twenty three residents attended the meeting. Kelley thanked Smith for meeting with the Committee to provide an overview of first quarter financial results.

CFO Smith opened the meeting by assuring the Committee that GHI has no exposure to the current bank failures. He confirmed his statement at the February 28 meeting that the Obligated Group no longer has bond debt, only bank debt with Truist and TD Banks. Smith noted that these banks value the Fitch ratings, so Fitch will continue to rate GHI. Smith also repeated his February 28 comments that construction on The View Chantilly will not start at any near date. Banks are leery of start-ups, he noted, and the recent bank failures have had a chilling effect.

At The View Alexandria, occupancy continues to be the focus. Smith noted the error in the FY 2023 audit report notes which describe The View Alexandria as for-profit. It is a nonprofit organization.

Smith alerted the Committee to expect a transfer from the Obligated Group to the Development Corp. in fiscal 2023, although it would be “less than half” of last year’s $9 million transfer.

Q1 Balance Sheet

On December 31, 2022, the close of its first quarter, the Obligated Group reported assets of $424 million, offset by liabilities of $337 million. Net assets totaled $87 million. Smith said liquidity over the quarter was strong, with a positive return of 6 percent. Ratios were better than in the prior period, and debt service coverage was very strong. Capital improvements, which were delayed during the covid-19 pandemic, have increased. “We want to spend 100 percent of depreciation, and the current Operating Group budget is 120 percent,” said Smith. The balance sheet is strong, and occupancy at both GHBC and GHA is very strong.

Q1 Operations

At GHBC, revenue in the quarter ending December 31, 2022 totaled $12.6 million, compared to budgeted revenue of $12.2 million. High occupancy contributed to strong revenue. Several residents expressed concern about access to higher levels of care for life-care residents.

Expenses are senior management’s greatest concern, Smith said. At GHBC, first quarter expenses totaled $11.8 million, $830,000 over budget. The areas that are most significantly over budget are plant operations and dining services. Utility costs – natural gas, electricity, water and sewer – have exceeded projections, despite a mild winter. Smith noted that a new contract for natural gas that begins April 1 will bring some savings.

GHBC dining services expenses in the quarter totaled $2.3 million, more than $305,000 over budget. Most of the overage, said Smith, is personnel and some raw food costs. Wayne Kelley argued that the dining budget has been consistently unrealistic in recent years, agreeing that cost control is necessary. But, he contended, an underlying problem is the growth in corporate salaries and administrative expenses charged to the Obligated Group.

Smith pointed out that in the last fiscal year, GHBC spent $8.14 million on dining service, a hefty 14 percent over budget. “We need to manage the budget,” said Smith. “We need leaders.” Specifically, he said GHBC needs to manage overtime better, and “the leaders need to lead.” An extensive discussion followed on the issues of cost control and quality of food and the dining experience, and utilization of dining resources. Kelley noted how other retirement communities have increased monthly fees to help balance budgets, to which concern was expressed about GL doing the same. “We have to do better at managing expenses,” Smith said in concluding the discussion.

Smith recommended that the Finance Committee look for trends in its reviews of upcoming monthly financial reports. Said Smith, “management needs to balance the budget, and increasing revenue and decreasing expenses are the only choices.”

Kelley thanked Smith and adjourned the meeting at 4:13 p.m.

Submitted by Nancy DeMarco