

## Finance Committee Minutes

**June 19, 2023**

Chair Wayne Kelley called the meeting to order at 11:00 a.m. in the Pointe Conference Room. Twenty-six residents were present, plus CFO Xan Smith, who was invited to discuss recent financial trends and answer resident questions.

Bob Simpson, who would be leaving the meeting early, submitted a multi-part question to Smith. Simpson requested information on funding of the Development Corporation from the Obligated Group, both budgeted and actual for the current year; plans for funding next year; and Smith's view of making loans rather than transfers from the OG to the Dev. Corp.

Regarding loans, Smith replied succinctly, "I'm not 100 percent on board with it." Discussion of the transfer of OG assets to the Dev. Corp. followed, and Smith agreed to provide additional information, most likely at the time of his 2024 budget presentation to the committee later in the summer.

Smith addressed the OG's recent financial performance by focusing on key data and ratios. The organization is now well into the 2024 budget process, and the Board of Trustees is expected to decide soon on the purchase of land in Loudoun County. Goodwin Living is financially strong; for example, on April 30 the OG had 714 days of cash on hand, significantly exceeding the Fitch benchmark. Capital investment had slowed down in the past several years because of covid, but the OG is now aiming to spend amounts equal to 100 percent or more of depreciation on capital projects. Management is also aiming to standardize across the campuses.

Smith acknowledged that net operating margin of -4.5 percent on April 30 is not good and must improve. Net operating margin adjusted by the addition of entrance fees was 21.2 percent on April 30. Smith confirmed that Goodwin Living at Home is a drag on performance, while Hospice is a positive contributor.

Revenue has been positive year-to-date, Smith continued. Occupancy is solid and better than budgeted. On the expense side, he continues to see two problem areas: dining services and plant operations. Two-thirds of dining expenses are labor, and Smith sees improvement there, with reduction of overtime and better management. Plant operations have been difficult; utilities are significantly over budget, and more preventive maintenance may help in other areas.

Corporate overhead is also over budget, said Smith, who sees the benefit of the heavy spending on HR to reduce turnover and bring down labor costs. IT and sales and marketing are also over budget in the current year, he added.

Smith noted that the increase in cash and investments compared to long-term debt is a positive development. Responding to a question about inflation's impact on the 2024 budget, Smith

said he is looking at inflation of 3.5 percent for some expense categories, but will use higher numbers depending on the category.

Smith turned to the continuing disappointment of GL at Home's financial performance. "The gap continues" between revenue and expenses, he said. With 223 current members, GLAH cannot generate sufficient revenue to cover costs. "We need 350 members," he said, but "we're not there."

Extensive discussion followed, in which Finance Committee members pressed Smith to identify a point at which GL would close or sell GLAH. Although agreeing that it would be "a distressed asset to sell," Smith did not respond other than to say that GLAH "needs to be sound; with 223 members we can't shut it down."

One committee member said the GLAH concept "is flawed; it's a lot of money for *what?*" A half dozen committee members agreed that they did not see value for the expense of GLAH when they were looking at retirement options. Regarding GL's continuing support of GLAH, committee members asked, "What are the criteria for pulling the plug?" "Why keep marketing this inferior product?" "How long will the deficit be tolerated?" "We've lost confidence that management will drop losers."

In conclusion, Smith briefly identified a new custom software tool, Power B-I, that pulls data from HR, financial and occupancy census data to give GL senior managers real-time data for better decision-making.

In response to a final question, Smith said The View Alexandria's occupancy is now up to 75 percent; 83 to 85 percent is the goal to break even.

Andy Siegel, Chief Business Development Officer for GHI, has agreed to meet with the GHBC Finance Committee at its next meeting, Wednesday, July 19, at 3:00 p.m. in the Pointe Conference Room. There was no further business, and Kelley adjourned the meeting at 12:18 p.m.

Submitted by Nancy DeMarco