

# Finance Committee Minutes

**October 18, 2023**

Chair Wayne Kelley called the meeting to order at 3:00 p.m. in the Pointe Conference Room. Twenty-seven residents were present, plus Executive Director Justin Carwile. Noting the expansion of the scope and complexity of Finance Committee activities – the Committee now monitors and informs residents not just about GHBC finances, but also those of the entire Obligated Group, The View Alexandria and the Development Corp. – Kelley advised that Norman Hicks has agreed to co-chair the Committee. Jean Read is vice chair.

## Ziegler Report

Norm Hicks summarized highlights from a recent report given by Ziegler, an investment bank and consultancy that specializes in life plan communities (LPCs) and their financing. Goodwin House Inc. has been a Ziegler client for some 20 years.

See Attachment A.

The big take-away, said Hicks, is that LPCs must invest in plants and equipment or they will enter a death spiral. A general discussion followed about capital improvements. Carwile said that GHBC is three years behind on capital improvements because of the covid-19 pandemic. He and his management team have been pushing projects aggressively, but they continue to face challenges getting bids and dealing with supply chain disruptions. GHBC has a roughly \$10 million capital budget for FY 2024, said Carwile, and Project Manager John Cruz is helping to streamline processes.

## Discussion

Points raised in the general discussion that followed included the importance of resident involvement in Auditorium renovation, particularly solving audio-visual challenges, and the need to have someone in charge of capital improvements to assure continuity and consistency.

The issue of reserve studies was raised and discussed. Carwile noted that GHBC's latest study was done in 2019; the next study will likely be undertaken next year. Kelley raised the possibility of a subcommittee to stay in touch with Carwile on reserve issues and a new study. Everett Wilcox, Martha Trunk and Christer Ahl expressed interest.

Mollie Warner pointed out that management's role is to disclose and manage. The Committee's role is to engage and monitor, not to manage. Jean Reed drew attention to the Financial Primer, last updated in 2022, on the Finance Committee's web page, which addresses the issue of investment funds (which function as reserves).

Issues raised in the continuing discussion included GHI's establishment of satellite communities, as recommended by Ziegler; the risks of over-building; and stepping back from "beating the

dead horse” of Goodwin Living at Home (which GHI is committed to supporting), and focusing instead on monitoring GLAH’s situation. Warner noted that entrance fees are residents’ life savings, and residents have the best interest of GH at heart.

Kelley noted that the corporate Finance Committee will meet in November, so the November resident Committee’s next meeting will be scheduled with CFO Xan Smith for an update from corporate. There being no further business, Kelley adjourned the meeting at 4:00 p.m.

Submitted by Nancy DeMarco

Attachment A: Oct. 13 report from Norm Hicks and Jean Reed on Ziegler’s presentation to GL

## Attachment A

October 13, 2023

From: Norman Hicks and Jean Reed  
To: GHBC Resident Finance Committee  
Re: Ziegler Education Presentation.

The Ziegler Investment Banking firm specializes in providing finance for retirement communities, as well as general education of trends in the industry. They deal with profits and non-profits, and provide access to funds via bank loans and floating bonds. They have a two-decade history of serving Goodwin Living. Their presentation today featured 2 presenters, Tom Melton (based in Richmond) and Dan Hermann, (CEO of Investment Banking in Chicago). The focus of their presentation was on current factors facing Life Plan Communities (LPCs or CCRCs). Some key points:

1. The industry is affected by common problems: impact of inflation, higher insurance premiums and shortage of labor, esp. nurses.
2. Banks have lost interest in financing this industry, and LPCs that borrowed heavily in the days of low interest rates are now in trouble refinancing as interest rates rise.
3. LPCs will likely have to resort to more bond funding as an alternative to bank loans.
4. The age 75+ cohort will grow dramatically in the next decade as the baby boomers age up, providing an expanding market for care.
5. The highest margins are in providing IDL (independent living) services, compared to ADL (assisted living) and HC (health care). Firms need a large base of IDL units to be able to subsidize the ADL and HC units.
6. Firms with multiple sites are the most profitable, compared to ones with a single site, since they can realize economies of scale.
7. Some proposed projects have been shelved due to high interest rates and rising construction costs.
8. Ziegler expects that Virginia is likely to have only 5-6 firms operating multiple sites in a few years.

One of the key points of the presentation was the link between age of facilities and financial viability. Ziegler observed that Life Plan Communities

must constantly reinvest in their facilities to maintain consumer appeal, and recommended refreshing/renewing facilities on a 10-12 year “generational capital investment” cycle. Firms that fail to invest in keeping plant up to date will tend to fall into financial difficulty, as the older plants become less attractive to new residents. Once this point is reached it is difficult to recover, and this leads to a downward spiral. Note: GHI now is at 10.4.

Ziegler also provided data on their annual survey of IDL fee increases, based on a nation-wide survey. It showed a median increase of 6% in 2023, and a projected increase of 5% in 2024 (compared to 3.5% and 3.95%, respectively, for Goodwin Living).

Wayne has already sent you a link to the PowerPoint presentation and the recording of the session. Call us if you have questions (Norman x3124; Jean x3121).