Finance Committee Minutes

November 28, 2023

Chair Wayne Kelley called the meeting to order at 1:00 p.m. in the Pointe Conference Room. Twenty-eight residents were present, including co-chair Norman Hicks. Also present were Goodwin Living CFO Xan Smith, Associate Executive Director Karen Doyle, administrator-in-training Christine Dziedzic, and one Priority Club member.

Announcements

Kelley invited Finance Committee members to attend a meeting on Wednesday, December 6, at 1:30 p.m. in the Pointe Conference Room, with Daniel Ancona, chair of Greenspring's Finance Committee, for an informal discussion of coordination with management on financial and governance issues. Ancona is also very active in VaCCRA.

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 reminded attendees that the Committee now has two co-chairs (Kelley and Hicks) and a vice chair (Jean Reed). In 2024, the Committee will hold fewer meetings – a total of eight are planned – but hopes to provide more and better information by working with CFO Xan Smith.

The Committee will meet with Smith four times during the year, in February, June, August and November, and at those sessions will invite Smith to provide timely analyses and trend information. The Committee will welcome a "dashboard report" of key data over time. The other four meetings, in March, May, September and October, will address agendas created by the Committee. No meetings are planned for January, April, July and December.

The meetings with Smith will be scheduled at dates and times when he is available. The March, May, September and October meetings will be scheduled for 3:00 p.m. on the third Wednesday of the month.

CFO Xan Smith's Report

Smith emphasized that the data he is presenting must be considered a draft, because the annual audit is not yet complete. He said "the dashboard concept is spot-on" for presentation of important data in the coming year.

Smith focused his year-end report on the Obligated Group's eight key ratios, comparing the unaudited fiscal year 2023 results with audited FY 2022 results and Fitch BBB medians. Because Committee members jumped in with questions and comments about profitability, marketing expenses, home office expenses and other issues, Smith started his presentation with the operating ratios.

Net operating margin (NOM) was -5.8 percent in FY 2023, compared to -4.9 percent in FY 2022 and the Fitch median of 4.7 percent. “We need improvement in profitability ratios,” said Smith, “and we need to keep monthly fee increases low.” The FY 2023 results are lower than expected, with expenses outpacing revenue. Particular areas of focus are plant operations, dining services, Goodwin Living at Home, Home Care, and home office costs. The FY 2024 budget calls for a NOM of -2 percent.

Net operating margin-adjusted (NOM-A – the same as NOM but including entrance fees) was 21.3 percent in FY 2023, compared to 26.5 percent in 2022 and to Fitch’s 20.1 percent. This is historically a strong area of performance for GL.

Operating ratio (OR), for which lower is better, was 108 percent in FY 2023, compared to 97.5 percent in 2022 and Fitch’s 99.3 percent. FY 2023 was a lower performing year as GL’s private equity portfolio experienced a difficult year.

GL performs very well on the three liquidity ratios: days of cash on hand, cash to debt, and cushion ratio. Smith pointed to FY 2023 data showing $173 million in cash and $153 million in debt.

Smith described two capital structure and capital ratios. GL has a strong FY 2023 result for the debt service coverage ratio, better than the Fitch BBB median but lower than FY 2022. On capital expenditures as a percent of annual depreciation expense, GL’s FY 2023 result of 76.8 percent is below FY 2022 and the Fitch median. “Our goal is to reinvest approximately 100 percent of depreciation expense each year,” said Smith. The average age of plant at GL is 9.5 years. The largest amount of FY 2023 capital spending for the Obligated Group, 38.2 percent of the total, was for apartment renovations. Market upgrades of common spaces accounted for 28.4 percent, information technology for 11.9 percent, and infrastructure for 10.5 percent. Recent experience underscores how critical it is to invest meaningfully in information technology.

Pressed about marketing costs rising 126 percent over the past five years, Smith disagreed with the Committee questioners about the value of the marketing efforts. He emphasized the importance of doing what is necessary to keep occupancy rates high. Falling behind can be difficult to correct. In response to questions about The View Alexandria (TVA), Smith said its NOM budgeted for FY 2024 is 11.1 percent. Occupancy at TVA is currently 89 percent, down slightly from October’s 91 percent. TVA now exceeds the level of occupancy, about 85 percent, needed to break even. Smith agreed to continue to provide the Committee with updates on TVA.

A general discussion continued about marketing costs, capital expenditures, and Goodwin Living at Home’s poor financial performance in FY 2023. There being no further business, the Committee thanked Smith warmly, and Kelley adjourned the meeting at 2:10 p.m.

Submitted by Nancy DeMarco