Fiducient Advisors, Nonprofit Investment Stewards Podcast
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Senior Living Communities and Their Unique Financial Considerations – with David Bordonaro

[00:00:00] Welcome to Nonprofit Investment Stewards with Bob DiMeo and Devon Francis from Fiduciary Advisors, Bob and Devon are passionate about helping nonprofit organizations prosper. Whether you oversee endowment foundation or retirement plan investments, this podcast exists to help stewards, improve performance, reduce costs and discover strategies that enable your charitable organization to prosper and advance its mission.

[00:00:26] Now onto the show. Hello, and welcome back to the Nonprofit Investment Stewards podcast. I'm Bob DiMeo as always joined by co-host Devon Francis. Today, we dive into a unique area of the nonprofit world, senior living communities. This is such a vital and very important offering and it's complex and nuanced to Devon.

[00:00:52] I hope you're well, are you eager for today's show? Yeah, absolutely. Bob, we are thrilled to be joined today by David Bordonaro. [00:01:00] David has served as the president of McLean for close to 20 years, and he is very well known and very well respected in the healthcare community. As you said, Bob, the senior living space is very complex and we are so excited to be able to talk to David and be able to dig into some of the intricacies and the challenges within the senior living space.

[00:01:21] So David, thank you very much for being with us and welcome to the show. Thank you. Appreciate the invitation, David. We're so grateful to have you on this show. And maybe before we dive into some of the specifics, can you share a little bit about the path that led you to this profession in this space and this so important?

[00:01:40] Opportunity here to really help a number of folks in a variety of ways. sure. Sure. So as you had mentioned, I've had the privilege of serving as McLean's president for the past 20 years. But my career goes back much further than that. I've been in the industry for, this is my 42nd year and it's been very rewarding [00:02:00] and it's been really a privilege to serve.

[00:02:02] If you kind of go back into my college days, Healthcare always intrigued me particularly hospitals. But I knew that I wasn't I didn't want to go into the direction of the clinical component. I always saw healthcare as a business. So my undergraduate and graduate work is in health service. In health care administration.

[00:02:22] And during that time I was able to do an internship in long in a long-term care facility. And at that time I realized that, this could be a nice niche for me going forward. And it wasn't really kind of rocket science on my part. And I didn't really have the appreciation. Of how the industry would grow over the, over the last 40 years, but it served me extremely well.

[00:02:46] And so getting into the not-for-profit senior care and services entities has been really very, very rewarding. So, David, can you talk to us about how McLean is structured from a business model perspective? Yep. [00:03:00] The strength of McLean is one is we're this year, we're celebrating our 50th year.

[00:03:05] And if you go back many, many years or so ago, we were heavily weighted in healthcare. We had 187 skilled nursing beds. We had post-acute care and we had, we're very dependent on

Medicare and Medicaid. And over the last several years, The industry has changed. Our customer has changed dramatically and we asked a couple of simple questions.

[00:03:28] One is since we are very dependent on Medicare and Medicaid we knew that this business model was not sustainable sustainable for the long haul. And we also asked our customers and our customers would say, as good as a nursing home, you are. We don't want to go to it. And so what are you as an organization going to do to provide us care and services going forward?

[00:03:50] And so our business strategy was fairly simple, but very challenging. We decided that we needed to downsize again, our dependency on Medicare and Medicaid. [00:04:00] So we downsized by over a hundred nursing home beds, converted that space into assisted living, which is private pay. And market-driven.

[00:04:09] Programs and services. And we also decided to add to our independent housing sector at, which is again, all private pay and market market driven. And we knew that programmatically, we wanted to support those people in those areas and prevent future. Long-term care admissions. So we also beefed up our community-based services such as post acute care outpatient therapy meals on wheels and home care program.

[00:04:36] And so our entity today, our organization consists of several different business lines from independent housing, assisted living, skilled nursing post-acute care, outpatient therapy and home care and hospice programs. Well, so clearly a lot of different paths and different businesses underneath them.

[00:04:58] McLean umbrella. Is [00:05:00] this kind of the way that most senior living facilities are structured or is this you know, this evolution away from the nursing home bed model to a more You know unique lines of business is this typical in the senior living facility space? Great question. It is not typical.

[00:05:19] Since our history goes back 50 years, a lot of what we hear to have today, wasn't even thought of assisted living wasn't even thought of at that time. So again, we were heavily weighted in healthcare. The newer programs, which are, which are called life plan communities that are similar to us, start off with a substantial and that we call it.

[00:05:41] We were called now life plan communities. Really. They are heavily weighted in S in independent housing with a smaller amount of assisted living with an even smaller amount of. Of skilled nursing care, supported by community based services. So we are weighted differently [00:06:00] than other more prominent life care communities throughout the country.

[00:06:04]And now that you have built these different business models and have weighted things differently, have you gotten away from the reliance on Medicare and Medicaid? That was kind of the hallmark of the business early on? Yes. We are still engaged in both Medicare and Medicaid and private insurance on the healthcare side.

[00:06:24]But we are not nearly as, as dependent on it. And so we have income and revenues coming from assisted living in independent housing and some private pay skilled that really transitioned us. Financially we are far more healthy with more weight. Being on the market driven an private pay resources.

[00:06:46] And David, you talk about the various verticals, if you will. And I have some experience in the senior living space or some understanding, but much more on the university or the hospital space. And when you think of [00:07:00] various verticals and you think of a university with. Tuition and room and board and other revenue sources which types of services that McLean offers are experiencing the most growth from a cashflow perspective.

[00:07:14] Very clearly independent housing and assisted living are key. And particularly when census is good. And granted, I think the industry, like all businesses have been affected by COVID. And so we're rebounding and our census culminated over the last year or so, but we're rebounding from that. And when we can get back to the normal or the norm those two business lines have the most dramatic effect on our overall profit and loss.

[00:07:41]And has there been much impact with the complexities of Medicare and Medicaid insurance and private pay and, and all the complexities around all of this and, and sort of navigating and advancing your business model. It sure is. And I think we have to take a little hardcore look at [00:08:00] everyone individually and then collectively.

[00:08:02]But we knew long ago that Medicare and Medicaid was a challenge as well as private insurance in the healthcare industry. And we knew very clearly that we had to reduce our dependency on that. And for example, we lose about $70 a day for every Medicaid patient that we have having said that.

[00:08:21] Consistent with our mission. We have an obligation to serve Medicaid. So we had a challenge as an organization. Is that how do we live up to our mission, but how do we still maintain and develop a strong bottom line? It sounds like you've evolved your model. And quite frankly, it sounds like you wouldn't be in nearly the healthy position you are.

[00:08:43] If you hadn't absolutely absolutely compliments to our senior leadership and our board. To making that decision going back several years. And I'm sure you deserve some of that praise gripping as president for 20 years. So David, as you know, [00:09:00] this is called the Nonprofit Investment Stewards podcast, and we spend a lot of time talking about endowment and foundation asset pools.

[00:09:08] Can you give us a rundown of the various asset pools that fall underneath the McLean umbrella? Sure. And they are like a life, a godsend, I should say, a key, like most not-for-profit organization. Our biggest and largest pool is our endowment fund. And from that we, it, it spins off money on an annual basis to help support our operations.

[00:09:32] If you go back before this. Business model change. We were, as we were, we were taking our spending policy was about four and a half percent over the years because we've become more stronger on the, on the, on the operation side. We now sit at a three and a half percent spending policy. That helps us tremendously.

[00:09:53] We have another pool which we call our special additions and contingency fund. And we've been [00:10:00] funding that over the years, as we have additional dollars coming in additional cash that comes in, and that's an alternative fund that if we needed to, we could always dip into if we had to. That fund. And I think you'll get to another question has been essential as we are planning our expansion program and we're seeing seeking and we saw a substantial loan.

[00:10:25]We use that fund as a calculation for day's cash on hand. And that fund really positioned us well to borrow a substantial amount of money. And then we also have what we call a physical plant and replacement fund where we have increased in, invested in. And that fund is used for special projects, like major renovations, major changes in heat and hot water systems, new roofs, and those kinds of things that allows us for allows for us to keep up our building and grounds.

[00:11:00] [00:10:59] So that one it's attractive. For new residents and it's a good, solid, and safe place for our staff to work. And we've only tapped that fund once or twice for major projects. But for the most part, that is a longterm growth fund. And David, maybe we can unpack those a little bit. And I, I really liked the buckets that you've defined here.

[00:11:21] And again, we'll see that sometimes in the university space and the hospital space and so on. So we have different buckets with some different purposes and so on. It's so impressive that you've gotten your spending rate on the endowment down to three and a half. Per cent. Can you talk a little bit about two things?

[00:11:38] One is in terms of the actual investments, are these pool, then, then just accounted for separately or do you actually, they have separate structures and, and such entities for each. But then can you talk a little bit about the investment return targets for the endowment versus the [00:12:00] special purpose versus the building replacement and such.

[00:12:03] Yeah, I think so. So in terms of strategies we handle each, each bucket as individual buckets, so we're not combining them and to developing a you know, a kind of, a one bucket strategy. We know that the endowment fund is considered differently than our special additions. It is a long-term strategy for all three accounts.

[00:12:27] And so. No, we had a strategy, like a 60, 40 strategy kind of historically. And since we're not dipping into all those accounts regularly our board is taking a long term investment strategy since then, though over the last. Maybe couple of years, two, three, four years or so. And I think it's, it's, it's an industry trend that we're moving from like a 60, 40 to a 70 30, which is a little more aggressive.

[00:12:58] And quite honestly it makes. [00:13:00] Some of our board members have bit uncomfortable but we're looking to get a bit more return and not taking on extensive risk to do that. And I think kind of going forward, that will be the strategy that we have. But so I think in all of those buckets, because we are generating operating cash and are able to do a lot from our.

[00:13:20] From just the cash that we develop and earn on a monthly basis, all strategies, although they're in different buckets, a very similar long-term growth strategy. That's helpful. And as you look, you mentioned board members and committee members and things of that nature. I wonder if you could just speak to some of the practices that you have identified over the years that have really been beneficial in terms of the committee.

[00:13:48] Or the board overseeing the investments and anything you have to add with respect to even structuring and, and developing and, and putting together a committee, a value added [00:14:00] committee that oversees the various investments. Yeah. Yeah. I guess I am so lucky and I think most presidents and CEOs of organizations like mine would be very envious of me.

[00:14:10]I own my, I have eight members of our board, which is very, very manageable. And there are organizations that work with 12, 15, 20, even, even more board members. And so our board is very reachable and very engaged and very educated about the industry and through. Committee work. They all get involved in different aspects.

[00:14:35]We have a couple of committees that are, are really important on the finance side. One is we have an audit committee and we have an investment committee and all the members of these committees have tremendous experience in investments and investment strategies. And so. I take advantage of that.

[00:14:53] Why wouldn't, why wouldn't I? And so really on the, in the, when we meet as an investment [00:15:00] committee, I rely heavily on the, on the background, the experience and the expertise that is brought into our investment committee. Yeah. So it's so important to have those engaged and knowledgeable individuals do all of the heavy lifting.

[00:15:15] So it's great to hear that you've got a good board and some strong committee members. So I want to go back to something that you mentioned in passing when you were describing the special additions and contingency pool. And that is related to debt issuance. So as it pertains to growth of McLean and issuing debt, what types of challenges or issues are most present in your mind?

[00:15:42] Yeah. So as we are planning for our expansion and as we were applying for for loans for a major loan we knew that there were a few key issues that would be evaluated to determine whether we were eligible. One was the strength of our leadership. One was the strength of our board. One, [00:16:00] another one was the strength of our overall performance, but we also knew that day's cash on hand.

[00:16:05] Was was extremely key in their final determination. And so we used the strength of our special additions and contingency fund to really meet and actually exceed the day's cash on hand. And so we were very conscientious of the fact that we were in a very, very good position because strategically we grew that fund in advance of any application to debt.

[00:16:31] That's impressive. And when we talk about. Debt and sort of the structure of your debt. Can you talk a little bit David, about how that influences the way you might view the way the various asset pools or buckets are managed. And then I'm also curious, have you increased allocations to alternatives over time?

[00:16:53] So we've, we've only, we took on debt last year, last July. So we're what, 10 minutes or 10 months [00:17:00] into it. So it really hasn't changed the strategy from which we operate. Again, just kind of rebounding from COVID. We're very well aware of the KPIs for the covenants of the debt. So we tend to focus a little more on those aspects and they're fairly simple, you know, as far as the expansion goes, We need to keep a very close eye on schedule.

[00:17:23] The investors would become nervous if there's a substantial delay in the construction of the project and give it and having COVID and all that you hear about price changes, availability of supplies. That is key. So right now we're tracking, we're actually about 15 days ahead on the construction side.

[00:17:41] So that's working extremely, extremely well for us. The second component is marketing. How many depositors how many pre-sales do we have. On that. And they have covenants that we have abide by and we're meeting all of those debt covenants. And that's been [00:18:00] quite a challenging quite honestly, because we went from very, very successful in-person events now to zoom meetings and those kinds of things, and showing an apartment on a, on a tablet versus kind of walking through a shore room.

[00:18:15] And so that's been. That's been very, very, very, very helpful to us. So schedule and marketing has been very, very key. And the third one is the cost of the project. Very, very important from the debt, from the debt holders and thus far again, we're about 90% block expansion. Yeah, it has been 90% allocated and bought out.

[00:18:40] That mean, we've identified the trades and they have pre purchased all the supplies. And so by doing that early on, we've been able to establish a guaranteed maximum price. So we don't expect any major curves going down the road. So those are the three kind of key [00:19:00] KPIs that are positioning ourselves extremely well.

[00:19:03]As we, as we move forward with the project, Well, that sounds like good stewardship in practice. And that's terrific. And I certainly appreciate that the debt is new enough that you haven't modified the allocation or the way that the portfolios are structured just yet. But I would like to ask if over time you have seen a ratcheting up of something other than traditional stocks and bonds in terms of the asset allocation to alternative investments in such over time.

[00:19:31] Yeah, I don't think anything extreme. I do, you know, I guess what I can report really is kind of moving from a more like a 60, 40 to a 70, 30, you know, structure which is a big move from us. And as I said before some of our trustees are not quite comfortable with that. But they understand kind of the reasoning behind it.

[00:19:54] You know, from an investment type strategy, nothing major has changed. You know, we work in [00:20:00] partner. We we with your firm in, and they are always challenged, making sure that the every component of our investment is with the best fund or the best manager. So we may be tweaking that over time, but I don't imagine that we're going to make any major, major changes in strategy.

[00:20:18] Thanks. It sounds like it's been a very thoughtful reason to approach. Yeah. So, David, I think you deserve a big, probably more than a Pat on the back. So you have this huge construction project project you are ahead of schedule. And from what it sounds like on budget, which probably hasn't happened in this ever.

[00:20:37] Yeah, knock on wood. We still have a year to go, but so far so good. And you, you know, you, you mentioned locking in the the materials costs. I think that inflation is something that's on a lot of people's minds right now. And particularly when you think about something like a senior living facility, With different lines [00:21:00] of business and, you know, growing a campus and more patients and so on, you know, how do you imagine that rising inflation might impact McLean and other senior living communities in the years to come.

[00:21:15] I, I think we're typical of many other business lines and many, many other businesses. Obviously we have to be very conscious of that. Cause inflation automatically will increase some pricing and cost over time. And so we've got to make sure that we are, can keep up with, from a census and revenue perspective and make certain adjustments in pricing and, and things like that over time.

[00:21:37] So we have to understand what our competitors are doing, what the industry is doing. And it's, it's very important for us to be present. In the here and now, but also look, look at the future at the same time. So we'll keep an eye on industry trends, what our competition is doing to make sure that we can keep up with inflation and other factors that affect our business lines.

[00:22:00] [00:22:00] Again, I think like other business lines staffing is our, probably our biggest challenge going forward. How do we fill the gaps that we have opened right now? And how do we fund those gaps? What is the wage and salary going to look like? In time, what's the cost of medical benefits. What's the cost of what we're, what tax ramifications are we going to have with that.

[00:22:22] And then another key element that is going to affect our industry going forward, particularly in light of COVID is the cost of liability insurance. And so those are just a handful of factors that we, we, we need to keep our, you know, keep the pulse of that will drive our decisions over time. Well, David you're really driving home.

[00:22:45] The point that it is a complex and nuanced space, any final words of wisdom that you would impart upon leaders in the senior living space? Well, you know, I, I think kind of going back from [00:23:00] you know, comments from my first boss made to me many, many years ago, over 40 years ago is one it's a very noble noble career.

[00:23:08] And so I would really encourage people to want to get into the industry. And when you look at the demographics, particularly in the healthcare side, I, I think, you know, in the year 2025, and I could be off by. A handful of thousands, but they predict about 50% of the of the population is going to be 65 and older.

[00:23:28] So organizations like us are going to be needed. Quality organizations that look quite different from us are going to be needed. And so and I said, mentioned before. It's great to be in the president and president and focus on that, but we really need to be strategic thinkers. We need to make sure that our organizations are positioned for the next generation of seniors.

[00:23:52] And we need to make sure that we're, we're, we're healthy enough financially that we could modify and adjust programming and services [00:24:00] to meet that new demand. Boy, David, it sounds like you subscribe to the servant leadership mindset. That's that's. Really impressive. Thank you. So before we wrap up, we always like to learn a little bit personal nugget about our guests.

[00:24:14] So when you're not wearing your president and McLean hat, what sorts of things do you enjoy doing outside of work? Yeah, I like the outside, so then I find sanctuary kind of in the outside. So I'll fiddle faddle around my yard, but I'm an avid cyclist. I've been an avid cyclist. For many, many years.

[00:24:34]And that's where I really kind of get my relief. I have two little granddaughters that I really, really love and my wife and I always find a reason to visit them and offer to take care of them, you know, on my. My daughter and her husband go out. So our grandkids and family are extremely important to us and friends.

[00:24:53]There's no doubt about it. We're very social. So we can't wait for these COVID to be behind us so that we could [00:25:00] go out more freely and enjoy other, other company. So a variety of things, but the outside is, is really where I, I really enjoy. Well, we're heading into the summer months. So hopefully you'll get labeling and outdoor activities in the, in the near future.

[00:25:16]So we really appreciate you joining us today. It was such a great conversation. And clearly your experience in the field 42 years has certainly given you a breadth of knowledge that lend a lot to this conversation. So thank you for your time and your expertise and for your service to the community.

[00:25:36] It's been wonderful to have you. My pleasure. Thank you very much, David. Thanks. It's wonderful. Your insights and your energy. It's just outstanding and, and thanks so much to our listeners, Devon and I recently released a podcast episode titled 10 habits of effective investment committees. If you're interested in learning more on how your investment committee can function more efficiently.

[00:25:57] You can give it a listen. I think it's episode number [00:26:00] 17 and we'll include it in the show notes on our website, FiducientAdvisors.com. So to all you good stewards. Thanks for investing time to help your nonprofits prosper. We'll connect with you soon on the next episode. Thank you for listening to the Nonprofit Investment Stewards podcast.

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