Strategic Relationships in the Nonprofit Senior Living Field

When One Plus One Is Much More
Part One

Today senior living organizations are more willing to think about affiliation as a strategy for growth, rather than a rescue.

Organizations considering a strategic relationship must determine whether joining together will sustain, strengthen, and potentially expand their missions. Deciding whether another organization is compatible in mission and purpose is a process that requires careful thought and planning. The first step is to define the objectives and articulate the circumstances or characteristics to avoid. Once the objectives are clear, the senior living organization can consider a range of tools and relationships to meet the overarching goal of sustaining its mission and possibly expanding it. This white paper is intended to help the decision-making process of senior living organizations by exploring a range of tools available to extend strategic reach.

Part Two will discuss the steps providers can take to develop new forms of strategic relationships.

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Crisis combinations

For-profit companies typically evaluate potential relationships with other companies in terms of ownership. Nonprofit senior living entities, however, are not technically owned by anyone, therefore they evaluate potential relationships by considering how control, membership, program integration, and leadership will accomplish their purposes.

Senior living organizations might consider an "affiliation" for many reasons, including having enhanced access to capital, strengthening "intellectual capital" (i.e., people resources), creating a safety net, improving or diversifying a market position, and prompting or accelerating growth. During the past decade, the primary driver has been access to capital or solving financial difficulties. For example, a number of single-site organizations in financial crisis needed to find a stronger single-site or system to provide financial support. Because these financially driven affiliations were prevalent in the field, they became closely associated with the concept of affiliation. However, there are a range of options organizations can explore that facilitate growth while preserving autonomy.

Collaboration, alliances, and joint ventures: strategic growth without taking the leap

Several of the common tools that allow an organization to grow include: collaborations, alliances, and joint ventures. Generally, nonprofit senior living organizations retain significant control of their core operations in these situations.

Collaborations

Collaborations or partnerships offer single-site or multi-site organizations opportunities to build relationships that enhance the organizations' abilities to serve their missions while still maintaining their individual identities. The collaboration may offer residents new or higher quality programming. The last decade has seen an increased number of collaborations between senior living organizations or between senior living and other community-based organizations.

Collaboration Case Study: Ohio Presbyterian Retirement Services

Ohio Presbyterian Retirement Services is a multi-site senior living organization that has grown its Senior Independence program outside of its Ohio border entirely through partnerships. Senior Independence is a wholly owned subsidiary of OPRS, providing home- and community-based services to nearly 70,000 in Ohio, Pennsylvania, Virginia, Montana, and soon Michigan. Through its iPartner program, other large nonprofit organizations can partner with Senior Independence to develop and launch home-based and community-based services in their own markets.

Alliances

An alliance is a pact or coalition between two or more parties. Typically the organizations joining an alliance commit to hiring staff, funding the alliance's common goals, and securing common interests.

Alliance Case Study: Symbria

Symbria and its subsidiary companies offer a range of services designed to develop and implement innovative, outcome-driven services for senior living and post-acute providers. Its services address a continuum of senior health care and lifestyle needs including comprehensive rehabilitation and wellness services, pharmacy services, satisfaction surveys, and data collection and outcome reporting. Symbria's original alliances were formed with a number of Chicagoland aging-services providers. It has formed five joint venture partnerships across the country. For the first five years, the alliance was supported by membership dues. After this inception period, the alliance became self-sufficient and, in fact, in recent years, has paid substantial dividends to its members.

Today, it is not unusual, particularly for single site organizations, to at least explore the potential for sharing common business functions (such as back office functions) to moderate expenses or enhance the depth or quality of the function.

Joint ventures

A joint venture is usually synonymous with a partnership. The National Center on Nonprofit Enterprise says "... a joint venture can be established in any one or a combination of three legal entities: corporations, partnerships, and limited liability companies. There are federal and state law ramifications for each of these legal forms and in almost all cases the choice among them will be made on the basis of who will be liable for the debts incurred in the venture — a state law question — and how its profits will be taxed — a federal law question — with tax considerations most often being paramount."

For example, joint ventures in the senior living sector have occurred primarily when two hospitals join resources to develop a new continuing care retirement community (CCRC), or when two senior living organizations contribute resources to launch a new business line, such as home care.

Joint Venture Case Study: Prelude Services
Prelude Services is a joint venture between two southeastern Pennsylvania-based nonprofits, Presbyterian Senior Living and Diakon Lutheran Social Ministries, to provide innovative information technologies to senior living organizations and other care providers. Launched in 1998, the purpose of the joint venture was to provide technology solutions not only to the two founding organizations but to other non-senior living organizations as well. Following an initial commitment of $1 million, the organization has grown to serve more than 400 senior living, affordable housing, and community service locations in 30 states.

Affiliation and models for transition

For those organizations who find the affiliation route driven by need rather than opportunity, the reasons are usually financial, organizational, or market-related. Financial reasons include the need for cash or credit to refurbish a physical plant, meet financial covenants, or address the changing demands of current or future residents. Strategic affiliations could help resolve organizational needs prompted by a CEO transition or board fatigue. Market-related issues could also be resolved through affiliations that specifically address mounting operating and financial pressures caused by weakening occupancy, thinning margins, inability to attract and retain qualified staff, or inadequate reserves.

While the organizational and legal details vary dramatically depending on each situation, there are essentially three legal structures by which a nonprofit senior living organization can affiliate with another nonprofit: the holding company model, the merger/division model, or the federal model. Senior living organizations need to understand how these different approaches impact their control of the organization as well as its identity.

Holding company model

This is also referred to as a parent-subsidiary or member model, and allows the organization to join or create a "system" that enables access to shared resources such as capital, people, and markets. At the same time, it offers the affiliating organization some of the attributes of an independent organization, including retaining a board of directors and possibly its identity.

The key to using this option successfully is understanding the definition and role of a holding company or parent. The degree to which one organization controls another is determined by the powers reserved for the holding company or member(s) to exercise. These powers are enumerated in the by-laws and may include approving or electing the board, approving or selecting the chief executive officer, approving changes to articles and by-laws, incurring indebtedness, and the sale or transfer of substantial assets.

The degree to which control is ceded or shared with the holding company is a key discussion area and negotiating point. Typically, the level of control retained by the affiliating organization decreases steadily as the financial commitment of the new sponsor (i.e., holding company or parent organization) increases.

In some cases, before any formal affiliation of organizations (i.e., before any articles or by-law amendments are proposed and approved), there may simply be a management agreement between the two organizations. This gives them an opportunity to get to know each other and provide the option for a more substantive role for the new parent organization/sponsor in the future. The new sponsor may offer no guarantee of financial assistance, or it may offer as much as a full guarantee of debt service or a limited support agreement that falls away when certain financial and operational goals for the affiliating organization are met. In some cases, the current organization's debt may need to be restructured either to permit the affiliation or because of financial challenges.

Holding Company Model Case Study One: Living Branches: Souderton Mennonite Homes and Dock Woods Community

Formed in 2008, Living Branches was created through an affiliation between Souderton Mennonite Homes and Dock Woods Community. The affiliation to create Living Branches provided an opportunity to join two agencies of Franconia Mennonite Conference, thereby creating synergies for staff training, board development, and future growth. A number of elements helped launch the affiliation efforts: the impending retirement of the Souderton CEO, strong pre-existing board relationships between the two organizations, a sharing of the same faith, and a desire by both groups to strengthen their core competencies in senior care and services. The communities of Living Branches offer a wide range of accommodations and care selections. Souderton Mennonite Homes and Dock Woods provide residential living, personal care, memory support care, and skilled nursing services. Dock Meadows provides personal care services, and residents have access to skilled nursing within the Living Branches network. Located on the Dock Woods campus, Dock Manor and Dock Village offer affordable housing for older adults and families who qualify for rental assistance. Previous resident contracts remain unchanged, however, Living Branches has developed standardized contracts to be used across the campuses. In addition, there is one board of directors for Living Branches and its related corporations, with the exception of Living Branches Foundation, which is controlled by Living Branches via the bylaws that require the majority of its board members to be from the Living Branches board. The Living Branches Foundation was formed when the Dock Woods Community Foundation and the Souderton Mennonite Homes Foundation were merged, approximately two years after the affiliation that created Living Branches.

Holding Company Model Case Study Two: Wesley Enhanced Living (WEL) and Stapeley at Germantown

When Stapeley began to have operational difficulties and a technical default of the financial covenants in its loan agreements, WEL was identified as a potential sponsor. Stapeley wanted its identity and mission preserved. WEL became the sole member of Stapeley and, because of Stapeley's precarious financial situation, the Stapeley board was replaced by WEL employees. This placed Stapeley in a structure similar to all of WEL's subsidiaries. As a result, the organization's decision-making process became more nimble. Over several years, occupancy grew to more than 96 percent, insurance programs were combined, and numerous operational efficiencies (clinical, finance, and IT) were achieved. Stapeley's resident contracts remained unchanged. The name recently changed to Wesley Enhanced Living at Stapeley. A $5 million investment to upgrade and reposition the community has just been completed.

Holding Company Model Case Study Three: ACTS Retirement-Life Communities (ACTS) and Peninsula United Methodist Homes (PUMH)

PUMH was founded in 1954 and grew to a four campus organization, operating in Delaware and Maryland. With transitioning leadership and declining census, it reached out to ACTS, a multi-site organization headquartered in southeast Pennsylvania. In 2010, ACTS completed an affiliation with PUMH and their affiliate, Heron Point of Chestertown (two separate legal entities), assuming management and operation of its four communities. Each PUMH legal entity became a controlled affiliate of ACTS Retirement-Life Communities, which has delineated a set of reserved powers over each affiliate and agreed to appoint several existing board members to the post-affiliation board. ACTS honored the terms and pricing of the existing resident contracts, and residents were given a voluntary option to convert to the standard ACTS contract that would be the sole product offered post affiliation. As affiliate entities, ACTS did not assume the existing debt of either entity but rather infused equity and established a limited working capital line of credit to facilitate ongoing financial support. Many of those with leadership positions in PUMH assumed management responsibilities for ACTS in overseeing these four communities.

Merger/division model

In the merger/division model, the nonprofit ceases to have its own separate corporate identity. Instead, it merges into the corporate sponsor. It may subsequently operate as a division of the corporate sponsor or it may be fully integrated. In this model, the nonprofit has no independent ability to enter into contracts or access capital, and it has no board of directors. Although many sponsors using the merger model typically operate each division as a separate operational unit, there are no barriers to transfer assets from one division to another. Debt is incurred at the sponsor level, and typically, all revenues from all divisions are available to meet debt service payments and other obligations of the sponsor. It is not unusual for the board of an organization merged into a larger organization to be transformed into an advisory board.

Merger/Division Model Case Study One: Bluestem Communities: Kidron Bethel Village and Schowalter Villa

This affiliation was a merger of equals. Motivated by the changing health care environment and increasing pressure on Medicare and Medicaid payments — and the willingness of the CEO of Kidron Bethel to step down for the good of the overall mission — the two Mennonite organizations came together with a common mission and values. Each organization had a history of financial strength and stability — though their particular strengths varied. Through the combination of the two in 2012, the new Bluestem Communities leverages the individual strengths of each organization, offering deeper human resource expertise, greater information technology, marketing, and HUD management and accounting capabilities. In addition, the combined entity created a stronger, more financially secure organization which enabled it to refinance their debt at a time when interest rates were extremely favorable. A new board of directors and new board policies were created.

Merger/Division Model Case Study Two: American Baptist Homes of the West (ABHOW)

ABHOW employs a hybrid model that includes a division model for campuses within its obligated group. These divisions have advisory boards, and financial statements are presented with other ABHOW campuses. Of the seven campuses remaining in the obligated group, two joined ABHOW through affiliation and the remaining five were greenfield developments. The management services provided by ABHOW include: finance, information technology support, human resources, legal, sales and marketing, strategic planning, fundraising, and affordable housing administration (for 33 of its properties). It also provides operations support at each community, as well as with regional and headquarters' resources. A common ABHOW resident contract is in place. The corporate board includes two resident full board members, and some corporate board members are also represented on the local advisory boards. Advisory board chairs, as well as resident council chairs, are included as non-voting members of corporate board meetings. Campuses outside of the obligated group have separate boards and debt structures with limited recourse to the core credit, similar to the federal model.

Federal model

The federal model provides a higher level of autonomy for each affiliate. Although autonomous, each affiliate is able to access specific resources and programs through the sponsor organization. Each affiliate maintains its own board and governance, though the sponsor generally approves the election of the directors or trustees. Each affiliate conducts its own financial assurance (audit) program, maintains its own balance sheet, and is generally responsible for its own budgeting process.

An affiliation agreement knits the federal model together. Each participant subscribes to core values and practices, and agrees to extensive sharing of information within the federation. The sponsor in the federation provides services to all affiliates for a fee. Bylaws are amended to provide the sponsor limited reserve powers, typically related to changes to bylaws, the approval of directors or trustees, a shared role in the selection of the CEO, finance matters, and the use of a common brand name. There typically is little or no board overlap among the sponsor and the affiliates. In the federal model, it is less likely that the sponsor will provide financial support for debt or new ventures.

Federal Model Case Study: Kendal Corporation
Each of Kendal's affiliates is a member of the federal model system by way of a common affiliation agreement. The Kendal Corporation supports the "Kendal System" by providing the services and programs articulated in its affiliation agreement and by providing leadership to the entire system in areas including strategic planning, development, operational consultation, research, staff development, marketing and communications, and other services which may not be readily available within the individual affiliates.

Full asset transfer model
In a full asset transfer, the balance sheet of one organization is "purchased" by another. The acquired organizational entity has a new identity within the portfolio of the new sponsor and ceases to exist as a provider of senior living services, though it may be transformed into a foundation-like entity if the proceeds from the sale exceed the liabilities that are not assumed. For-profit entities often are the winning bidder in the purchase of nonprofit CCRCs, as they are generally more nimble in decision-making and have access to equity that may provide more capital.

Full Asset Transfer Model Case Study: Loomis Lakeside at Reeds Landing
Reeds Landing was formed as a separately incorporated joint venture between a hospital system and a college. It experienced financial difficulty and filed for a Chapter 11 bankruptcy in 2009 that subsequently was converted to a Chapter 7 liquidation. Loomis Communities, a nonprofit multi-campus CCRC in western Massachusetts, purchased the assets of the corporation in a sealed bid court proceeding, competing with for-profit bidders. While acquisition by Loomis was the sponsor's and residents' favored outcome, it required Loomis to make the highest sealed bid for the property. The community's original debt was satisfied at a discount pursuant to the bankruptcy proceedings. Loomis contributed equity and issued a relatively small amount of debt to complete the transaction, handle deferred maintenance, and upgrade the property. Loomis chose to honor the existing resident all-inclusive contracts, but only modified contracts were made available to new residents. The original board of directors was dissolved, and Loomis Communities became the sole member of the new corporate entity.

Conclusion
In the past, the consideration of affiliation and sponsor transitions rarely occurred without a financial crisis. Today, collaboration and affiliation can be viewed as a component of strategy. With multiple options available and innovative approaches being considered each day, nonprofit senior living organizations are wise to first define the objectives to be met by an affiliation, then to consider the affiliating organization's ability to meet those objectives. When there is an alignment both of values and objectives, the likelihood of a successful courting process and alliance are increased exponentially.

Part Two of this whitepaper will provide additional detail concerning how senior living organizations can pursue successful strategic relationships.

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