

Senior Consulting, LLC
2706 Pinole Valley Road, Suite 314
Pinole, CA 94564
Phone: 732-233-4625
Fax: 631-498-0026
SeniorConsult@aol.com

**California Skilled Nursing Facilities
Statewide and Regional Variances
Occupancy and Payor Mix**

Introduction

Senior Consulting, LLC, "SC", conducted a review of the financial data for 2004 reported to the Office of Statewide Health Planning and Development, "OSHPD", by California Skilled Nursing Facilities, "SNFs." In addition, we analyzed occupancy and payor mix data for all chains of SNFs with three to nine facilities and those with 10 or more facilities collectively and individually. All data was weighted and compared between these grouping of facilities. Furthermore, SC analyzed data for facilities that are affiliated with no more than one other SNF. SC examined occupancy percentages and payor mix for facilities statewide and within each size grouping, including overall occupancy and the four payor types -- Medicare, Medi-Cal, Private Pay, and HMO/Other.

In 2004, 1,134 SNFs, including those with Residential beds, reported financial data to OSHPD. 144 SNFs had licensed Residential beds. 990 SNFs did not have any Residential beds. Of those 990 facilities, 566 SNFs were either unaffiliated or associated with just one other facility. Chains with three to nine facilities owned 106 SNFs. Chains with 10 or more facilities owned 318 SNFs.

SC is aware of at least one chain with ten (10) locations that was not classified in the OSHPD data as being a chain or having a Parent Company. Therefore, we estimate that Forty Percent (40%) of the SNFs in California, not including those with Residential beds, are owned by chains or parent companies owning ten or more facilities, with 12-15% of the facilities owned by chains of 3-9 facilities and a minimum of 55% of the SNFs in the State owned by "Mom and Pop" operators of 1-2 facilities.

In addition, SC completed a detailed census and payor mix analysis for five regions: Alameda, Contra Costa, Sacramento, Los Angeles and Orange Counties and a less detailed analysis of six other Bay Area counties. While payor mix for all categories except Medi-Cal varied substantially for different groups of operators Statewide, the variances in payor mix and occupancy, including Medicare, Private and Managed Care patients, were extreme in each of these regions. These variances indicate a substantial need for the industry to reassess strategic planning and marketing strategies, both internally and in engaging professional guidance.

Statewide Occupancy and Payor Mix Variances

Statewide SNFs, with and without residential beds

Overall occupancy and payor mix statewide, which includes all facilities in the State except facilities that did not report utilization data to OSHPD. These data include facilities that had both skilled care beds and residential healthcare beds

Including the Facilities that had licensed SNF and Residential Beds:

- Statewide, the Occupancy percentage for all SNFs is 86.4%.
- Statewide, the Medicare percentage for all SNFs is 10.0%.
- Statewide, the Medi-Cal percentage for all SNFs is 66.6%.
- Statewide, the Private Pay percentage for all SNFs is 15.0%.
- Statewide, the Managed Care/Other percentage for all SNFs is 8.5%.

Excluding the Facilities that had licensed SNF and Residential Beds:

- Statewide, the Occupancy percentage for these SNFs is 86.4%.
- Statewide, the Medicare percentage for these SNFs is 10.0%.
- Statewide, the Medi-Cal percentage for these SNFs is 69.2%.
- Statewide, the Private Pay percentage for these SNFs is 12.5%.
- Statewide, the Managed Care/Other percentage for these SNFs is 8.3%.

Senior Consulting, LLC reviewed the OSHPD data and classified the SNFs into three categories – Facilities associated with no more than one other facility; Chains having three to nine facilities; and Chains having 10 or more facilities.

SNFs affiliated with no more than one other Facility

Senior Consulting, LLC extracted data for SNFs not associated with more than one other facility. It eliminated all facilities affiliated with a Chain of three or more facilities or having a common name with more than one other facility. These Facilities had an increased utilization by Private Pay residents but a lower use by HMO/Other, which may reflect a weaker bargaining position with HMOs since the coverage area is less.

- Statewide, the Occupancy percentage for all SNFs is 86.4%, the Occupancy percentage for SNFs affiliated with no more than one other facility is 87.0%.
- Statewide, the Medicare percentage for all SNFs is 10.0%, the Medicare percentage for SNFs affiliated with no more than one other facility is 9.0%.
- Statewide, the Medi-Cal percentage for all SNFs is 66.6%, the Medi-Cal percentage for SNFs affiliated with no more than one other facility is 67.6%.
- Statewide, the Private Pay percentage for all SNFs is 15.0%, the Private Pay percentage for SNFs affiliated with no more than one other facility is 15.6%.
- Statewide, the Managed Care/Other percentage for all SNFs is 8.5%, the Occupancy for SNFs affiliated with no more than one other facility is 7.7%.

Chains with three to nine SNFs

Senior Consulting, LLC extracted data from OSHPD for SNFs associated with Chains of three to nine facilities. These Facilities had a marked increase in Occupancy, Private Pay and HMO/Other utilization when compared to facilities statewide. This is partially due to their ability to have a dedicated marketing staff within the management of all the facilities. There are a number of small chains in this grouping that have long standing family ownership and likely better reputations overall than larger chains, which is reflected in the substantial difference in Private Pay census, which is almost fifty percent (50%) higher for chains that own three to nine facilities than for chains of ten or more.

- Statewide, the Occupancy percentage for all SNFs is 86.4%, the Occupancy percentage for chains having three to nine facilities is 88.9%.
- Statewide, the Medicare percentage for all SNFs is 10.0%, the Medicare percentage for chains having three to nine facilities is 8.4%.
- Statewide, the Medi-Cal percentage for all SNFs is 66.6%, the Medi-Cal percentage for chains having three to nine facilities is 61.5%.
- Statewide, the Private Pay percentage for all SNFs is 15.0%, the Private Pay percentage for chains having three to nine facilities is 18.0%.
- Statewide, the Managed Care/Other percentage for all SNFs is 8.5%, the Occupancy percentage for chains having three to nine facilities is 12.1%.

Chains with 10 or more SNFs

Senior Consulting, LLC extracted data from OSHPD for SNFs associated with Chains having 10 or more Facilities. These Facilities had a marked increase in Medicare utilization when compared to facilities statewide. This is partially due to their ability to

have a more comprehensive rehabilitation programs, including education, training and corporate support, as well as a typical emphasis in larger chains to focus on Medicare admissions.

- Statewide, the Occupancy percentage for all SNFs is 86.4%, the Occupancy percentage for chains having 10 or more facilities is 84.7%.
- Statewide, the Medicare percentage for all SNFs is 10.0%, the Medicare percentage for chains having 10 or more facilities is 12.3%.
- Statewide, the Medi-Cal percentage for all SNFs is 66.6%, the Medi-Cal percentage for chains having 10 or more facilities is 66.9%.
- Statewide, the Private Pay percentage for all SNFs is 15.0%, the Private Pay percentage for chains having 10 or more facilities is 12.3%.
- Statewide, the Managed Care/Other percentage for all SNFs is 8.5%, the Occupancy percentage for chains having 10 or more facilities is 8.5%.

Overall occupancy for chains of ten or more is 4.2% lower than chains with three to nine facilities. Larger chains may have acquired facilities in weaker markets as part of the acquisitions of groups of facilities as one reason for this overall occupancy variance. In addition, Senior Consulting's knowledge of several of the large chains and their particular facilities, including site visits, indicates that there is a higher census in facilities owned by larger chains in urban areas versus rural areas, particularly in Los Angeles County

Summary of Variances in Occupancy and Payor Mix Statewide

Following are two charts that demonstrate variances in occupancy for facilities that are owned by operators that own one or two facilities, small chains that own between three and nine facilities, and chains that own ten or more facilities. Since facilities that contain residential care beds in addition to SNF beds, often target Private Pay occupancy and/or short-term rehabilitation in their SNF beds or have a primary focus on residential care beds, data including SNFs that have residential beds is included in the first chart below. In comparing variances for SNF ownership statewide, as well as on a regional basis to follow, the most valuable data is in the second chart below which compares SNFs owned and operated by entities that do not include residential care beds.

Occupancy Data Including Facilities with Licensed SNF and Residential Beds:

	Occup.	Medicare	Medi-Cal	Private Pay	HMO/Other
# of Facilities					
Statewide (1)	86.4%	10.0%	66.6%	15.0%	8.5%
1 or 2	87.0%	9.0%	67.6%	15.6%	7.7%
3 to 9	88.9%	8.4%	61.5%	18.0%	12.1%
10 or more	84.7%	12.3%	66.9%	12.3%	8.5%

Occupancy Data Excluding Facilities with Licensed SNF and Residential Beds:

	Occup.	Medicare	Medi-Cal	Private Pay	HMO/Other
# of Facilities					
Statewide (2)	86.4%	10.0%	69.2%	12.5%	8.3%
1 or 2	87.2%	9.1%	70.8%	12.6%	7.5%
3 to 9	88.5%	8.2%	67.2%	13.1%	11.5%
10 or more	84.6%	12.2%	67.1%	12.2%	8.4%

(1) Includes 1,134 SNFs in California that reported financial data to OSHPD.

(2) Includes 990 SNFs in California that reported financial data to OSHPD and did not have licensed Residential beds.

Conclusions/Statewide Data and Payor Mix Analysis:

Larger chains have by far the highest percentage of Medicare admissions, while chains of three to nine have substantially higher percentage of Private Pay and HMO/Other patients, yet lower Medicare census. Larger chains have more resources, including depth of management staff and increased educational training resources, as a contributing factor in the higher Medicare census. Chains of 3-9 facilities with the lowest Medicare census clearly demonstrate an opportunity for improvement and a need for strategic planning and professional guidance. They also have the highest HMO/Other Census of the groupings. Facilities with two or less owned by the same group or corporate entity have the highest Medi-Cal Census and the lowest HMO/Other Census.

Regional Occupancy and Payor Mix Variances

While there is a fairly substantial variance in certain payor types for different types of skilled care facility ownership, i.e. sole proprietors, small chains or large chains, there is very substantial variances in payor mix of the regions analyzed in the state of California. Senior Consulting has completed a detailed analysis of all facilities, by occupancy percentage and payor type, in the following Counties to date: Los Angeles, Orange, Sacramento, Alameda and Contra Costa.

In addition, payor mix and census has been reviewed for all facilities in the following additional Counties: Riverside, Marin, San Francisco, San Mateo, Santa Clara, Monterey, Sonoma, Solano and San Joaquin Counties. In all instances, there were extreme variances in all payor mix categories except Medi-Cal and substantial occupancy variances.

There are typically varied income demographics within a County as a common reason for variances in payor mix. However, the differences in the approaches of management, including insufficient commitment of resources to marketing and in upgrading the physical plants, relative to comparable commitments of other operators in their service area are also typical contributing factors to substantial variances.

While we compared variances in many Counties as referenced above, we found that these substantial and extreme variances were typical in all of the Counties we reviewed. Therefore, we did not include comparative analysis for all of the Counties. Following is census data for Los Angeles County, which includes many comparisons to Statewide data:

Los Angeles County – SNFs & SNF/RES

- In Los Angeles County, the Occupancy percentage for all SNFs is 87.8%, comparable with statewide occupancy of 86.4%, but lower than most Bay area Counties.
- In Los Angeles County, the Medicare Occupancy percentage for all SNFs is 9.6%, slightly below the statewide average.
- In Los Angeles County, the Medi-Cal percentage for all SNFs is 71.1%, higher than the statewide average of 66.6%.
- In Los Angeles County, the Private Pay percentage for all SNFs is 11.6%, well below a statewide average of 15%.
- In Los Angeles County, the Managed Care/Other percentage for all SNFs is 7.6%, below the statewide average of 8.5%.

Alameda County – SNFs Only

- In Alameda County, the Occupancy percentage for SNFs only is 89.1%, higher than the statewide average of 86.4%. Four SNFs have an Occupancy percentage of less than 80%, yet four SNFs have an Occupancy percentage of greater than 97%.
- Seventeen of 57 SNFs have a Medicare census of 10% or higher, ranging from 10.0% to 19.6%, yet twenty six of 57 SNFs have a Medicare census of 5% or less, ranging from 0.0% to 5.0%. The Medicare census for the remaining 40 SNFs,

excluding the 17 referenced facilities, is 4.3%. There is an extreme variance throughout the County.

- Five of 57 SNFs have a Private Pay census of 40% or higher, ranging from 45% to 100%. Nineteen of 57 SNFs have a Private Pay census of 15% or higher, ranging from 15% to 100%. Twenty-three of 57 SNFs have a Private Pay census of 8% or less, ranging from 0.0% to 8.0%. The Private Pay census for the remaining 38 SNFs, excluding the 19 referenced facilities, is 6.6%. The Private Pay census for the remaining 52 SNFs, excluding the five referenced facilities, is 10.7%. There is an extreme variance through out the County private pay census.
- Six of 57 SNFs have a Managed Care & Other census of 10% or higher, ranging from 10.1% to 40.7%. The Managed Care & Other census for the remaining 51 SNFs, excluding the six referenced facilities, is 2.7%.

Following is a chart that compares the wide variance in Medicare Census in five California counties:

County	# of SNFs, Occ. %	Medicare %	Low Medicare	High Medicare
Alameda	(57) 89.1%	7.3%	(26) 0.0 - 5%	(17) 10.0 - 19.6%
Contra Costa	(31) 85.5%	11%	(5) 0.0 - 5%	(16) 10.0 - 29.8%
Los Angeles	(324) 87.5%	9.8%	(83) 0.0 - 5%	(130) 10.0 - 82.4%
Orange	(58) 80.0%	12.8%	(6) 0.0 - 5%	(37) 10.0 - 37.4%
Sacramento	(32) 89.9%	7.7%	(11) 0.0 - 5%	(7) 10.0 - 23.7%

Following is a chart that compares the wide variance in Private Pay Census in five California counties:

County	# of SNFs, Occ. %	Private %	Low Private	High Private
Alameda	(57) 89.1%	14.4%	(16) 0.0 - 5%	(18) 15.0 - 100.0%
Contra Costa	(31) 85.5%	20.7%	(26) 0.0 - 5%	(17) 15.0 - 19.6%
Los Angeles	(324) 87.5%	9.1%	(142) 0.0 - 5%	(66) 15.0 - 100.0%
Orange	(58) 80.0%	12.6%	(13) 0.0 - 5%	(13) 15.0 - 100.0%
Sacramento	(32) 89.9%	14.7%	(6) 0.0 - 5%	(12) 15.0 - 81.2%

Regional Conclusions

Private Pay and Medicare census have extreme variances, as demonstrated herein in the above charts for five California counties in regions throughout the State of California. Occupancy and Managed Care census varies by region, but not as substantially. These variances are as evident in smaller areas, such as individual hospital service areas of clients of Senior Consulting.

Within the Regions or Counties as referenced in this report and in our expanded due diligence on behalf of various clients, it is also clear there are very substantial payor mix and occupancy differences within defined service areas of acute hospitals. Clearly, the philosophy and commitment of management in both admitting higher acuity patients and improving their physical plants varies substantially within the defined market areas for these skilled care operators.

While there are clearly opportunities for many operators statewide to improve occupancy and payor mix, the greatest opportunity is in selected markets. These opportunities for all types of operators include a commitment of resources to marketing and obtaining professional advice, including market analysis and strategic planning. Operators need to be open to expanded and new efforts to improve census and payor mix through traditional and non-traditional means, which includes efforts to expand and alter relationships with Hospitals in their service area.