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Prior to 2008, while largely operating as a successful CCRC, Emerald Heights was experiencing a negative trend in financial health. Operating revenues did not cover operating costs requiring entrance fee revenue to be used in part to cover operating expenses. Certain resident policies were not in the best long term financial interests of the community: fees for optional & ancillary services had not been increased for several years, the number of staff positions had grown with service creep, a very generous meal credit plan was in place, and there was little policy in effect to address residents maintaining multiple residences (i.e., continuing to hold an IL apartment following a move to Assisted Living or Skilled Nursing). Employee policies and benefits programs were also very generous; employee salary increases were not performance-based and there was little accountability for not achieving budget results. Competition entered the marketplace, pushing Emerald Heights to make strategic decisions to avert potential loss of market share.

Following Lisa Hardy's 2008 assumption of the CEO position, Emerald Heights first focused on margin improvement. A new financial philosophy was set with the expectation that operating revenues must cover operating expenses, and that reinvestment in the community was required to maintain and enhance the physical plant and maintain high marketability. A pay-for-performance employee evaluation process

was established, including a defined incentive program specific to quality and budget performance measures for directors, and changes were made in the financial reporting format to focus all management team members on operating performance and Net Operating Margin.

Specific to increasing revenue, a new incentive plan with occupancy goals was established for marketing employees. Apartment remodel and refurbishment standards were enhanced to increase market desirability. The process for apartment renovation at turnover was streamlined, resulting in faster turnaround and increased occupancy. Charges for optional, ancillary services were increased to market rate, and resident policies were established to affect appropriate financial consideration for holding multiple residences. The increased focus on revenue enhancement did not increase resident monthly service fees beyond historical annual increase amounts, and there were no discounts made to entrance fees or monthly service fees.

Specific to reducing expenses, a number of staff positions were strategically eliminated in an organizational streamlining that addressed service creep. Performance expectations were set to reduce employee overtime and eliminate the use of a higher cost outside nursing agency. Facilities management, previously overseen by an outside management company, was brought in-house. Employee benefit plans were adjusted but still maintained 100% company paid health insurance premiums. An expensive and rarely used long-term wellness benefit was eliminated, and a short-term disability program was added. Throughout this transition, Emerald Heights was able to maintain a low employee turnover rate and meet or exceed established quality service measures.

Specific actions were also taken in this time to improve the performance of the investment portfolio. A change was made in investment advisors to a more independent firm; the Investment Policy Statement was re-written; the investment portfolio allocation was modified to reduce risk by selling structured notes and alternative investments and shifting to more basic "vanilla" investments. The overall asset allocation was not changed, and the organization did not panic and bail out of the stock market during the recession. These strategy decisions have proven out, with current cash & investments now \$95 million.

As performance strengthened in all of the areas above, Emerald Heights embarked upon a major repositioning of the community following a multi-step Master Plan study completed in 2009.

Included in Phase 1 of the master plan, which commenced in 2010 and completed in June 2012 at a cost of approximately \$11.9 million, were the construction and equipping of a replacement fitness center, including a swimming pool, exercise equipment room, exercise classroom and a day spa, a purpose-built marketing office suite, and a complete remodel of the main lobby and living area, creating an open and welcoming gathering space for residents and guests. Phase 1 also included expansion and renovation of an outpatient clinic and chapel, as well as renovation of the main corridor in the Community's main building.

Phase 2, which began in August 2012, included construction of a new multi-purpose building used as an auditorium and meeting and activity rooms, and the expansion and renovation of the Community's main

dining room in order to provide more dining venues and greater capacity. Phase 2 was completed in 2013 at an estimated cost of \$13.5 million dollars.

Phase 3 of the Master Plan included the construction of an apartment building known as Trailside, adding 43 new Independent Living units and the renovation of the Corwin Center's skilled nursing center common areas (dining, common living and activity space, offices and corridors). The total cost of this phase was approximately \$35 million.

Phases 4 and 5 of the Master Plan include addition of a new Assisted Living building with all 1-bedroom apartments. A second Independent Living expansion, known as Courtyard, a size similar to Trailside, is also planned.

Management successfully managed the first three phases of the Master Plan projects internally with an owner's representative handling some of the day-to-day project functions. Al Chambard, CFO, and his team handled all financial modeling for the expansions and provided needed data to Fitch Ratings for rating purposes. At the same time, the CEO and Board were continuing the financial margin improvement plan, reducing expenses and improving cash flow dramatically. In 2013, Emerald Heights was awarded and still maintains a Fitch "A-minus" credit rating with a Stable outlook. Phases 4 and 5 of the Master Plan will be managed completely by Emerald Communities personnel.

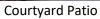




Emerald Room

Fireside Private Dining







Courtyard Patio





Trailside Trailside

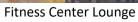






Trailside







Gym



Living Room



Madrona Dining Room





Elements Salon Swimming Pool





Pizza Oven Pavilion Gallery