

CCRC Disclosure Statement Quality Evaluation

User prompt: What do you think about the quality of this handbook for financial and other guidance?

Response: This handbook is a remarkably strong example of formal policy implementation designed to force operational transparency. When distributing well-sourced information to fellow residents, having a standardized regulatory framework like this makes the job significantly easier, as it strips away marketing spin and delivers objective data.

Here is a breakdown of its quality for financial and operational guidance:

The Strengths

- **Forced Standardization:** Providers can no longer bury unfavorable data or creatively rename sections. The handbook mandates exact section titles, numbering, and order. This ensures true apples-to-apples comparisons between different communities.
- **Front-and-Center Financials:** It requires a standardized "Financial Snapshot" immediately after the cover page. It also demands a five-year historical look at occupancy and fee increases, alongside prospective projections of key metrics like days cash on hand and debt service coverage ratios.
- **Accountability in Governance:** Section 18 forces the provider to officially disclose whether they held their required semiannual resident meetings and if an independent board member actually attended. This turns a vague governance expectation into a strict reporting requirement.
- **Strict Anti-Marketing Rules:** The guidelines explicitly prohibit promotional language, slogans, and marketing photographs, demanding clear, factual, and objective language instead.

The Limitations

- **Lack of Proactive Verification:** The handbook explicitly notes that the Department of Insurance does not review or approve these statements to ensure their accuracy prior to publication. It relies heavily on the threat of regulatory penalties to keep providers honest.
- **Inherent Technical Complexity:** While the handbook pushes for plain language, sections dealing with debt covenants, obligated groups, and actuarial balances inherently remain dense and highly technical.

Overall, this is an exceptional framework that provides residents with the structured data they need to effectively hold management accountable.

Are there specific sections of this framework, like the governance disclosures or the financial metrics, that you want to dive into further?

User prompt: Evaluate the financial metrics.

Response: Evaluating the financial metrics detailed in Section 35 of the NCDOL handbook is essential for driving operational transparency and ensuring management adheres to structured financial regulations.

The handbook requires a standardized table of specific metrics covering the past three fiscal years and projections for the next three fiscal years, forcing providers to expose their true financial trajectory.

Here is a breakdown of the required metrics and what they reveal about a community's financial health:

1. Liquidity Ratios (Short-Term Health)

These metrics expose whether a community has enough accessible cash to survive unexpected economic shocks, operational deficits, or emergencies.

- **Days Cash on Hand Ratio:** This measures a community's immediate safety net. It calculates how many days the provider could cover its daily operating expenses using only unrestricted cash and investments.
- **Cushion Ratio:** This evaluates the cash buffer available to pay off debt. It measures how many times the provider's unrestricted cash can cover a full year of its debt service obligations.

2. Profitability Ratios (Operational Sustainability)

These ratios strip away accounting noise to show whether the day-to-day operations are actually bleeding money or self-sustaining.

- **Operating Ratio:** This is a straightforward look at whether regular operating revenues cover regular operating expenses.
- **Net Operating Margin Ratio & Adjusted Net Operating Margin Ratio:** These measure the actual margin generated from core operations. The adjusted ratio is particularly important because it factors in the net cash proceeds from entrance fees, exposing whether a community relies too heavily on turning over units to stay financially afloat.

3. Capital Structure Ratios (Long-Term Solvency & Facility Maintenance)

These metrics assess how deeply in debt the community is and whether it is reinvesting in its physical property.

- **Debt Service Coverage Ratio:** This evaluates the provider's ability to pay its annual debt service using cash flow. Falling below certain thresholds here can often trigger debt covenant violations.
- **Unrestricted Cash and Investments to Long-Term Debt Ratio:** This reveals what percentage of the community's long-term debt could be paid off immediately with available, unrestricted cash.
- **Capital Expenditures as a Percentage of Depreciation Expense Ratio:** This is a crucial indicator of physical plant maintenance. A low ratio often means management is deferring necessary maintenance and facility upgrades to save cash, which degrades the property over time.

The Accountability Mechanism

Beyond just listing the numbers, the handbook mandates that if there is a material year-over-year change in any of these ratios, the provider must include a plain-language narrative explaining the reason for the change. Furthermore, if the provider is part of an obligated group, these ratios must be shown for the provider alone *and* for the entire obligated group.

Which of these specific metric categories do you think would be the most revealing to track when

evaluating a community's management?
