NaCCRA Congress Paper 2.

How Involved Should Residents Be in Governance?

Joe Walton

Connecticut's Joe Walton has opened a dialog that is of interest to residents everywhere. Joe was inspired by the story of Walter Hood's attempts to turn around the deteriorating situation at University Village Tampa. That ended in trauma for residents which led Joe to wonder if residents, generally, are too complacent about provider assurances for their futures in CCRCs.

For those who may not know, Walter Hood has been a long-time resident of University Village. Many years ago, he observed the ominous financial and control developments there, and he tried to rouse residents to action to shield themselves from further damage. Residents, though, came to University Village to retire; they weren't open to the call for action. The Florida residents' association, too, was unable to do much to avert the inevitable. Although the Office of Insurance Regulation has ultimate authority in Florida, that oversight could not prevent collapse. By clicking on this sentence, you can view a television report on the outcome, which appears under the headline "University Village residents ask state to let them stay in homes."

The outcome has been decidedly mixed. The community was put up for auction; ownership will shift; refunds will be paid; and residents can stay in their homes. Still, sheer commonsense tells us that all funds, including making up for funds that may have been squandered or diverted, have to come from the residents. A new owner will expect to be able to benefit financially from stepping in.

Joe's concern is a common one that residents often raise with NaCCRA in their search for answers. The concern arises when a not-for-profit CCRC, in which the only financial resources come from residents in the form of entrance fees and from lenders as resident-secured debt, decides to borrow further for expansion. The residents are seldom privy to discussions about the wisdom of expansion, with the conversations limited to executives, board members, advisors including accountants, consultants, and investment bankers, none of whom – except for resident directors – will have as much at stake as do the residents. Residents may fear the loss of their homes or the diminishment of the services on which they depend.

This situation is not unique. You may have similar developments where you live, or the potential may exist that they may arise in the future. As Joe Walton sagely puts it, "One of the risks associated with joining a CCRC is that the product originally purchased may significantly change to produce undesired conditions with limited options to escape them."

The question of whether residents should have a say in such business decisions, and to what extent, is separate and apart from a judgment on whether expansion is justified or not. Time will tell the tale on that. Sometimes expansion serves a local marketplace need and is very successful, expanding the CCRC and supporting new services for all residents, existing as well as new. But it raises a key question for CCRC residents everywhere. If entrance and other funds from residents are the sole source to pay corporate overhead, meet debt service requirements, and pay for services, how should residents be represented in the use of those funds?

One view is that CCRC executives and their boards of directors should meet regularly with business-minded, experienced residents to discuss strategy and business initiatives. A contrary view is that residents should have known before accepting the contract that they would have only a minimal say in corporate governance. There may be fear that too much resident involvement might lead to public controversy with adverse publicity and damage to the CCRCs reputation in the local market.

Whether a group of residents concerned with governance is a constructive advisory function, or whether such a group would become strident activists with a short-sighted vision for the enterprise, is likely to depend on individual circumstances. For instance, how prudent is management in the exploration of opportunities? What has been the track record of the board for astute business judgment? How many business leaders are on the board to act as a risk minimizing constraint on managerial optimism? Are there residents with the requisite skills and deliberative spirit to work effectively with management?

From a marketing perspective, though, it seems likely that including residents as members in the not-for-profit corporation, or as shareholders in for-profit CCRCs, would help assuage the concern of many prospects that even very large entrance fees do not provide any ownership involvement. Shareholders in large corporations don't expect to influence every decision but they have the comfort of knowing that at least nominally the corporation is led for their benefit by executives who believe that they work for the shareholders.

If residents are to be the providers of the risk capital in the form of entrance fees, should they then have both the protections and privileges of investors? If they are not investors, but are instead merely buying a lifetime contract, should they then have the protections that shield, say, insured life annuity policyholders or bank depositors from loss? And, beyond that, even if residents are no more than the beneficiaries of the charitable purpose of the organizations that house them, should they have a voice in how that charitable purpose is advanced?

These are questions for which the NaCCRA Congress of Residents provides a forum. Let's hope that this paper can start a nationwide discussion of these issues.

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