December 6, 2019

Board of Estimate and Taxation
The Nathaniel Witherell Strategic Planning Committee
Report to the BET

The Chairman of the Board of Estimate and Taxation ("BET") established a Special Committee on The Nathaniel Witherell (the "Committee") in March 2016, comprising four BET members - Arthur D. Norton (Chair), Elizabeth K. Krumeich, Jill K. Oberlander, and Nancy V. Weissler.

The Committee was asked "to perform a broad and thorough review of the operations of The Nathaniel Witherell ("TNW"), including: (a) established operations and strategic plan; (b) market competition; (c) opportunities for the Town to expand its services; and (d) options for TNW's future direction."

The Committee prepared a "Report of the Board of Estimate and Taxation Special Committee on The Nathaniel Witherell" that was approved by the Committee on December 19, 2017, and delivered the Report to the BET and made it public in January 2018 (the "2017 Report").

The 2017 Report recommended that the Committee continue its work during the BET term that began in January 2018. In early 2018, the BET reconstituted the Committee membership under the title "The Nathaniel Witherell Strategic Planning Committee." Although Art Norton and Nancy Weissler were no longer members of the Board, BET Chair Jill Oberlander requested both to remain on the Committee (in a non-voting capacity) and Art Norton continued as its Chair. As Chair of the BET, Jill Oberlander assumed an *ex-officio* position on the Committee. The voting members of the reconstituted Committee were BET members: William Drake, Andreas Duus, Elizabeth Krumeich, and Jeffrey Ramer.

Subsequently, the Committee retained outside consultants, Health Dimensions Group ("HDG") which produced a "Financial and Operating Report" dated February 2019. The Committee also retained the accounting firm PKF O'Connor Davies ("PKF") which conducted a review of the financial statements of TNW for the two years ended June 30, 2018, and prepared a restatement of them from a GASB to FASB accounting format. These reports are available on the Town of Greenwich website (www.greenwichct.gov).

This 2019 Report provides a brief summary of the current status of the Committee's work and recommendations for moving forward:

1. Recommendations
2. Summary of Health Dimensions Group's Key Findings
3. Summary of PKF's Key Findings
4. Recent Financial Performance of TNW
5. Recent Operational and Market Factors
6. Operational and Accounting Improvements and Changes
7. Legal Status of TNW
8. Summary of Selected Strategic Options

1. Recommendations

Under the Greenwich Town Charter, the BET can decide whether or not to make recommendations and to take next steps for TNW among the options. Any eventual decision among the strategic options should reflect both community input as well as financial considerations.

This Committee recommends that the Town explore utilizing an Enterprise Fund for Witherell in place of the current Special Revenue Fund.

This Committee recommends that a full audit of TNW be considered.

The retention of a financial advisor would be necessary to make informed decisions among the strategic options.

Developing a strategic plan for the Witherell is a substantial task which will not be completed during calendar 2019. The Committee recommends that the BET re-establish the Committee during the next BET term to assist this important work.

2. Summary of Health Dimensions Group's Key Findings

In 2018, the BET, on behalf of the Committee and through the Town of Greenwich, engaged HDG to complete a financial and operating review of TNW. The review included identification of industry trends, opportunities for operational improvements, and an analysis of strategic options.

HDG is a national health care consulting and management firm. HDG provides consultation to post-acute, long-term care, and senior living providers in all 50 states, as well as hospitals and health systems throughout the nation. Additionally, HDG manages 36 senior care communities in seven states (Minnesota, Iowa, Colorado, Texas, Pennsylvania, Wisconsin, and Illinois) and one home health agency serving more than 3,000 residents.

For its most recent engagement with Greenwich, in addition to drawing upon its general industry knowledge and experience, HDG had prior experience with TNW, having successfully completed prior consulting engagements at TNW for the Town: a financial analysis assessment (2003-2004), a long-range financial plan review (2010), and a revised long-range financial plan review (2011).

- **Summary of the Operational Assessment of TNW**

  Business Segments. With 202 beds, TNW has two primary business segments (long-term skilled nursing facility ("SNF") and short-term rehabilitation center) and four primary pay classes (Medicare, Medicaid, commercial insurance and private pay). Approximately two-thirds of the beds are allocated to long-term skilled nursing care, which hosts primarily Medicaid payors. Short-term rehabilitation beds are almost totally occupied by Medicare, commercial insurance and private payors.

  Revenues. Total revenues for fiscal 2018 were $28.0 million, which is above that of the prior year. Medicare and private pay rates are approximately twice that of Medicaid rates. More than from either its Medicare or private payors, however, TNW earned $10.3 million from its Medicaid payors.

Local Market. TNW is one of seven SNFs operating in the immediate market, defined as Greenwich and the southern half of Stamford. TNW's recent occupancy rate (93%) ranks among the highest and is above the average 86% rate for the whole market. There is excess bed capacity among all competitors, but less at TNW. With one exception, the percentage of residents covered under Medicaid is greater at each of the other facilities.

Geographic Source of Residents. The majority of patients live in or near Greenwich, return to the community to be near relatives, live near the market area, or select TNW for its unique blend of medical services.

Good Competitive Performance. TNW does well in attracting residents. Greenwich Hospital and Stamford Hospital are its primary referral sources. TNW has good patient outcomes in rehabilitation areas of orthopedics and medical conditions.

Occupancy Rate. TNW may face greater challenges to maintain its relatively high occupancy rate and to sustain revenues due to current regulatory changes and changing demographics. Specific factors HDG considered included the following:

- Projected decline in size of the age 85+ segment in the market area.
- Potential TNW residents have other options. There are competitive alternatives, including independent living facilities, assisted living facilities, and at-home nursing care services, in the market area. Increasingly, post-acute orthopedic discharges from hospitals are either returning home directly or are spending less time in short-term rehabilitation. The reasons for this are varied and include (a) insurance/Medicare coverage only for shorter stays, and (b) increased availability of home care and therapy/nursing services.

HDG noted that occupancy has recently declined and should be monitored closely.

Revenues. TNW operates in a highly-regulated business as a skilled nursing facility.

- The impact has yet to be determined of the October 2019 transition in Medicare from its Resource Utilization Groups ("RUGs") payment system, that focuses on physical, occupational, and speech therapy, to the Patient-Driven Payment Model ("PDPM"), that will be focused on time spent on nursing care.
- HDG noted that the Medicare census has declined recently, which will impact financial performance given the rate difference between Medicare and Medicaid/Private pay. HDG also noted that TNW is projected to experience a drop in Medicare payments under the Patient-Driven Payment Model (PDPM) going into effect October 1, 2019.
- Competition from nearby facilities in the market area offer different ranges of services. There are various senior independent and assisted living providers in the market area, as well as in Westchester County, and many also provide memory care units similar to TNW which compete for patients.

Labor Costs. Salary and benefits for most employees at TNW are subject to collective bargaining agreements with several unions and comprise over 70% of TNW's total costs. There are approximately 270 union employees at TNW. HDG noted that the wages and benefits were higher than those of nearby facilities, but reflect a very low turnover and high quality of care provided by long-standing employees.

Administrative rates are actually below market rate. Salary and benefit rates in other departments are higher than comparison facility data. Employee benefits (health insurance and pension) are higher at TNW than other Connecticut facilities whose employees may not have the same low turnover rate and length of service.

TNW is currently a 4-star rated facility under the Centers for Medicare and Medicaid Services rating system. HDG recommends that TNW adjust its staffing levels so that it reflects the census of patients each day and ensures that TNW's overtime costs are properly managed.

- **HDG Recommendations Regarding Operations**

Control of Labor Expenses

- Provide each department manager with the budget for their specific unit at or prior to the beginning of the fiscal year to be able to monitor expenses appropriately and keep on target.
- Manage nursing staff to the daily census.
- Adjust TNW's paid benefits, in part by (a) implementing paid time off ("PTO") policy versus current non-productive time off (e.g., vacation, sick pay) and (b) adjusting new employee retirement benefits to reflect industry norms
- Staff Wages: Adjust wages for new employees in all departments, which are higher than the eight comparison communities, as well as the northeast benchmark.

TNW is currently negotiating renewals of various collective bargaining agreements which may address some of the forgoing recommendations.

Improve Processes

- **Business Office Accounting**. Schedule triple-check monthly meeting before submission of Medicare and Managed Care claims.
- **Accounts Receivable**. Hold monthly management meetings to review accounts receivable.
- **Accounts Payable**. Continue to complete on an annual or interim basis an Office of Inspector General ("OIG") verification for all vendors and employees prior to contracting or employing, respectively.

Alternative Models

- Consider adjusting facilities (including stand-alone Pavilion building) to accommodate anticipated increased demand for independent living ("IL"), assisted living ("AL"), and memory care assisted living ("MCAL").

- **HDG Recommendations Regarding Strategic Options**

At the Committee's request, HDG compared three strategic options of the Town with respect to TNW. These options were:

- Continue as a Town-Owned and Operated facility while seeking greater efficiencies such as reducing to 4-star staffing
- Sell/Lease to a 501(c)(3) non-profit corporation

- Sell/Lease to a for-profit operator

Among these three options, HDG recommended further examination of the scenario of selling/leasing to a 501(c)(3) (either an existing not-for-profit corporation or establishing a separate entity) while continuing to make operational improvements.

HDG's strategic recommendations are noted on pages 4-5 of their report: "HDG recommends further exploration of the scenario of selling/leasing to a 501(c)(3) corporation while continuing to make operational improvements to the facility. The 501(c)(3) operator and for-profit operator scenarios are projected to have similar financial outcomes, with the for-profit option being more profitable. However, the option that appears most ideal for TNW would be the 501(c)(3) operator option, which would provide the potential for a reduced employee cost structure while likely maintaining community involvement. In addition, a 501(c)(3) operator would qualify for tax deductible contributions and be eligible for grants. This option would have a greater potential for economies of scale than current operations and would no longer be government restricted."

In the table below HDG compared these options under a range of criteria:

<u>Strategic Option Comparison</u> *

Key Attribute	As Is Scenario	Sell/Lease to 501(c)(3) Corporation	Sell/Lease to For-Profit Manager
Be part of the fabric of the Town	Certainly	Likely	Less Likely
Employee cost structure	Not likely to change	Potential to reduce	Potential to reduce
Tax deductible contributions	Ltd.	Yes	No
Focus on quality service	More likely	More likely	Less likely
Potential for economies of scale	No	Yes	Yes
Government restricted	Yes	No	No
Market responsiveness	Less	More	More

* From HDG's *Executive Summary Presentation*, p24

3. <u>Summary of PKF's Key Findings</u>

Background

PKF is an independent accounting firm that was hired to perform a review of the financial statements of TNW for the two years ended June 30, 2018, under U.S generally accepted accounting principles ("<u>GAAP</u>") following financial accounting standards ("<u>FASB</u>"). These are the standards generally applicable to U.S. not-for-profit institutions. A review includes applying analytical procedures to management's financial data and making inquiries of company management. It should be noted that a "review" is substantially less in scope than an "audit." As a result, PKF did not express an opinion regarding the financial statements as a whole. Based on their review, PKF was not aware of any material modifications that should be made to the financial statements for them to be in accordance with GAAP. TNW's financial data are maintained in accordance with GAAP as proscribed by government accounting standards ("GASB"), which are the standards generally applicable to municipalities. PKF adjusted TNW's GASB financial data to present the financial statements according to FASB standards. The primary adjustments are to record capital assets, corresponding long-term liabilities, liabilities for pensions, and town-allocated support, among other items.

Statements of Financial Position

The Statements of Financial Position present the Assets, Liabilities and Net Assets. Funds advanced by the Town represent the cash activity with the Town. On a day-by-day basis, the Town pays TNW's expenses and collects TNW's revenues, acting on behalf of TNW. The net funds advanced for the year is shown on the Statements of Cash Flows: repayment to the Town of $4.3 million in 2017, borrowing from the Town of $3.2 million in 2018. Net investment in capital assets is the book value of capital assets less the long-term obligations (bonds) issued to finance these capital assets (see footnotes 6 and 7). This shows the net amount invested by the Town in the land, buildings and equipment which is approximately $11-12 million. The unrestricted undesignated deficit of $10.9 million as of 2018 and $10.4 million as of 2017 is the net position of all other aspects of TNW.

Statements of Activities and Changes in Net Assets

Revenue increased 1.75% in 2018. Operating expenses as a percentage of revenues were stable, showing a slight improvement:

$000	2018	2017		2018	2017
Revenue	28,012.6	27,530.8		100.0%	100.0%
Direct Costs	24,724.3	25,100.2		88.3%	91.2%
Indirect Costs	6,371.7	5,922.6		22.7%	21.5%
Operating Loss	(3,083.4)	(3,492.0)		-11.0%	-12.7%

Café Witherell, which is a small on-site restaurant, had a loss of about $32,000 in each year.

The Pavilion had net income from rental units of about $30,000 in each year.

Pension liability adjustment: This expense or revenue item is the annual effect of the difference between the projected versus actual experience for both investment results and demographic/salary results.

Retiree healthcare liability adjustment: This expense or revenue item is the annual effect of the difference between the projected versus actual experience for both investment results and demographic/salary results.

Fund Balance: The transfer from the Town to TNW (*i.e.*, contribution from the General Fund) was $2.7 million in 2018 and $6.5 million in 2017. This amount brought the negative fund balance at TNW to zero under GASB and reflected losses from several prior years. These transfers are made once per year near the end of the fiscal year.

Statements of Cash Flows

Net cash from operating activities varies substantially from year to year, due to the fluctuations of accounts receivable. Depreciation is stable from year to year at approximately $700,000. TNW acquires capital assets through capital expenditures each year to address infrastructure and maintenance needs (*e.g.*, new boilers, up-grades and renovations of physical plant). In general, annual capital expenditures are comparable to the level of depreciation. In fiscal year 2018, depreciation was $700,000 and capital acquisitions were $600,000. In fiscal year 2019 through January 2020, capital acquisitions are anticipated to be $647,000. The proposed capital budget amount for fiscal year 2020 is $400,000.

Statement of Functional Expenses

The Witherell is a labor-intensive business. Salaries and wages consume about 62% of direct expenses. Salaries, wages and benefits together consume about 83% of direct expenses. Town of Greenwich provides in-kind services (rather than in cash) of approximately $1.0 million annually such as information technology support, human resources, legal and financial services. TNW outsources certain services such as the food service, rehabilitation services, laboratory services and similar services. TNW is subject to assessments and taxes through a provider tax imposed on SNFs by the State of Connecticut.

Footnotes

The capital assets are detailed in footnote 7. The buildings represent about 94% of gross capital assets. The capital assets are very new, since they are only about 11% depreciated at year end 2018. The capital assets are recorded in the financial statements at net book value of about $31.2 million at year-end 2018. By comparison, the Town's real estate assessment of TNW is $52.2 million, equivalent to a market value of $74.6 million. The market value is substantially more than the capital assets' net book value. The Town's unfunded net pension liability for TNW employees who participate in the pension plan was $4.9 million as of June 30, 2018. This liability calculation is provided by the Town's actuary.

Profit Center Analysis

PKF also provided a Profit Center Analysis for fiscal 2017 and 2018. Contractual adjustment: The major part of this adjustment applies to TNW's Medicaid patients. TNW reports patient revenue to Medicaid at a set daily price. Since Medicaid actually pays TNW a lower daily price, the reduction is recorded on the Medicaid reports as a contractual allowance (revenue reduction). For example, in 2018, the actual amount received for Medicaid patients was $10,334,709, which was the amount after the contractual adjustment reduction.

4. <u>Recent Financial Performance of TNW</u>

In F19, TNW's financial results were below both its budget and the prior year. F18 and F19 results and F19 budget are shown in the following table. It should be noted that these results are accounted for using TOG budget accounting; therefore, they cannot be compared to the FASB results for F18 presented in the PKF or HDG reports.

Table 1
Fiscal 2018 and 2019 Actual and Fiscal 2019 Budget
($000s)

	F2018 Actual	F2019 Actual	F2019 Budget	F19 vs. Budget	F19 vs. F18
Revenues					
Medicare	6,912	6,219	7,500	- 1,281	- 693
Medicare-B	803	1,030	814	216	227
Medicaid	9,144	10,297	10,619	- 322	1,153
Private Fees	9,994	8,704	9,433	- 729	- 1,290
Rentals	53	51	55	- 4	- 2
Bad Debt	- 135	- 135	- 135	-	-
Other	363	120	347	- 227	- 243
CT Medicaid Adj		- 301		- 301	- 301
Total	27,134	25,985	28,633	- 2,648	- 1,149
Operating Expenses	22,299	23,891	22,980	911	1,592
Fringes & Taxes	5,017	5,458	5,373	85	441
Town In-kind Services	235	236	236	-	1
Operating Margin	- 417	- 3,600	44	- 3,644	- 3,183
Capital Expenditures	458	1,092	594	498	634
Debt Service	2,013	1,957	1,957	-	- 56
Total Cost	- 2,888	- 6,649	- 2,507	- 4,142	- 3,761
TOG Funding	2,700	2,700	2,700		-
				-	-
Net after TOG Funding	- 188	- 3,949	193	- 4,142	- 3,761
Fund Balance End of Yr	-188	- 4,137			

An analysis of the above results highlights the following issues, several of which have a bearing on results for F20 and future years:

- **Operating Loss**
  For F19, TNW incurred an operating loss (before capital expenditures and debt service) of \$3.6 million. This compares to a F19 budget that was essentially breakeven and a F18 actual operating loss of \$417,000. Adjusting for the \$0.3 million of Medicaid chargeback in F19 that was actually applicable to F18, TNW's operating loss in F19 was still \$2.6 million larger than it was in F18.

As shown in the above table, the TNW all-in cost, including capital expenditures and debt service, was $6.6 million in F19. For F19, the TOG had budgeted a contribution of $2.7 million, which was in line with prior year contributions. Taking that contribution into account, TNW ran at a total cost of $3.9 million, resulting in a cumulative negative fund balance of $4.1 million.

- **Revenues**
  In F19, TNW reported a negative $0.3 million Medicaid adjustment for current and prior years. As shown, TNW experienced a $2.3 million revenue shortfall vs. budget (excluding the Medicaid rate adjustment), reflecting shortfalls in its higher-margin payer classes of Medicare ($1.3 million) and Private Pay ($0.7 million). Likewise, TNW experienced a $0.8 million shortfall in revenues in F19 vs. F18 (excluding the Medicaid rate adjustment), reflecting negative variances for Medicare ($0.7 million) and Private Pay ($1.3 million), partially offset by higher Medicaid revenues ($1.2 million). During F19, TNW undertook the renovation of the Tower long-term care rooms and this reduced occupancy temporarily for both Medicare and long-term care beds.

- **Operating Expenses**
  Over the past several years, TNW has experienced a series of problems with financial controls, which makes it difficult to analyze its actual financial and operating results and capabilities: While a number of line items contributed to TNW exceeding its operating budget by $0.9 million in F19, the largest items were a) a $0.5 million, or 39%, increase vs. budget in Overtime, b) prior year expenditures of $0.4 million covering invoices for F18 that had not been paid in F18 and c) higher than expected cost for the LIUNA retroactive contract settlement. More recently, TNW has indicated that there are F19 invoices that were not paid in F19, therefore these expenses will roll into F20. In its report, HDG had highlighted TNW's excessive Overtime for F18 vs. peer averages. This increase in F19 would exacerbate this comparison. TNW has instituted the *OnShift* software to better manage overtime; F20 results should be monitored to determine if this is effective.

- **TNW's F20 Budget Appears Optimistic**
  In table 2 below, actual F19 results are compared to F20 budget. The table also shows how much revenues would have to increase (or expenses decrease) in F20 vs. F19 to achieve budgeted numbers. The TOG $2.7 million budget contribution may be insufficient to cover TNW's cost to the TOG, thereby increasing TNW's negative fund balance.

Table 2
Fiscal 2020 Budget vs. Fiscal 2019 Actual
($000s)

	F2019 Actual	F2020 Budget	F20 Budget vs F19 Actual	% Change
Revenues				
Medicare	6,219	8,082	1,863	30.0%
Medicare-B	1,030	1,200	170	16.5%
Medicaid	10,297	9,749	- 548	-5.3%
Private Fees	8,704	10,254	1,550	17.8%
Rentals	51	56	5	9.8%
Bad Debt	- 135	- 135	-	0.0%
Other	120	75	- 45	-37.5%
CT Medicaid Adj	- 301		301	
Total	**25,985**	**29,281**	3,296	12.7%
Operating Expenses	**23,891**	**23,302**	**- 589**	-2.5%
Fringes & Taxes	5,458	5,639	181	3.3%
Town In-kind Services	236	241	5	2.1%
Operating Margin	**- 3,600**	**99**	**- 3,699**	
Capital Expenditures	1,092	400	692	
Debt Service	1,957	1,775	182	
Total Cost	**- 6,649**	**- 2,076**	**- 4,573**	
TOG Funding	2,700	2,700		
Net after TOG Funding	**- 3,949**	**624**		
Fund Balance End of Yr	- 4,138	- 3,514		

- **Budgeted Revenues.** Excluding the Medicaid rate adjustment in F19, F20 budgeted revenues assume a $3.0 million increase in revenues, consisting of increases of $1.9 million in Medicare and $1.6 million in private pay, partially offset by a $0.5 million decrease in Medicaid. For the first four months of F20, TNW's revenues are running $674,000 below budget. Higher-margin Medicare revenues have continued to decline with a 9% decrease vs. the prior year for the first four months, continuing the trend of the prior fiscal year. As discussed in a subsequent section that provides an update on TNW's operations and market, Medicare has implemented the Patient Driven Payment Model ("PDPM") on October 1, 2019. In its report, HDG projected that PDPM will result in a 2.6% decrease in TNW's Medicare revenues, beginning October 1, 2019. In October 2019, TNW's Medicare revenues were 1.8% below those of October 2018.

- **Budgeted Expenses.** As shown in the table, F20 budgeted expenses are $0.6 million below F19 actual. Even if the $0.4 million of F19 expenses that were non-recurring (the LIUNA contract adjustment and payments for prior year expenditures) were excluded, F20 budget expenses would still be $0.2 million below F19 actuals. Moreover, F20 budget assumes a reduction in Overtime of $0.5 million from F19 actuals—which might or might not be achieved. In addition, TNW has indicated that there are $335,000 of expenses that will have to be included in the F20 operating budget that had not been budgeted for. These include prior year expenses and the search fee for a new Executive Director.

5. <u>Recent Operational and Market Factors</u>

In its report, HDG provided a detailed assessment of the market and regulatory changes affecting TNW's financial outlook. In addition to that assessment, the Committee has had meetings with representatives of Cain Brothers, a health care investment banking firm, and Russell Barksdale, the Chief Executive Officer of Waveny (a senior care facility in New Canaan which offers different levels of care). Some operational updates for TNW and a summary of the key challenges facing TNW follow. The Committee is concerned that TNW is facing significant market and regulatory challenges.

- **TNW Management**
  TNW is a complex, highly-regulated business that challenges senior managers. The Director of Nursing joined the management team a year ago from a large hospital network. The Director of Financial Operations was brought in a few months ago with substantial healthcare experience and is charged with addressing prior issues with financial controls. As of year-end 2019, the TNW Executive Director is retiring after 10 years of service to TNW and the TNW Board has engaged an executive search firm to assist with the selection of a new administrator for the facility.

- **Occupancy in TNW's Market Area**
  In its report, HDG forecast that the seniors who are the largest user of SNF services in TNW's market area would decrease between 2018 and 2023. The State of Connecticut has been pursuing a "rebalancing" initiative over recent years to shift serving Medicaid-eligible residents with long-term care needs away from skilled nursing facilities to home and community-based services ("<u>HCBS</u>"). Many of these residents can be served less expensively by HCBS.

  In July 2019, the consulting firm Mercer provided the State with a comprehensive analysis of the status and outlook for this rebalancing initiative. Mercer is projecting that while the demand in the State for SNF beds for Medicaid patients will decline from 14,908 beds in 2017 to 8,913 beds in 2040 that this will be offset by an increase in demand for HCBS beds from 31,099 to 41,575.

  Mercer analyzed the future demand for SNF Medicaid beds by town. For Greenwich, it is projecting that the demand for Medicaid beds in town SNFs will decrease from 256 in 2017 to 129 by 2040 with a largely offsetting increase in the demand for Medicaid HCBS beds from

210 in 2017 to 286 by 2040. As a result of the decrease in demand for SNF beds for Medicaid patients, the excess supply of them is forecast to increase from 56 beds in 2017 to 183 beds by 2040. Mercer's long-term forecast is consistent with HDG's outlook for reduced demand for long-term care beds in TNW's market area. This may result in TNW changing the type of patients filling its beds. TNW is exploring using at least one unit as a sub-acute care facility which the hospitals could use to support patients who need sub-acute care but do not need acute care in the hospital setting.

- **Governmental Impact upon Future Revenues**
  Medicare implemented PDPM on October 1, 2019. In its report, HDG projected that PDPM may result in a 2.6% decrease in TNW's Medicare revenues, beginning October 1, 2019.

  In September 2019, the State presented a plan that would require SNFs serving Medicaid patients to transition from the current Medicaid payment methodology, which sets average rates per person taking into account costs (though the State currently covers half of TNW's costs for its Medicaid population), to one that would be based on the acuity of patients' conditions. The goal would be to eventually make it similar to Medicare's PDPM. Given that this has recently been announced, it is unclear as to the impact on TNW (this would be affected by the case mix of TNW's patients).

  The trend to serving Medicaid and Medicare patients with long-term care needs using HCBS will favor those firms that offer home-based care services. As noted in the HDG Report, there is a trend to discharging a high percentage of orthopedic patients home as opposed to a SNF. In his presentation to the Committee, Mr. Barksdale, Waveny CEO, noted that the volume of their home-care services increased 80% in the past year. Over a year ago, TNW established a joint venture with DanielCare, to provide home healthcare services to TNW's short term rehabilitation patients (*e.g.,* orthopedic and medical), including home health aides who can care for a patient in the home up to 24 hours/7 day a week, as well as physical therapists and registered nurses who come to the home on a periodic basis. TNW patients are being offered these services by the discharge planner. DanielCare has recently been acquired by CareFinders and is now able to provide services by more home health aides. This program has been done under the aegis of "Witherell at Home" and will supplement the SNF as an ancillary business but is unlikely to replace the core business.

6. <u>Operational and Accounting Improvements and Changes</u>

In October 2019, TNW presented to the BET Budget Committee and subsequently to the Committee its efforts to manage generally its operating expenses better and to avoid specifically a recurrence of the excessive overtime expenses incurred in F19. TNW was aware of approximately $335,000 of expenses which include F19 invoices that were not paid in F19; recruitment fees for a new TNW Executive Director; and bond issuance fees for prior-year bonding.

TNW described its efforts to reduce overtime, which totaled $1.8 million in F19, of which $1.3 million was for nursing and $500,000 for non-nursing. With respect to the non-nursing operations, TNW recently hired four full-time dietary staff members (which had been authorized in the TOG Table of Organization). This should reduce overtime in that area. Going forward, all non-nursing overtime is being approved by department managers before an employee is permitted to incur overtime.

TNW is seeking to shorten the amount of time that a vendor invoice is recorded and paid under MUNIS, the Town's accounting system.

The Finance Committee of TNW will soon present a revised long-range plan ("LRP") for capital expenditures. As of the F20 budget, these expenditures totaled $11 million for the next 15 years. At its recent meeting with this Committee, TNW noted that there are two major items not included in the current LRP that total approximately $1.2 million: $500,000 for the replacement of two elevators that are malfunctioning and $700,000 to replace the electrical panels in the Tower in the long-term care side of the facility that date back to the 1970s. TNW is updating its LRP for submission for the F21 budget. The long-term financing for Project Renew, the TNW renovation project approved by the Representative Town Meeting, matures on July 15, 2033. The actual renovation of the facility is nearly complete.

The TOG is negotiating the collective bargaining agreements with several unions that govern the majority of TNW employees. The loss of the Labor Relations Director for the Town has slowed progress in this area but the interim negotiators are putting forward the proposed changes to the contracts and it remains to be seen whether the TOG and TNW will benefit from changes to the terms of the labor contracts.

PKF, the Comptroller and the Director of Financial Operations have recommended changing the financial and accounting format from Special Revenue Fund to Enterprise Fund. This would better reflect all revenue, costs, assets, liabilities and fund balance. An Enterprise Fund would use the full accrual method of accounting to allow TNW to incorporate fully any and all GAAP-applicable revenue and expense accruals into the monthly operational reporting process.

As of October 31, 2019 TNW reported on the actions that it has taken to respond to the recommendations in HDG's Report and PKF's Review:
[TNW response].

7. Legal Status of TNW

TNW was established by grantors who deeded the real property on which the facility is situated to the Town of Greenwich early in the twentieth century as a hospital to take care of people in Greenwich who were suffering from contagious diseases. In 1955, the Town sought to modify the original restrictions to provide simply that the property be used for non-profit hospital purposes. There were three descendants and only two signed releases of the restrictions, and included an express provision that would run with the land that "said premises shall be used solely for non-profit hospital purposes." (Release of Margaret Bruce Crapo dated May 24, 1956; Release of Walter Howe dated April 16, 1956). As a skilled nursing facility, TNW continues to reflect the grantors' intent that the property be used for non-profit hospital purposes.

Pursuant to the Town Code of Ordinances and the Town Charter, the RTM appoints nine members of "The Nathaniel Witherell Board". The Town vests in the Board full legal authority and responsibility for the operation of the facility as delineated by applicable local, State and Federal regulations and standards. The Board has the power to appoint and remove a licensed Nursing Home Administrator and a Medical Director. In the event that the legal structure of TNW was changed, the current TNW Board would have to be reconstituted under the new entity or disbanded.

Following a recent Title Search performed on the property, the Town Attorney has been instructed to have an heir search carried out to determine the current heirs who are legatees of the original grantors.

8. <u>Summary of Selected Strategic Options</u>

The Committee's 2017 Report identified the first four of the following strategic options. This report introduces an option (the establishment of a trust) that had not been considered previously.

A. Maintain current town ownership and operation while seeking greater efficiencies.
B. Lease/sell to a 501(c) (3) non-profit corporation.
C. Lease/sell to a for-profit operator.
D. Reduce the bed count, or close the facility
E. Establish a trust to provide financial aid to eligible seniors.

In its report, HDG analyzed at the Committee's request each of the first three strategic options. The table below summarizes its financial forecast for TNW for five years from now (fiscal 2023) under each of these scenarios. As shown in the HDG table below, TNW's financial loss was forecast by HDG to be approximately $4.6 million higher as a Town-operated facility vs. the options of leasing it to a non-profit or for-profit entity.

Table 3
HDG's Summary of Options

Year 5 (dollars in thousands)					
	As Is Scenario	As is Option B- 5 Star Staffing	As is Option C- 4 Star Staffing	Sell/lease to 501 (c)(3) Corporation	Sell/lease to For Profit Manager
Total Net Revenues	$25,994	$25,994	$25,994	$26,153	$26,347
Total Operating Expenses	$29,299	$28,532	$27,428	$24,982	$24,450
Net Operating Income/(Loss)	**($3,305)**	**($2,538)**	**($1,434)**	**$1,171**	**$1,897**
Depreciation	$1,064	$1,064	$1,064	$346	$346
Interest	$559	$559	$559	$0	$0
Lease	$0	$0	$0	$1,208	$1,208
Property Taxes	$0	$0	$0	$0	$133
Net Operating Income/(Loss)	**($4,928)**	**($4,160)**	**($3,056)**	**($384)**	**$210**
Non Operating Revenue	$373	$373	$373	$523	$138
Non Operating Expenses	($118)	($118)	($118)	($87)	($87)
Total Other Revenue (Expense)	$255	$255	$255	$435	$51
Net Income/(Loss)	**($4,673)**	**($3,905)**	**($2,801)**	**$52**	**$261**
Net Income/(Loss) %	**-17.7%**	**-14.8%**	**-10.6%**	**0.2%**	**1.0%**

Sources: 2018 financial statements compiled by PFK O'Connor Davies, LLP, and HDG analysis

A. Maintain Current Town Ownership and Operation

The land on which TNW sits was granted to the TOG in the early 20th century, and TNW has served as a long-term skilled nursing facility, owned and operated by the TOG, for approximately 116 years. Therefore, TNW has been part of the fabric of the Greenwich community for many years. Continued Town ownership and operation presents a number of advantages as well as disadvantages:

- **Potential Advantages**

  Direct Control. Town is able to exercise direct control over TNW's operations. Through its annual budgeting process, the Town has oversight over TNW's staffing levels, operating budget, and capital expenditures. According to HDG, the Town has done a good job in running TNW: "The short-term rehab and skilled nursing center provides a home-like environment and is well maintained. The relationship between the residents, families and staff is excellent."

  Volunteer Support. TNW has enjoyed strong philanthropic and volunteer support from the community. For Project Renew, TNW raised $4.3 million from donors. In addition, TNW benefits from many volunteers giving their time to support the facility. The most recent financials of the Friends of the Witherell ("FNW"), that is a 501(c)(3) entity, indicated that the FNW raised $277,000 in its F17 fiscal year, of which $183,000 cover fund raising expenses and salaries of two employees. FNW spent approximately $100,000 for resident life programs, marketing and other services and $200,000 for a capital project at TNW. FNW have indicated that their fundraising goal is to support enrichment activities for the residents, not to subsidize Town operating losses.

  Town Financial Support. As a Town-operated facility, TNW is assured that the deficits it incurs will be funded by the Town, which minimizes the risk that TNW will have to curtail operations in the event that operating losses escalate. In FY17, the Town had to use $6.5 million of general fund balance to cover negative fund balance at TNW.

- **Potential Disadvantages**

  Labor Costs. As a Town-operated facility, TNW's labor costs and benefits which are subject to collective bargaining agreements governing all but a few senior managers account for 82% of TNW's direct operating costs and are higher than its peer facilities. Notwithstanding that fact, the Medicare and Medicaid rates are more aligned to the industry cost structure.

  Management Flexibility. As a municipally-owned SNF, TNW is subject to government oversight, which may not be optimal.

  Operational Scale and Diversity of Operations. As a stand-alone facility, TNW cannot benefit from economies of scale and diversity of operations. Organizations that operate multiple SNFs can achieve economies of scale in terms of administration, purchasing, and the implementation of best industry practices.

  Operating Deficits. The Town expects to face a substantial increase in the operating deficits at TNW that it will have to fund. In FY19, TNW incurred a total cost of $6.6 million. According to HDG's report, TNW's operations will face increasing pressure under the shift to PDPM in Medicare. Similarly, the State is shifting to acuity-based reimbursement.

- **Next Steps**

  At its meeting on May 22, 2019, the Committee approved next steps to be undertaken to develop recommendations for the direction of TNW that would be presented to the BET. For this strategic option, these steps included:
    - Detailed spreadsheet of recommendations from Health Dimensions Group (HDG) and up-dates on progress and implementation
    - Detailed spreadsheet of recommendations from PKF O'Connor Davies and up-dates on progress and implementation
    - Review HDG's Financial Plan for the next 5 years

- Explore marketing plan and expansion of services

B. **Lease/Sell to a 501(c)(3) Corporation**

A number of organizations in Town serving the public are organized as not-for-profits pursuant to Section 501(c)(3) of the U.S. Tax Code. These include the Bruce Museum (operation of the programs), the Greenwich Library (ownership of its assets), the Boys and Girls Club, the YMCA, and the YWCA.

- **Example of the Bruce Museum**
  The Bruce Museum is a 501(c)(3) not-for-profit corporation that had previously been a Town Department with twelve employees. Following the approval by the Board of Selectman in 1990 of extensive additions and renovations to the Bruce Museum, the RTM in 1991 repealed and amended sections of the Town Charter to establish the Bruce Museum Board and to authorize the Director of Parks and Recreation, subject to RTM approval, to enter into an agreement with the Museum "to allow [the Bruce Museum] to administer, supervise, manage, and operate the Bruce Museum". The primary motivation for the change was to support the ability of the Bruce Museum to raise funds for the expansion as a premier art and science museum. Another benefit was the flexibility to compensate a museum director at a level higher than that allowed by the Town.

- **Potential Advantages**
  Primary among the structure's advantages are the increased flexibility accorded management and the potential deductibility of contributions by donors.

  - **Greater Financial Transparency.** As a non-profit, TNW would be subject to FASB, rather than GASB, accounting principles. As a separate entity, all of TNW's costs would be clearly identified and managed on an arm's-length or contractual basis, including the in-kind services previously obtained from the Town.

  - **Improved Management Incentive and Flexibility.** Improved incentive for TNW management to perform. Reduced delays in operating/capital budget approval and procurement processes and greater flexibility to respond to changing regulatory and market conditions.

  - **Change Governance of TNW.** The new Board composition might change to reflect a new structure.

  - **Improved Ability to Attract Private Financial Support** Although certain programs of the TNW currently receive financial support from the *Friends of the Nathaniel Witherell*, a 501(c)(3), it may be possible to raise incremental contributions if TNW was not a municipally-owned facility.

  - **Labor Contracts.** It may or may not be possible to renegotiate on more favorable terms in the collective bargaining agreements with the several unions representing TNW employees.

- **Next Steps**
  - For this strategic option, the next steps would be: Determine the legal actions necessary to establish a 501(c)(3)

- Review potential expansion of existing 501(c)(3) through lease agreement
- Determine impact of deed restrictions on potential transaction
- Identify potential qualified counterparty(s) and terms
- Review HDG's Financial Plan for the next 5 years

If the Town were to select this option, it could retain a professional services firm with expertise in the nursing home sector to identify potential counterparties and terms.

C. Lease/Sell to a For-Profit Operator

Among the options available to the Town might be to sell or lease TNW to a private for-profit operator.

- **Considerations**
  - **Social Service Needs of the community.** In addition to providing the community with a sound center for short-term rehabilitation, the facility presently serves a social service need in the community for long-term care and most particularly for such care to the frail elderly of modest financial means. As with the previous option, one strategic decision is whether SNF services are properly the responsibility of Town government.

  - **Deed Restrictions.** As discussed elsewhere in this Report, the property is the subject of certain deed restrictions on the Greenwich Land Records, with which a transaction may need to comply.

  - **Marketability of the Facility.** The marketability of the facility is uncertain. Marketability can be evaluated only based on actual offers from qualified parties.

- **Next Steps**

  For this strategic option, the next steps would be:
  - Determine the legal steps necessary to sell or lease to a for profit corporation
  - Determine impact of deed restrictions on potential transaction
  - Identify potential qualified counterparty(s) and terms
  - Review HDG's Financial Plan for the next 5 years

  If the Town were to select this option, it could retain a professional services firm with expertise to identify potential counterparties and terms.

D. Reduce the Bed Count or Close the Facility

The Committee's 2017 Report had identified the reduction of bed capacity or closure as possible options. Any permanent reduction of beds or closure of the facility would require the approval through the State's issuance of a Certificate of Need.

E. Establish the TNW Trust

In conjunction with either the sale or closure of TNW, the Town might establish a trust to provide financial aid to eligible seniors with respect to their long-term care needs.

The trust could be funded by some combination of (a) sale proceeds, (b) future tax revenues earned on the property and, possibly, (c) an annual incremental contribution from the Town.