MINUTES of the special meeting of the Board of Estimate and Taxation held on Tuesday, April 27, 2004, in the Town Hall Meeting Room, Greenwich, Connecticut.

The Chairman, Peter J. Tesei, called the meeting to order at 6:06 PM, after which the members pledged allegiance to the flag.

Board members in attendance:

Peter J. Tesei, Chairman
Robert S. Stone, Vice Chairman
Alma Rutgers, Clerk
Peter E. Berg
Jara N. Burnett
Janice Gardner (left mtg. @ 7:18 PM, returned 8:03PM)
Kathryn Guimard
Edward Krumeich
Michael Mason
Laurence B. Simon
Valeria P. Storms
Stephen G. Walko

Staff: Roland Gieger, Ed Gomeau, Finance Department; Mary Jo Iannuccilli, Department of Human Resources

Other: Penny Monahan, Selectman


Commission on Aging: Sam Deibler, Betty Hauptman

Nathaniel Witherell Board: Peter Stack, Ed Kavounas, Brad Markowitz

Health Dimensions: Daniel Dolman, Tom Stitt, Diana Johnson

IBIC: Michael McKinnon, IBIC, LLC.

THE NATHANIEL WITHERELL NURSING HOME – FINANCIAL ANALYSIS AND ASSESSMENT REPORT

Mr. Tesei noted that the purpose of the report was to provide an independent analysis of the certificate of need (CON) for Nathaniel Witherell (as prepared by Halcyon Day), assess the level of financial risk to underwrite the project, and to delineate differences between the
financial information contained in the CON and the financial assessment Health Dimensions Group made from analyzing that information with industry data.

Mr. Tesei introduced the consultants from Health Dimensions Group: Daniel Dolman, Tom Stitt, Diana Johnson; and Michael McKinnon, from IBIC, LLC.

Mr. Dolman reviewed the executive summary of the report noting that the intent was to develop a financial model and provide financial projections for the Nathaniel Witherell. The basis for the projections was the CON (Certificate of Need) application, but the CON information was supplemented with current Nathaniel Witherell financial statements and available benchmarks. Mr. Dolman noted that two separate scenarios were created:

- Option 1 - $35 million, 20 year bond financing
- Option 2 - $25 million, 20 year bond financing with a $10 million equity contribution

Mr. Dolman noted that the main differences from the CON application and this report were:

- CON projections are based on older data.
- Payer mix assumptions have changed since the preparation of the CON.
- The amount approved for use in determining the Fair Rental Value component of the Medicaid rate has changed.
- There are differences in the calculation of some of the “32 key assumptions”.
- Some assumptions in the revised financial projections were not made in the CON projections.

These costs differ from the CON projected costs of approximately $45.2 million.

Mr. Stitt commented that the following conclusions were reached by Health Dimensions Group:

- The projected financial statements indicate that the proposed facility can be self-sustaining as a stand-alone entity.
- It can achieve that self-sufficiency (positive cash flow) during month 5 of year one in Option 1 and during month 4 in Option 2.
- Break-even, defined as the point at which the cumulative cash flow reaches a positive amount, occurs in month 9 of year four in Option 1 and month 6 of year two in Option 2.
- However, a working capital infusion of approximately $2.7 million and $2.0 million by the Town is assumed under Options 1 and 2 respectively.

The formal presentation by Health Dimensions concluded at 6:41 PM, after which there was a question and answer period with questions alternating between BET members and RTM committee members.
QUESTIONS AND ANSWERS:

LARRY SIMON: The BET and the RTM are looking to validate the CON numbers. What level of comfort should we feel with regard to these numbers in light of the disclaimer in the report (Disclaimer – HDG was not engaged to and did not perform a full financial feasibility study of the likely financial results of the proposed facility and therefore offers no assurances regarding the achievability of the financial results in the projected financial statements)?

RESPONSE: Should feel comfortable going forward, in spite of the disclaimer.

NANCY WEISSLER: Elaborate on the staffing model in light of the fact that the staffing for rehab stays the same even though the Medicare rehab patient numbers are doubling?

RESPONSE: The staffing model is derived from the CON concept of neighborhoods with pods of 20 to 22 and a staffing ratio of 1 to 7. The RN and LPN coverage was increased for long-term care as opposed to rehab. The rationale for not increasing the rehab staffing was that there was no data to review.

BOB STONE: Was the CON assumption regarding patient mix, especially private pay, validated? In light of The Nathaniel Witherell’s own, as well as industry, trends showing a decline in self-pay residents, would HDG be willing to make a statement that we can count on 30% private-pay residents? Did HDG run any series of numbers asking “what if” we don’t achieve the self-pay assumptions? If we do not achieve these assumptions, there will be a substantial revenue impact.

RESPONSE: HDG did do a “what if” scenario but doesn’t have notes on this with them. HDG can’t guarantee 30% private-pay because there are too many variables, but considers the 30% feasible in this particular geographic area as much depends on location. They have kept their projections flat and are not proposing any significant increase in the current self-pay census. The potential is there for these private-pay numbers.

BOB RICHARDSON: He said that he “opines” in response to Mr. Stone’s question that, according to the analysis done by his committee, 30% private-pay is achievable and that HDG’s 31% projection is not unreasonable.

VAL STORMS: What led HDG to eliminate Phase III (verification of projected revenues) and Phase IV (verification of operating expenses) in the scope of their engagement?

RESPONSE: There was not enough supporting documentation to do a five-year projection. HDG would not rely on data that they were unable to verify independently.

RANDALL HUFFMAN: What assumptions were used in developing the bond finance model? What assumptions were made in establishing a 36-month period of temporary financing?
RESPONSE: The assumptions for temporary financing are conservative relative to the current market. The assumptions on interest rates are 1.75% first year short-term; 2.50% second year; and 3.0% third year. A 6% interest rate is the assumption for the issuance of bonds (current rate is 4.25%). Principal payments are projected to start in fiscal ’08 with debt service a close to level payment ($2.5 million in the early years and $1.8 million in years 19 and 20).

JARA BURNETT: Do HDG projections assume a stable patient mix over five years?
RESPONSE: HDG projections do assume a stable mix and while there can be fluctuations such variations are unpredictable.

GINA HIGBIE: What is the methodology for the new building construction?
RESPONSE: HDG used all the architectural and engineering information provided by Nathaniel Witherell that was reviewed by an architect with relevant experience. The costs were found to be high but not unreasonable. The proposed facility is “expensive but good.”

MICHAEL MASON: Inquiry about the revenue assumptions, particularly the 28% increase in the self-pay rate?
RESPONSE: HDG used the existing self-pay rates that according to Nathaniel Witherell are expected to increase 10% in the current year. That number was then inflated by 3% annually until the ramp-down year. When the facility is ready to open it will still be in the market even with an additional 15% increase as it will be not just a state-of-the-art facility, but will be on the cutting edge.

FRED DE CARO: Inquiry about the nursing hours per hour per patient day as he wants to understand what standard was being used. Was this below average? Should nursing hours be under the national average in a state-of-the-art facility?
RESPONSE: Current nursing hours per hour per patient day at Nathaniel Witherell are 3.81 (.6 RN; .25 LPN; 2.96 CNA). The proposal for the new facility is 3.87 nursing hours per hour per patient day (.65 RN; .66 LPN; 2.56 CAN). This compares to a national average of 3.8 and a Connecticut average of 3.6.

KATHRYN GUIMARD: Inquiry about the projected self-pay inflation on p. 20 of the Executive Summary (“CON vs. Revised Financials” Table). Could these be run with a lower rate to see the impact? Also, how attainable are the assumptions of 45 days collection for accounts receivable and 30 days for accounts payable?
RESPONSE: HDG has not run the figures using lower self-pay inflation assumptions, but could do it. HDG needs to look again at the accounts payable and receivable assumptions, but when the assumptions were increased to 60 days, there was not much of an impact.

NANCY WEISSLER: What “sensitivities” should we be focusing on? Why are the maintenance and dietary expenses projected to go down?
RESPONSE: We need to focus on driving the census numbers, maintaining the patient mix, controlling costs, reducing the length of stay and having a strong...
marketing campaign. The reduction in maintenance and dietary expenses is related to efficiencies in the new facility. This was one of the projections in the original CON that HDG reviewed and agreed with.

PETER BERG: Remarked that the CON projected costs for the new facility were approximately $45.2 million while HDG projects a $36 million cost with capitalized interest. Where does the $10 million difference come from? What are the implications of this change with regard to the State of Connecticut CON approval process?

RESPONSE: Comptroller Ed Gomeau said that $8.3 million in interim financing charges were removed from the original $45 million projection as the interest and issuance costs will be much less than the CON projections. Ed Kavounas, Chairman of the Nathaniel Witherell Board, said that the state CON can be amended, but that the TNW Board needs to look at how best to do this.

BOB BRADY: Requested a statement giving a breakdown of the total capital investment including the facility, equipment, financing and legal costs, working capital and other costs.

RESPONSE: Comptroller Ed Gomeau said that the Finance Department can provide this breakdown. Mr. Gomeau also noted that the BET must think about raising $2 million to $2.7 million in working capital as it is not legal to capitalize this shortfall.

STEVE WALKO: Did HDG, in reviewing the CON documents, find the change in job descriptions feasible? What assumptions were made regarding full time, part time and per diem staffing? Were any outsourcing calculations made?

RESPONSE: HDG did not see any job descriptions in the CON. HDG came up with a number for total full time employees at an hourly rate based on the existing rate and inflated by 3% per year plus benefits. HDG did not do a breakdown of full time, part time, and per diem employees. Overtime was factored into the overall hourly rate. There was no analysis of an outsourcing impact.

VAL STORMS: Noted that the CON included an Adult Day Care Center and asked if HDG had taken into account the probability that the adult day care facility won’t be there?

RESPONSE: The costs were buried in the TNW financials and couldn’t be broken out, but would be only a minor income and cost change.

BOB TUTHILL: Are benefits based upon 40% of salaries reasonable?

RESPONSE: Budget Director Roland Gieger said that this is based on our current actual benefits.

DAVID MELICK: Inquiry regarding the overtime assumptions used in the HDG model. Should we assume less overtime with the new facility?

RESPONSE: While staffing was adjusted due to several efficiencies with the new facility and overtime was factored into the hourly rate, there was no downward adjustment for overtime.
Mr. Gomeau said that the model – on a CD-ROM with an EXCEL spreadsheet - that the town has now purchased from HDG will be in the custody of Budget Director Roland Gieger and the BET should decide on a process for its use.

Mr. Tesei said that all requests to use this model must go through Mr. Gieger.

Mr. Tesei concluded the joint session of the BET and RTM special committee at 8:08 PM and declared a five minute recess before reconvening for executive session. Mr. Tesei reconvened the meeting at 8:18 PM.

**EXECUTIVE SESSION:**

Upon a motion by Mr. Krumeich, seconded by Mr. Walko, the Board voted 12-0-0 to enter into executive session at 8:18 PM to discuss a personnel matter pertaining to the search for and appointment of a Comptroller.

In attendance were:
- Mary Jo Iannuccilli: Human Resources Department
- Mssrs. Berg, Krumeich, Mason, Simon, Stone, Tesei, and Walko: Board of Estimate and Taxation
- Mmes. Burnett, Gardner, Guimard, Rutgers and Storms: Board of Estimate and Taxation

Upon a motion from Mr. Krumeich, seconded by Ms. Guimard, the Board voted 12-0-0 to conclude the executive session and adjourn the special meeting at 9:15 PM.

Respectfully submitted,

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Jennifer Sargeant, Recording Secretary

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Peter J. Tesei, Chairman

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Alma Rutgers, Clerk of the Board