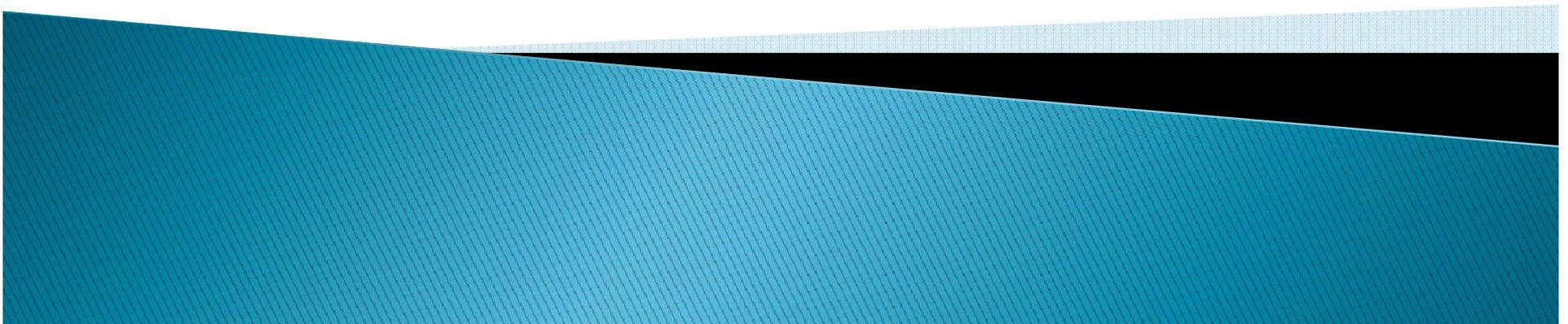


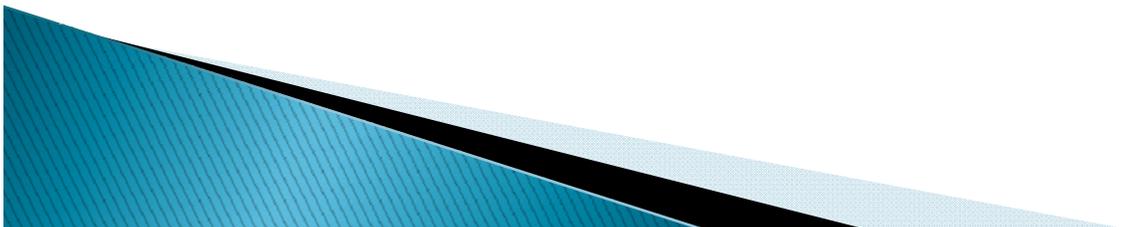
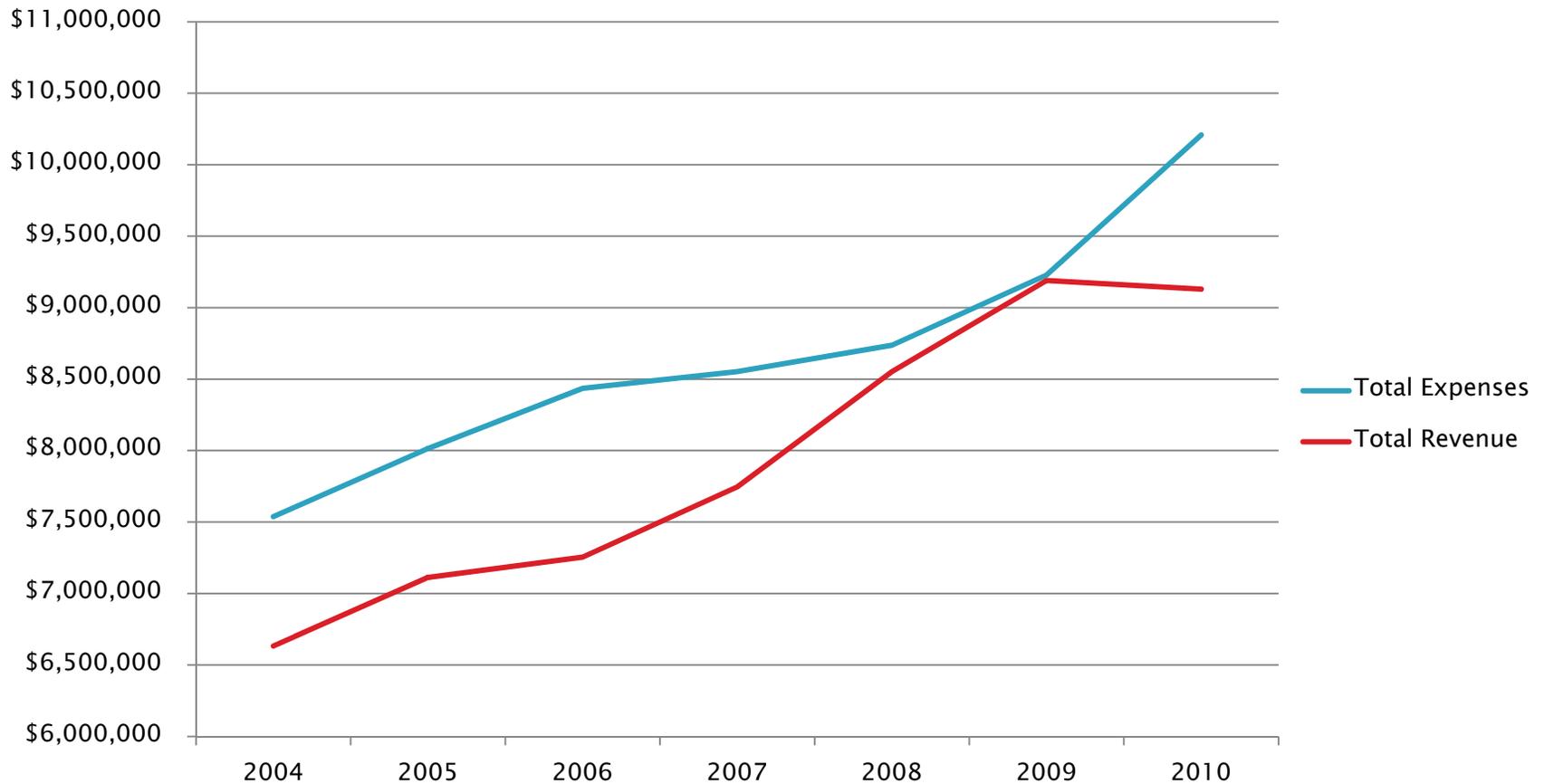
**COUNTY OF SUSSEX  
HOMESTEAD FINANCIAL  
EVALUATION**

**November 2011**



# Why consider options?

## Expenses/Revenues as reported in Medicaid Cost Report



# Internal Analysis - 2010

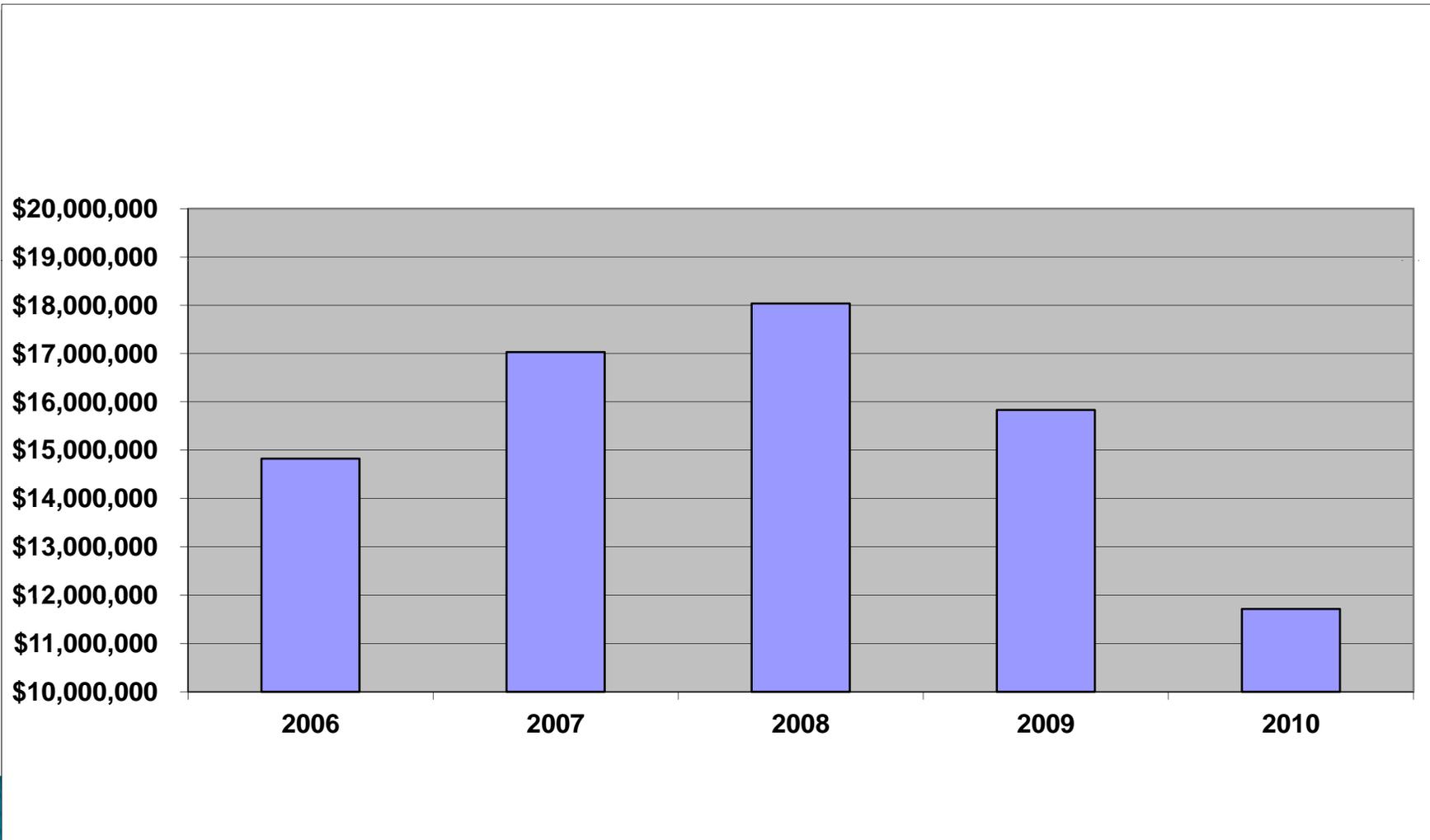
## HOMESTEAD COST ANALYSIS 2010

	Budget	Realized in 2010	Peer Grping Add-Back	Realized in 2011	Total Actual Revenue	Projected Excess/(Under) Budget
<b>REVENUES:</b>						
Within Current Fund as Anticipated Revenue	<u>8,681,000</u>	<u>8,896,160</u>	<u>164,422</u>		<u>9,060,582</u>	<u>379,582</u>
	<b>Final Budget</b>	<b>Spent In 2010</b>	<b>Spent In 2011</b>	<b>Encumbered at 5/2/2011</b>	<b>Projected Total Expended</b>	<b>Projected Over/Under Budget</b>
<b>DIRECT COSTS:</b>						
Within Current Fund Appropriations:						
Homestead 350's:						
Salaries and Wages	4,842,993	4,842,993	0	0	4,842,993	0
Other Expenses	1,786,099	1,256,662	334,086	149,144	1,739,891	47,107
Facilities 310's						0
General Liability 210's	80,600	80,568			80,568	32
Benefit's Costs (58% of S&W)	2,808,936	2,808,936	0	0	2,808,936	0
Peer Grouping Commitments	164,422				164,422	0
Utility Costs:						0
Electricity 430's	137,076	110,791	16,416		127,207	9,869
Gas (Natural/Propane) 436's	42,922	26,653	15,983	285	42,921	0
Heating Oil	<u>10,000</u>	<u>9,718</u>			<u>9,718</u>	<u>282</u>
Total Direct Costs	<u>9,873,948</u>	<u>9,136,322</u>	<u>366,484</u>	<u>149,429</u>	<u>9,816,657</u>	<u>57,290</u>
DIRECT COSTS-Maintenance Costs in Bidings & Grds					259,128	
DIRECT COSTS-IT					72,773	
Total Costs	<u>9,873,948</u>				<u>10,148,558</u>	
NET INCOME/(LOSS)	<u>-1,192,948</u>				<u>-1,087,976</u>	

G/HomesteadNursingHome/2010Rev-Exp-Analysis

# Why consider options?

## Status of County Fund Balance



# **Why consider options?**

## **Ongoing budget pressures**

- ▶ 2% State Cap
- ▶ Declining non-tax revenues
- ▶ Steep increases in pension/benefit costs
- ▶ State shifting increasing costs related to Psychiatric patients to Counties
- ▶ Increasing capital expenditure needs due to age of infrastructure and facilities
- ▶ Anticipated spike in infrastructure costs related to Hurricane Irene

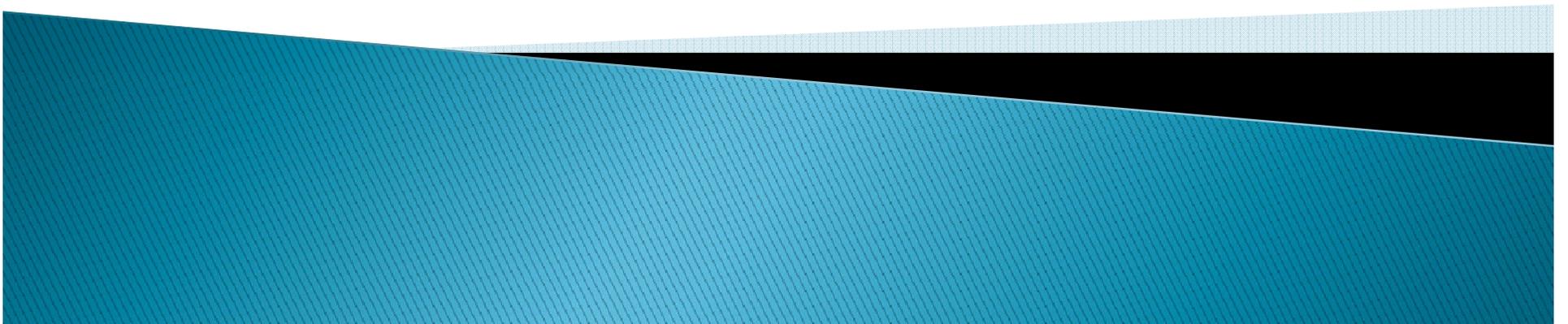


# Why consider options?

## Limits to cost cutting measures moving forward

- ▶ *Extreme cost cutting measures of past two years may not be available moving forward*
  - Closed Youth Shelter (Morris County Shared Svc.)
  - Closed Juvenile Detention Center (Morris Co. Shared Svc.)
  - Closed Medical Examiner Office (Mo.Co. Shared Svc)
  - 20% Reduction in aid to not-for-profits
  - Reduction of 74 employees in areas not related to public safety or public health
  - Move to State Health Benefits Plan
  - Reduction of \$500K to both SCCC and Sussex Tech
  - Significant reductions in Prosecutor and Sheriff Budgets
  - Reducing Constitutional Officers salaries to State minimum

# **The 2011 Numbers**



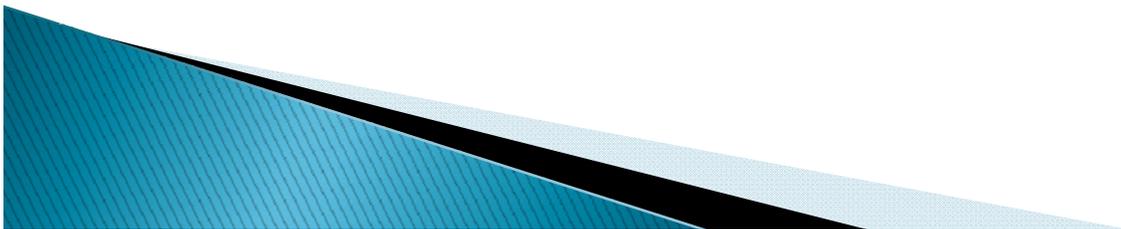
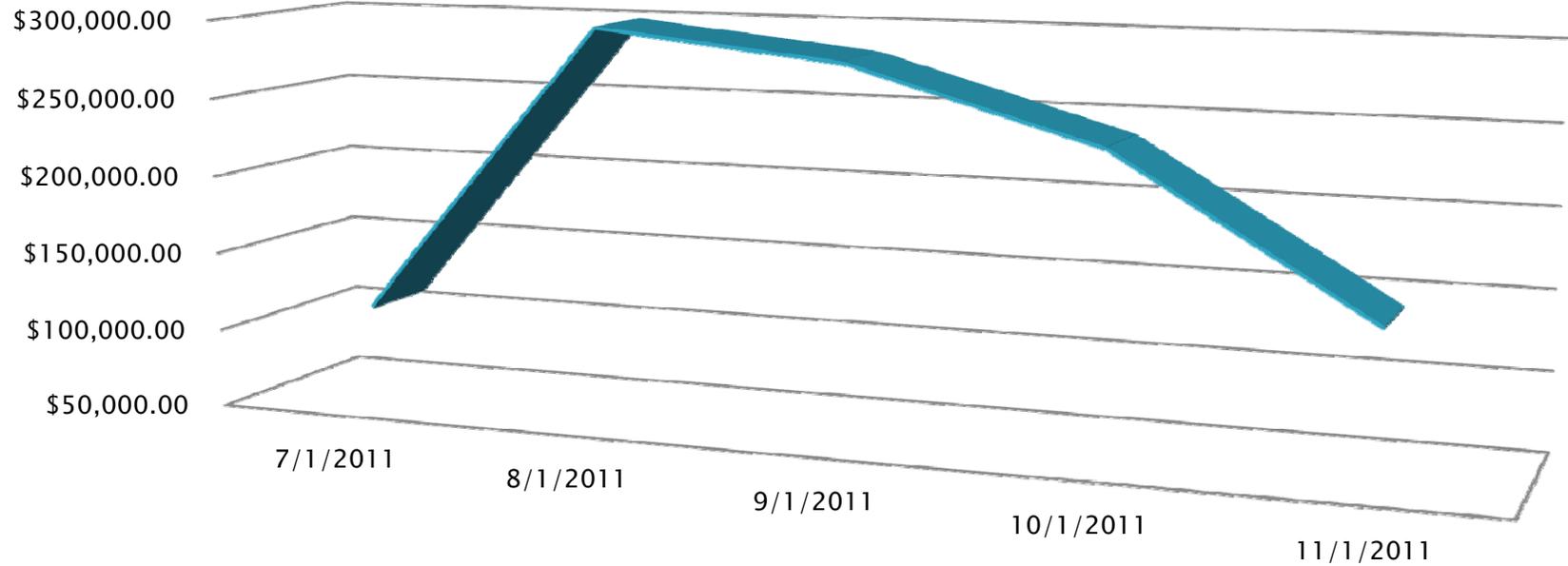
# Internal Analysis - 2011

## ▶ *Annual Operating Deficit*

- Projected as of 7/31/11 = \$111,725
- Projected as of 8/31/11 = \$298,324
- Projected as of 9/30/11 = \$282,156
- Projected as of 10/31/11 = \$237,251
  - Monthly deficit projection changes result from changes in monthly revenue collection
  - Operational cost savings in 2011 influenced by:
    - 2011 Salary Freeze (value = approx. \$150K)
    - Savings associated with move from self-insured (through CIGNA) medical benefits to State Health Benefits Plan on 4/1/11
    - Savings associated with moving retiree benefit costs for prescription insurance to State Health Benefits Plan (active employees remain on self-insured (Medco) prescription Plan)
- *Deficit projections do not include future capital costs or future post employment benefit costs*

# 2011 Year End Deficit Projection

## Homestead 2011 Year End Deficit Projection



# Internal Analysis – 2011

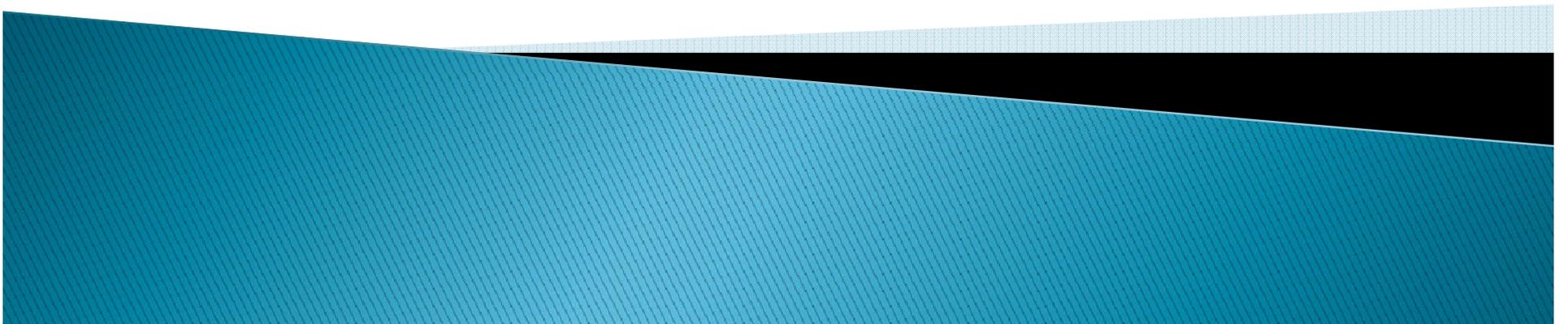
## Operation deficit projection as of 11/30/11

COUNTY OF SUSSEX  
 DMESTEAD PROJECTED REVENUE AND COST (UNAUDITED)  
 AS OF NOVEMBER 30, 2011

	Account	Budget	Actual To Date	Projected To 12/31	Projected Over/(Under) Budget
<b>REVENUES:</b>					
Within Current Fund Anticipated Revenue:	A	8,680,000	9,481,700	10,343,673	1,453,673
<b>DIRECT COSTS:</b>					
Within Current Fund Appropriations:					
Homestead 350's:					
Salaries and Wages	B	5,053,000	4,390,141	4,789,245	263,755
Other Expenses	B	1,663,156	1,460,459	1,980,009	-316,853
Facilities 310's	B	130,670	161,373	165,135	-34,465
General Liability 210's	P/Y	100,000	0	80,906	19,094
Benefit's Costs (Actual Cost Projections)	WS	2,930,740		3,019,762	-89,042
Peer Grouping Commitments	WS	131,536		131,536	0
Personal Resident Laundry Services					
Electricity 430's	B	11,722	11,722	11,722	0
Gas (Natural/Propane) 436's	B	702	698	698	4
Utility Costs:					
Electricity 430's	B	144,002	144,002	144,002	0
Gas (Natural/Propane) 436's	B	30,341	23,827	23,827	6,414
Total Direct Costs		10,195,869	6,182,322	10,346,981	-151,092
DIRECT COSTS-Maintenance Costs in Bidings & Crds	WS			85,820	
DIRECT COSTS-IT	WS			72,774	
Total Costs (excluding Indirect Costs)				10,485,555	
NET INCOME/(LOSS) BEFORE OPEB&CAPITAL		-1,305,869		-141,882	
PROJECTED CAPITAL COSTS					
PROJECTED OPEB COSTS		-1,305,869		-141,882	

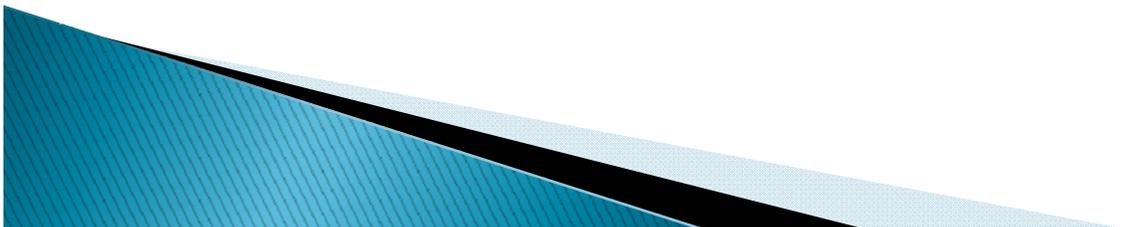
SOURCE IDENTIFICATION:  
 A=MSI Budget Trial Balance as of 11/30/11  
 B=MSI Budget Trial Balance as of 11/30/11  
 P/Y-Based on prior year bill  
 WS-Separate worksheet attached

# **Capital Expenditures**



# Future Capital Costs

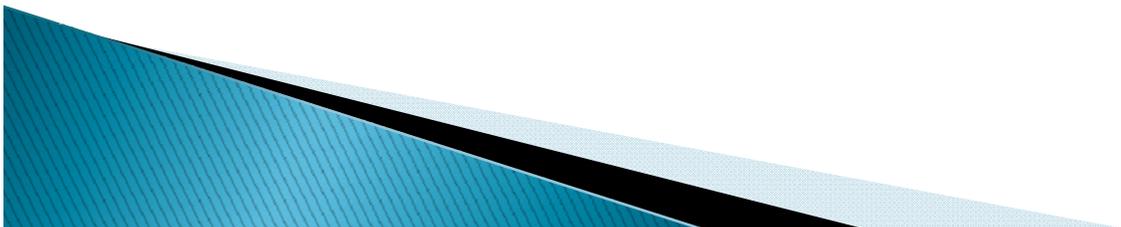
- ▶ \$7.3 M in capital expenditures projected over next 10 years
- ▶ Medicaid cost reimbursement for capital expenditures produces annual rate of return on investment between 8% and 15% for capital investments between \$102,000 (\$1K/bed) and \$5M
- ▶ Annual cost of capital = 3% to 4%



# Future Capital Costs

HOMESTEAD CAPITAL IMPROVEMENT ESTIMATES 2012 TO 2021  
(as prepared by SC Division of Facilities Management 8/18/10)

Capital Improvement	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Lower Roof Replacement	\$ 120,000							\$ 250,000		
Upper Roof Replacement										
Outbuilding Roof Replacement				\$ 35,000						
Elevator #2 Replacement	\$ 250,000									
2 DX-type chillers, pumps, etc.								\$ 1,600,000	\$ 600,000	
Replace fan coil units, etc.										\$ 700,000
New electric service									\$ 1,100,000	
Energy Recovery Ventilation							\$ 200,000			
Walk-in cooler replacement		\$ 1,740,000								
Glassed curtain wall system					\$ 500,000					
Fourth floor improvements										
Network servers	\$ 12,000									
Desktop Replacements		\$ 22,400					\$ 22,400			
Software		\$ 16,704								
Network infrastructure		\$ 140,000								
<b>TOTAL</b>	<b>\$ 982,000</b>	<b>\$ 1,919,104</b>	<b>\$ -</b>	<b>\$ 35,000</b>	<b>\$ 500,000</b>	<b>\$ -</b>	<b>\$ 222,400</b>	<b>\$ 1,850,000</b>	<b>\$ 1,700,000</b>	<b>\$ 700,000</b>
<b>TOTAL 10 YEAR PERIOD 2012 TO 2021 =</b>		<b>\$ 7,308,504</b>								
<b>AVERAGE PER YEAR</b>		<b>\$ 730,850</b>								



# Medicaid Reimbursement under current Capital Schedule

Spending Year	Effective July 1,		Reage	Age	Capital Reimbursement	x Census (95%)	
2012	2013	370,000	1994	19	12.73	35,369	450,247
2013	2014	1,740,000	2004	10	16.43	35,369	581,113
2014	2015	-	2004	11	16.02	35,369	566,611
2015	2016	35,000	2004	12	15.61	35,369	552,110
2016	2017	500,000	2007	10	16.43	35,369	581,113
2017	2018	-	2007	11	16.02	35,369	566,611
2018	2019	200,000	2008	11	16.02	35,369	566,611
2019	2020	1,850,000	2018	2	19.71	35,369	697,123
2020	2021	1,700,000	2020	1	20.12	35,369	711,624
2021	2022	700,000	2021	1	20.12	35,369	711,624
		7,095,000					5,984,787

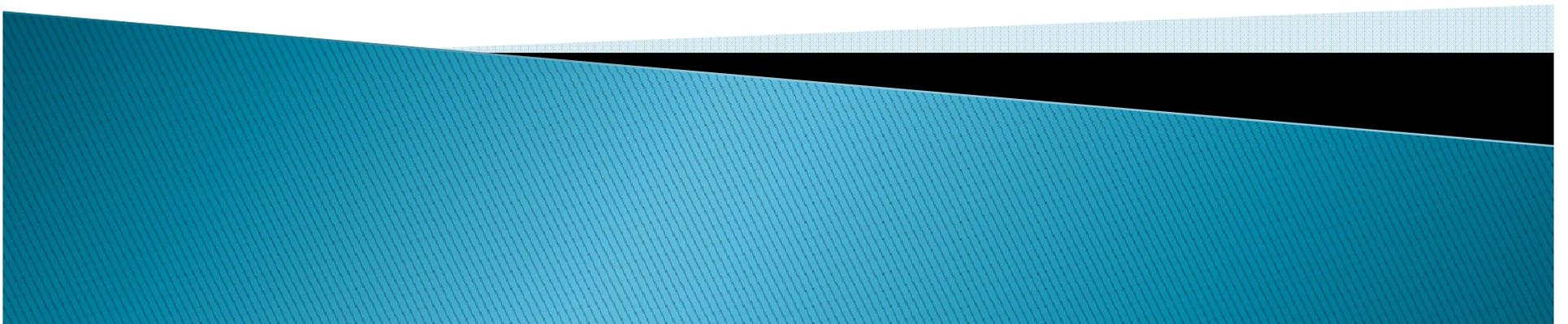
# Modified Capital Plan

Spending Year	Effective July 1,		Reage	Age	Capital Reimbursement	x Census (95%)	
2012	2013	709,500	1996	17	13.55	35,369	479,250
2013	2014	709,500	2000	14	14.78	35,369	522,754
2014	2015	709,500	2004	11	16.02	35,369	566,611
2015	2016	709,500	2008	8	17.25	35,369	610,115
2016	2017	709,500	2012	5	18.48	35,369	653,619
2017	2018	709,500	2016	2	19.71	35,369	697,123
2018	2019	709,500	2018	1	20.12	35,369	711,624
2019	2020	709,500	2019	1	20.12	35,369	711,624
2020	2021	709,500	2020	1	20.12	35,369	711,624
2021	2022	709,500	2021	1	20.12	35,369	711,624
		7,095,000					6,375,968

# Modified Capital Plan

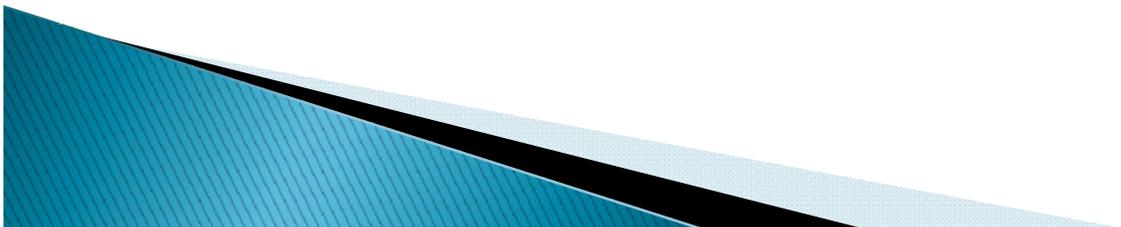
Spending Year	Effective July 1,		Reage	Age	Capital Reimbursement	x Census (95%)	
2012	2013	3,600,000	2012	1	20.12	35,369	711,624
2013	2014	388,333	2013	1	20.12	35,369	711,624
2014	2015	388,333	2014	1	20.12	35,369	711,624
2015	2016	388,333	2015	1	20.12	35,369	711,624
2016	2017	388,333	2016	1	20.12	35,369	711,624
2017	2018	388,333	2017	1	20.12	35,369	711,624
2018	2019	388,333	2018	1	20.12	35,369	711,624
2019	2020	388,333	2019	1	20.12	35,369	711,624
2020	2021	388,333	2020	1	20.12	35,369	711,624
2021	2022	388,333	2021	1	20.12	35,369	711,624
		7,094,997					7,116,240

# **Retirement Health Benefits (OPEB)**



# Retirement Health Benefits (Other Post Employment Benefits – OPEB)

(1) Present Value of Benefits	\$ 14,918,000.00
(2) Normal Cost	\$ 624,000.00
(3) Accrued Liability	\$ 8,296,000.00
(4) Amortization (30 - amortization of (3))	\$ 328,000.00
<b>(5) Annual Required Contribution (ARC) = (2) + (4)</b>	<b>\$ 952,000.00</b>



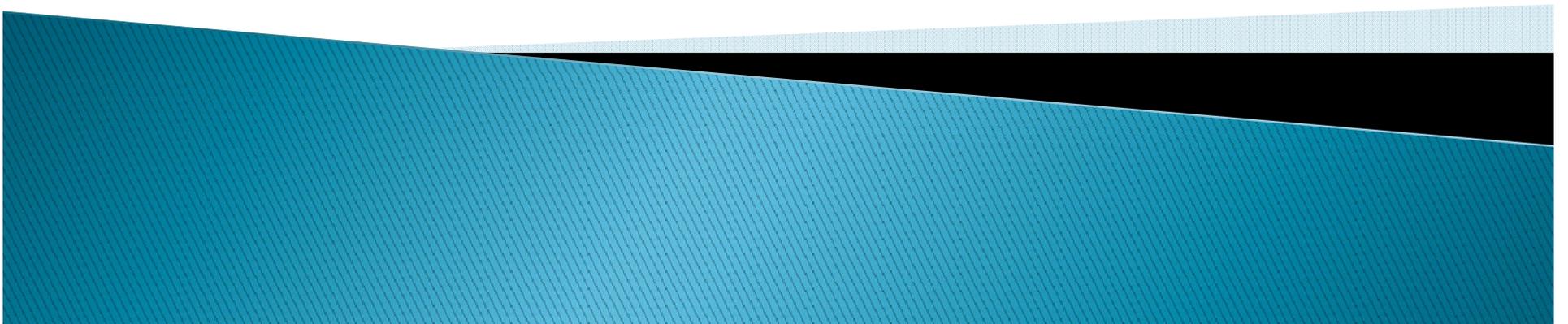
# **Retirement Health Benefits**

## **(Other Post Employment Benefits – OPEB)**

- ▶ Present annual cost of future (30 year horizon) liability of employee benefits
- ▶ Assumptions:
  - Medical costs increase at 8.5% in 2011 with a decrease of .5% annually until it reaches 5% in 2018 and beyond
  - Prescription costs increase at 10.5% in 2011 with decrease of .5% until it reaches 5% in 2022
  - Dental costs increase by 5% annually
  - Medicare B premiums increase by 5% annually
  - Annual average salary increase of 3%

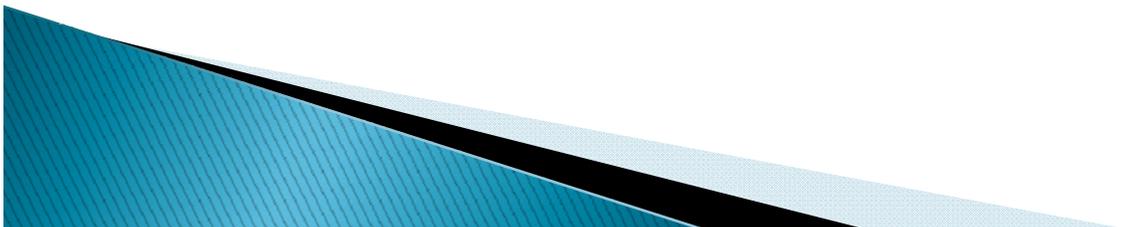


**2012**

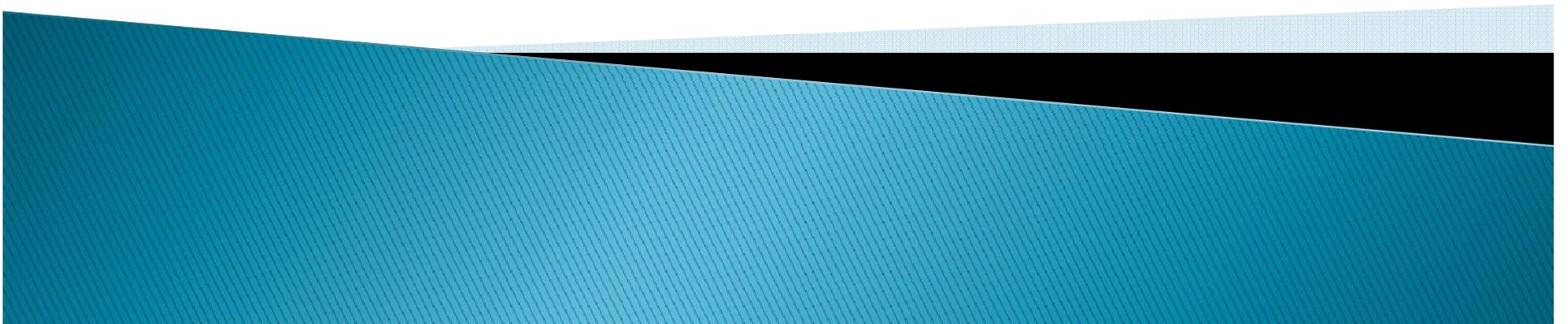


# 2012 Estimates

- ▶ **Salary & Wage** preliminary estimate shows increase of approximately \$350K (1.75% increase on base)
- ▶ **Health Benefit** preliminary estimate shows increase of approximately \$650K
- ▶ Continued State Medicaid cuts and possible migration to State mandated managed care for nursing homes

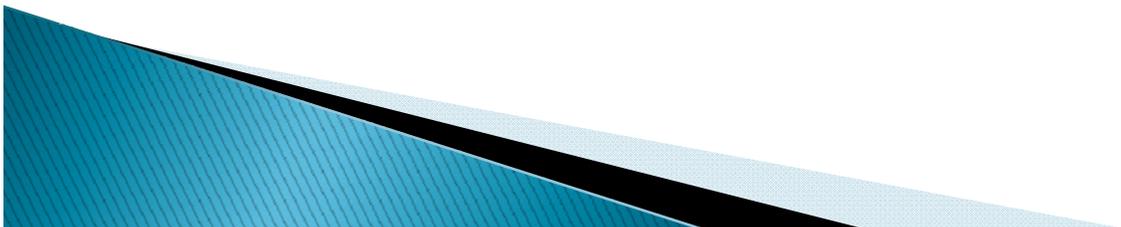


# **Nursing Home Ownership Options**



# Options Moving Forward

- ▶ *1. Sale of Homestead to private or non-profit Corp.*
- ▶ *2. Transfer ownership to County Improvement Authority*
- ▶ *3. Continued County ownership and operation*

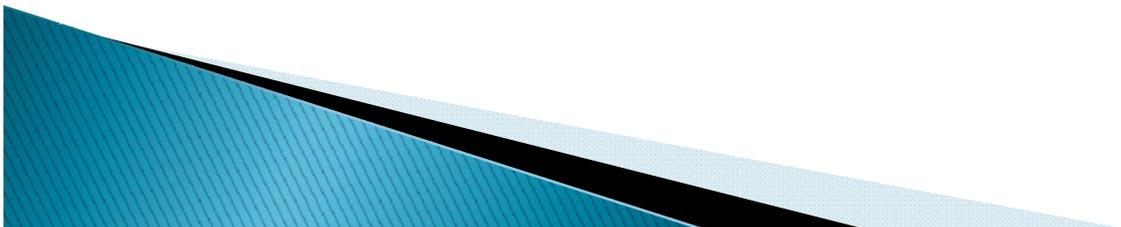


# Options:

## 1. Sale of Homestead to private or non-profit

### ▶ *Advantages*

- Large influx of cash (estimated by broker at \$8M to \$12M) to help replenish dwindling County cash reserves
- Insulation from uncertain future for Medicaid & Medicare
- Ongoing property tax revenue from private facility
- Reduction in indirect administrative time (payroll, benefits processing, unemployment processing, labor hearings, etc.)

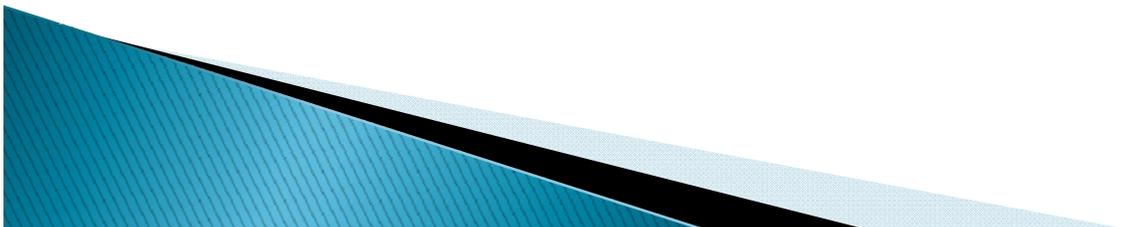


# Options:

## 1. Sale of Homestead to private or non-profit

### ▶ *Disadvantages*

- One time employee severance costs (\$500K +/-)
  - costs could be charged against accrued sick/vacation trust fund (current balance approx. \$1.8M) with cash from sale used to replenish trust
- Short term increase in County unemployment costs
- Administration of civil service layoff process
- Continuity of administration/staff during transition
- Cost/time of subdivision and land use approval (estimated at \$60K +/-; 8 to 10 months)
- Reconfiguring sewer plant
- Inability to influence availability of Medicaid beds
- Loss of PEER Group funding and attendant impact to community groups (currently \$130K distributed to community groups)
- Need to find vendor for preparation of “Meals on Wheels” food (Homestead currently responsible for daily prep)



# PEER Group Grants - 2011

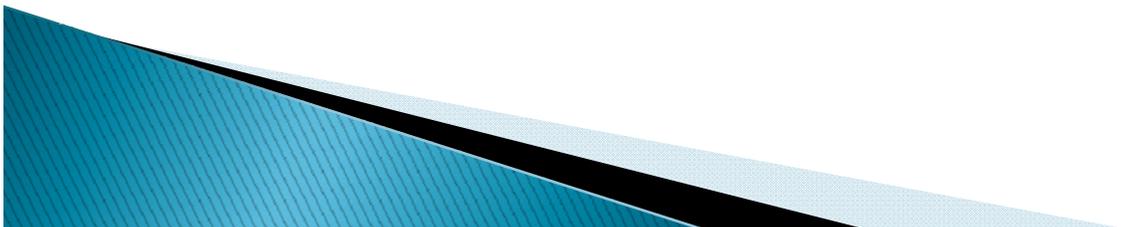
	PEER GROUP	
AGENCY	FUNDS	SERVICE PROVIDED
Catholic Family & Community Services	\$ 11,393	Meal deliveries @\$10.60/delivery
Catholic Family & Community Services	\$ 63,288	Adult day care @ \$80.58/day
Karen Ann Quinlan Hospice	\$ 10,216	Hospice care @ \$145/day
Karen Ann Quinlan Hospice	\$ 7,180	Respite care @ \$24/hour
Legal Services of NW NJ	\$ 2,400	Legal service @ \$250/case
SCARC	\$ 8,000	Respite care @ \$15/hour
Skylands Rides/SC Transit	\$ 4,000	One way trip @ \$14/medical transport
Homestead	\$ 7,931	Meals on Wheels meals @ \$4.35/meal
SC Social Services	\$ 17,128	Homemaker/chore service @ \$10/each
<b>TOTAL</b>	<b>\$ 131,536</b>	

# Options:

## 2. Transfer Ownership to County Imp. Authority

### ▶ *Advantages*

- Shift cost off County budget
- Ability to renegotiate labor costs
- Oversight board whose only task is nursing home
- Ownership remains in public sector

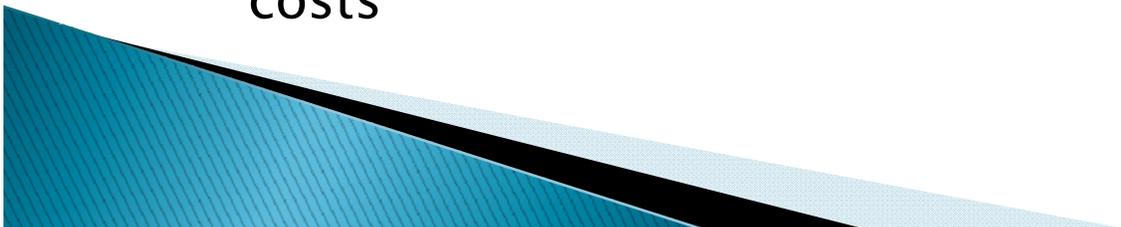


# Options:

## 2. Transfer Ownership to a County Imp. Authority

### ▶ *Disadvantages*

- Need for upfront (6 to 8 mos.) working capital
  - Improvement Authority bonds \$ to purchase nursing home. Debt service costs added to annual cost of operation. County guarantees debt and returns proceeds to Authority for working capital. If Improvement Authority realizes operating budget losses County makes up differences. If Authority defaults on debt county takes over debt service.
- County guarantee of budget & debt service
- Time/cost associated with establishment of Improvement Authority
- Loss of direct control
- Loss of potential for long term revenue enhancements
- Civil Service lay off process
- One time employee severance costs
- Potential increase in short term County unemployment costs

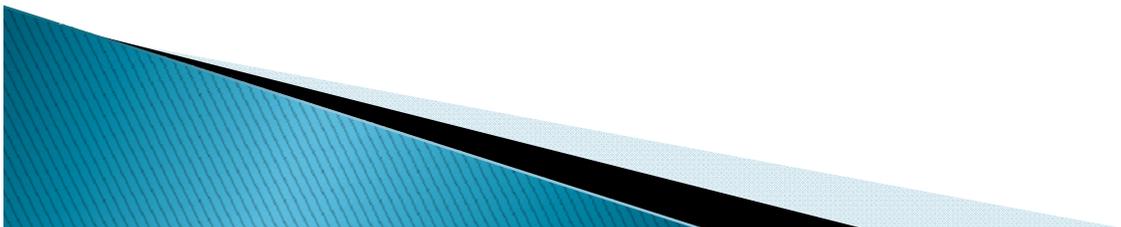


# Options:

## 3. Continued County Ownership/Operation

### ▶ *Advantages*

- Ability to continue provision of high quality care for County residents & families
- Potential for long term revenue enhancement

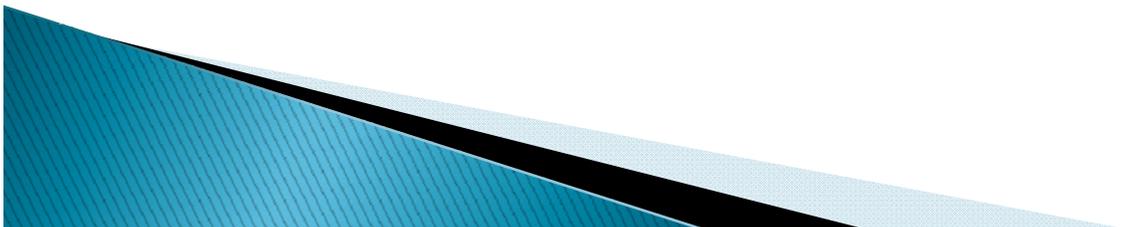


# Options:

## 3. Continued County Ownership/Operation

### ▶ *Disadvantages*

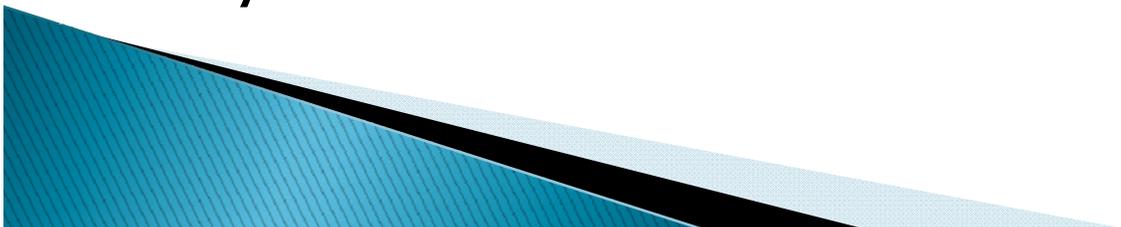
- County retains responsibility for any and all losses related to the facility
- Uncertain future of Medicaid & Medicare
- State Medicaid Cuts
  - \$400K cut to operating revenue
  - Elimination of 10 day “bed hold” payment
  - Reduction in reimbursements for administration
- Continued high cost of public employee salaries & benefits
- Aging facility and infrastructure



# County Ownership Option

## Cost Reduction Opportunities

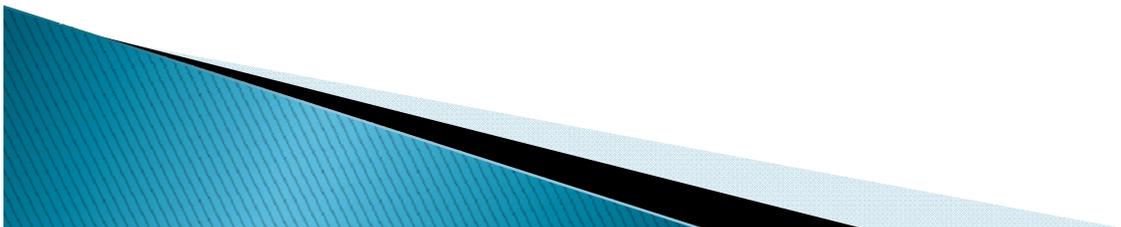
- ▶ Review non-clinical staffing levels
- ▶ Review/consider privatizing select functions
- ▶ Collaboration with labor on benefit related cost savings
- ▶ Install energy conservations measures outlined in County energy audit (*annual savings on measures with less than 4 year payback = approx. \$28,500*)
- ▶ Consider earlier proposed solar energy system



# **County Ownership Option**

## **Revenue enhancement opportunities**

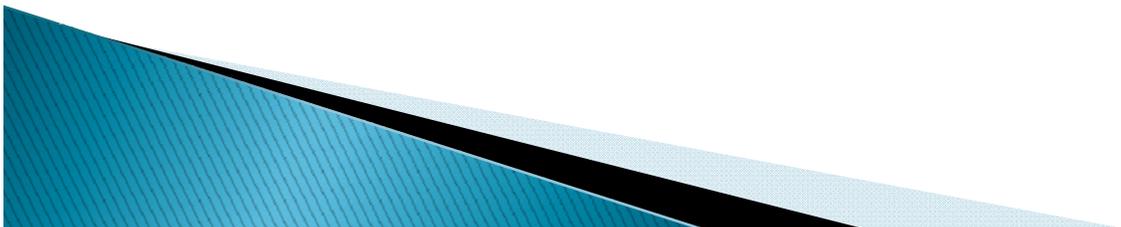
- ▶ Increase daily occupancy of rehab unit beds
- ▶ Adjust case mix to maximize reimbursement levels
- ▶ Consider closer partnership w/other Sussex Co. health care providers
- ▶ Plan/time capital improvement to maximize return on investments through Medicaid reimbursements
- ▶ Decrease PEER grouping community grants to minimum 10% level



# County Ownership Option

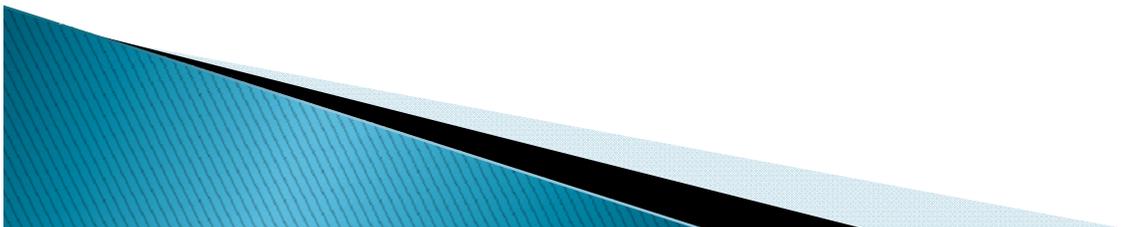
## **Additional suggestions**

- ▶ Rebranding – consider name change to more accurately reflect changing dynamic of long term care, short term rehabilitation and other programs.
- ▶ Enhance marketing – recognizing competition with area private nursing homes



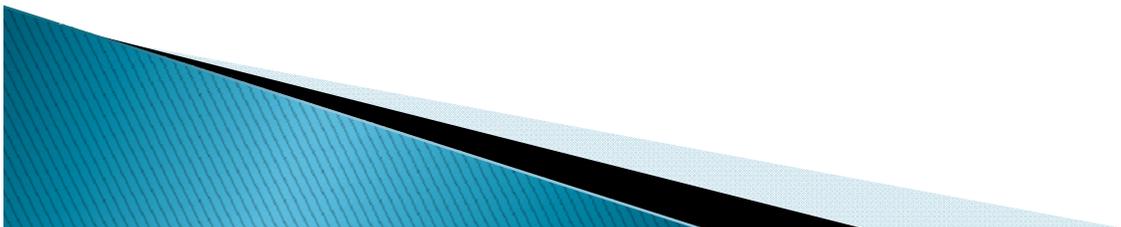
# Reference and Source Documents

- ▶ *Nursing Facility Rate Setting and Reimbursement Cost Report* (2006–2010)
- ▶ *County of Sussex Postretirement Health Plan – Actuarial Valuation For GASB 45 Purposes – For the Fiscal Year Ended December 31, 2010*
- ▶ *Correspondence from Hay Group to County Treasurer Bernard Re regarding Homestead Other Post Employment Benefit (OPEB) Liabilities* (October 10, 2011)
- ▶ *Operations Assessment* (ParenteRandolph); September 2006
- ▶ *Financial and Market Analysis for Additional Nursing Beds at The Homestead* (ParenteBeard); December 8, 2009
- ▶ *Marketing Positioning & Pricing Analysis* (Marcus & Millichap); June 2011



# Reference and Source Documents

- ▶ *Sussex County Homestead Central Services Indirect Costs and Fixed Assets Inventory/Depreciation Reports for Calendar Year 2010* (Technical Analysts for Government, Inc.); March 29, 2011
- ▶ *Homestead Nursing Home Facility Energy Audit* (Concord Engineering Group);
- ▶ *Juvenile Detention Center Homestead Nursing Home Solar Energy Assessment* (Eneractive Solutions); December 2008
- ▶ *Solar Study Findings Juvenile Detention Center and Homestead Nursing Home* (Eneractive Solutions); January 2009
- ▶ *Email memo from SC Facilities Director Joe Biuso to County Administrator John Eskilson and Ron Tappan – Administrator of the Department of Central & Shared Services re: Capital Improvement Program Long Term Health Facility (Homestead)*; August 16, 2010
- ▶ *Various Reports – MSI Financial Accounting Software for County of Sussex*



# Questions?

- ▶ Please contact

- County Administrator John Eskilson
- By phone: (973) 579-0250
- By email: [jeskilson@sussex.nj.us](mailto:jeskilson@sussex.nj.us)

