

A Presentation to the Board of Commissioners



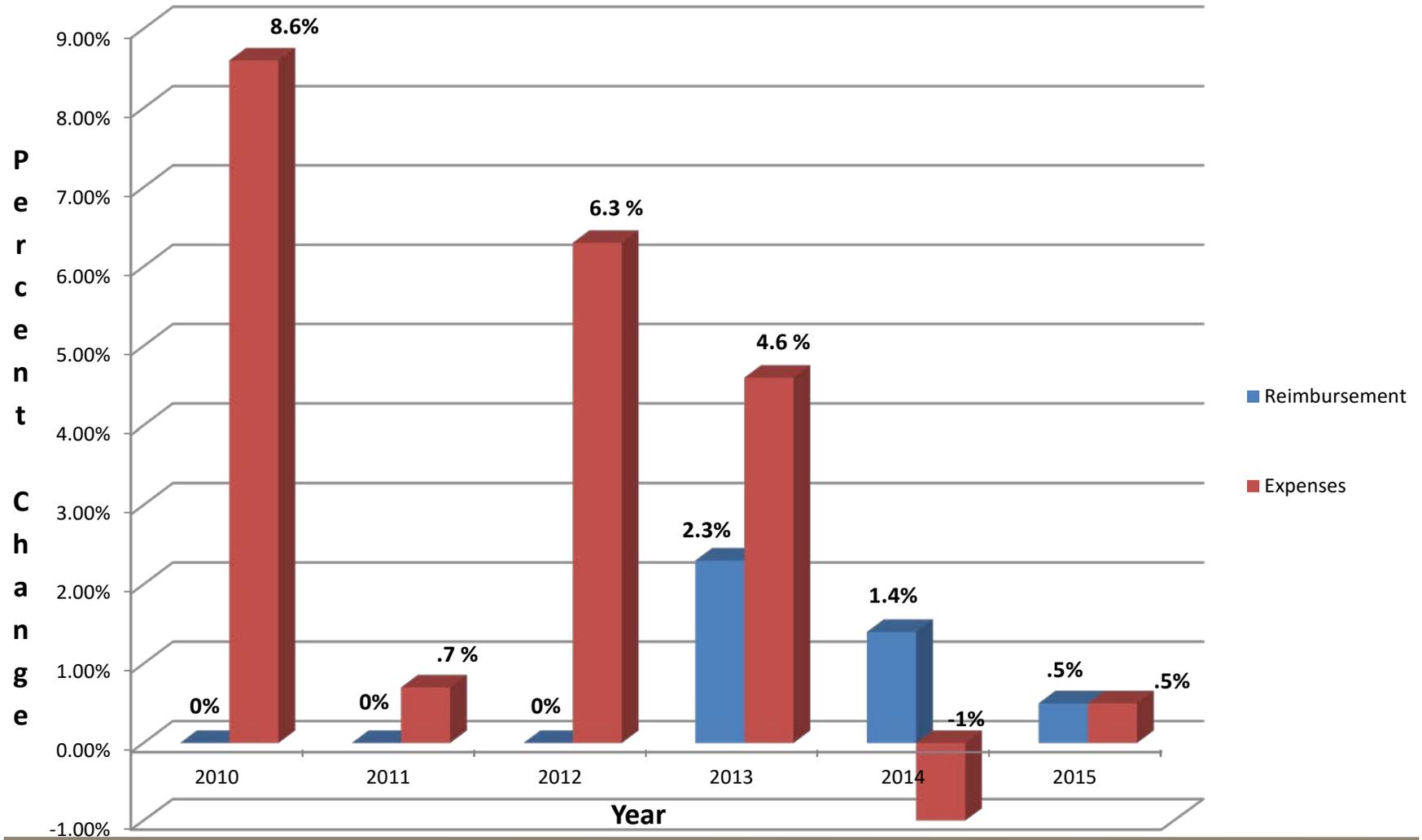
The Future of the Washington County Health Center

June 1, 2017

The Problem

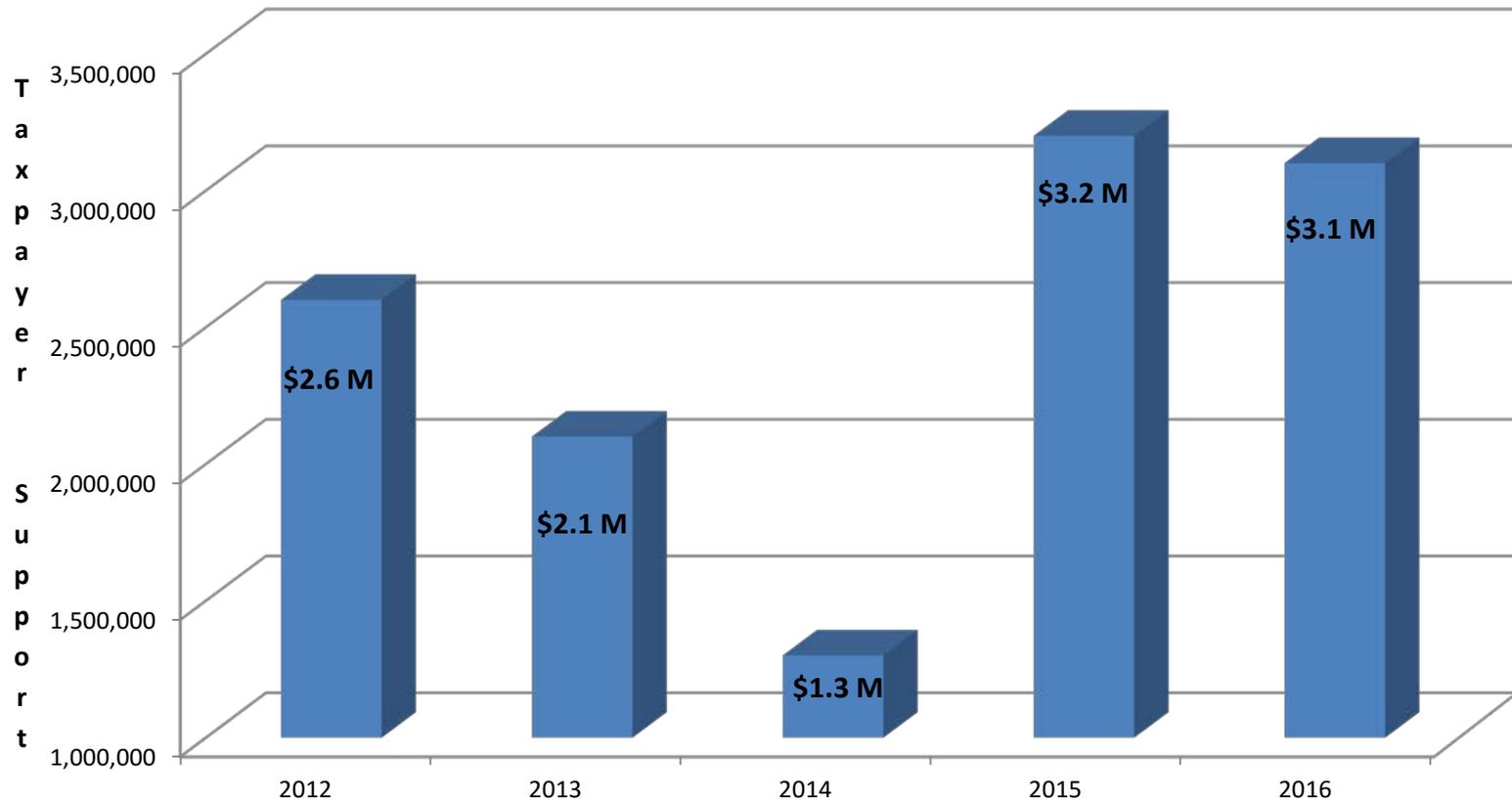
- County nursing homes are heavily dependent on government payment programs. The state has changed those programs in ways that disadvantage County facilities.
- Approximately 65% of patient days in PA nursing homes are paid by Medicaid and 13% are paid by Medicare. These figures are even higher for County facilities.
 - All nursing homes in Washington County – 69%/17%
 - Health Center – 83%/4% (2016)

The Problem – Flat Reimbursement Rates



The Problem – Burden on County Resources

The Health Center has been largely dependent on County subsidies to maintain operations



The Problem – Financial Summary

- Increasing and inflexible cost structure
- Flat reimbursement rates that fail to track expenses
- Inability to fund capital improvements from internally generated funds
- Dramatically increasing reliance on County subsidy for operations

Why Can't Things Stay the Same?

Status quo unacceptable to taxpayers

Plan	Problem
Major reduction in beds to control costs	Diminished access to service for the public & reduced revenues offset cost savings
Substantial reworking of salary and benefits a possible piece of the puzzle	Not a reality & not enough
Increase revenue by expanding non-nursing services	Requires major capital expenditures & increased contribution from taxpayers
Innovative state assistance	DPW supports home service model & state financial problems preclude help

Why Can't Things Stay the Same?

Perseverance is not a viable strategy because County ownership is the problem

- Operating a health care facility is not a core function of county government
- Changes to state reimbursement methods (2006 & 2010) cost the County substantial dollars per year
- Government will always face limitations on its ability to reinvest in the facility and maximize its returns and in this case will have to subsidize
- Growing trend is that nursing homes are not a core function of county government
- 47 of 67 Pennsylvania counties do not own a nursing home*

*Armstrong County is in the process of selling its county-owned nursing home

A Better Alternative – A New Operator

- Maintain high quality of care
- Ensure long-term care needs are met for 15 years
- Maintain access to care for indigent population
- Protect taxpayers with more than \$26 million in one-time revenue
- Gain a new community partner and corporate citizen

A Better Alternative – A New Operator

- Realize annual savings by eliminating subsidy of operations and facility needs
 - \$4M projected subsidy for 2017
- Secure additional savings on worker's compensation, unemployment compensation and other costs
 - County spends an estimated \$300,000/year on worker's compensation expenses alone
- Return land to taxable status with a new County taxpayer

Commissioner Directives

- Continue the Health Center's tradition of providing high quality care and quality of life for residents
- Secure guaranteed access to long-term care for the indigent population
- Ensure the long-term care needs of all County residents are met into the future

Commissioner Directives

- Reduce costs to County by eliminating subsidy of operations and facility needs
- Maximize the return on the public's investment in the Health Center
- Facilitate a fair and equitable transition to the private sector for County employees & ensure first consideration for employment

- Issued a Request for Qualifications and Proposals
- The County received 6 Responses to the RFQP:

Comprehensive Healthcare
Management Services Group

Grane Associates, LP

Homestead Group of New Jersey, LLC

Premier Healthcare Management, LLC

SolaMed, Inc.

Stone Barn Holdings

Process

- An Evaluation Committee comprised of key County staff was formed to review proposals
- Evaluation Committee narrowed the field to 5 proposers:

Comprehensive Healthcare
Management Services Group

Homestead Group of New Jersey, LLC

Premier Healthcare Management, LLC

SolaMed, Inc.

Stone Barn Holdings

Process

- Evaluation Committee undertook a due diligence review of each remaining Proposer that examined their corporate, financial, legal, regulatory, financing, and operational backgrounds
- The Committee interviewed all remaining Proposers, their principals and key leadership teams
- The competition was narrowed to a smaller field of 3 based upon interviews and information received from Proposers

Process

- On April 28, 2017, best and final proposals were received from the 3 remaining Proposers:
 - 1) Comprehensive Healthcare Managements Services Group
 - 2) Premier Healthcare Management, LLC
 - 3) SolaMed, Inc.

- Board of Commissioners, the Committee, Health Center employees and a resident family representative conducted site visits

Process

The County identified the following criteria for comparing Proposers and their Responses and selecting a Proposer for exclusive negotiations of definitive transaction documents:

- (1) qualifications and experience;
 - (2) quality of care;
 - (3) public policy commitments;
 - (4) financial fitness; and
 - (5) purchase price
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- Multiple Proposers sufficiently addressed the criteria to warrant selection
- But, the Proposer that the Committee determined best addressed all of the criteria to the maximum advantage of the County is:

Premier Healthcare Management, LLC

Qualifications and Experience

- Premier owns 23 facilities, including 5 in Pennsylvania and one pending in Armstrong County
- Premier has turned around several distressed facilities and successfully improved the license status of poor performing facilities
- Premier's team of professionals are skilled in nursing, rehabilitation, finance, IT, marketing and other areas
- Premier builds strong ties to the communities in which their facilities are located which strengthens their level of care

Quality of Care

- Successful at creating a “home-like” environment for residents that includes a salon, spa and pet therapy
- Remarkable approach to preventative care for residents
- Clinical staff present on units, engaged and accessible
- Strong focus on education and training for staff
- Overwhelming consensus as favored facility among site visit participants, clinical staff members and interview panel

Views from Site Visits

- Premier's owners are "knowledgeable about the business and clinical aspects."
- Premier's residents and staff had "the best morale" and "long-time staff still have enthusiasm."
- Premier had "a clear plan of capital improvements, which is a good sign they are willing to improve facilities."

Public Policy Commitments

- The selected Proposer must maintain a level of nursing home care sufficient to meet the County's needs for at least the next 15 years:
 - Premier maintains substantial nursing home assets, has never sold a nursing home and is committed to long-term care
 - Premier has committed to this policy goal

Public Policy Commitments

The selected Proposer must commit to ensuring access to the Health Center for Medicaid residents:

- Premier has no asset-based admissions requirements & serves all residents with special needs
- Premier's former PA county facilities average 78% Medicaid residents, which supports a core tenant of Premier's mission – caring for the indigent
- Assurances for ongoing access to Medicaid residents will be included in transaction documents

Public Policy Commitments

The selected Proposer must commit to a fair and equitable transition to private employment for Health Center employees & offer first consideration for employment:

- Premier has offered to accept all Health Center employees
- 15 of Premier's 23 facilities have a unionized workforce
- Premier employees demonstrated excellent morale and satisfaction with their employer

Financial Fitness

- Premier and its principals have a strong financial history that indicates a financially stable operator
- Premier will not require a financing contingency
- Premier offered a \$1,000,000 deposit to become non-refundable at the close of a to-be-agreed-upon due diligence period
- Premier has a strong record of reinvestment in its facilities, investing more than \$3M in the 1st quarter of 2017 alone

Purchase Price

■ Best and Final Proposals:

Comprehensive	\$23	Million
Premier	\$26.8	Million
SolaMed, Inc.	\$28.2	Million

Valuation

- Average price/bed in Pennsylvania = \$60,400/bed
- Average price/bed from last 6 sales of county homes = \$76,000/ bed
- **Premier proposal = \$93,229/bed**

Key Take-Aways

- This process has been thorough, not rushed or hurried
- The Committee has reviewed hard data, not simply relied on representations from Proposers
- County's selection criteria balanced quality of care with the interests of County taxpayers
- Health Center will remain accessible and quality of care will be maintained or improved for County residents

What's next?

- Ask the Board of Commissioners to accept Premier's proposal and approve the letter of intent
- Engage in exclusive negotiations of transaction documents with Premier
- Present final transaction documents to Board for approval
- Premier will commence its due diligence
- Expected transition of Health Center in October 2017

“Premier is the proposer that can take the Health Center to the next level.”

~Health Center Clinical Staff

Thank You

QUESTIONS?