



Trusted Guidance to the Senior Living Industry

**Consultant's Report
Financial Feasibility Analysis**

of

**Our Island Home
Nantucket, MA**

January 6, 2017

TABLE OF CONTENTS

Introduction	3
Background & Summary of the Project	5
Summary of Significant Projection Assumptions	
Basis of Assumptions	6
Summary of Revenue Assumptions	6
Summary of Operating Expense Assumptions	9
Other Financial Assumptions	10
Summary of Project Budget & Financing Plan	10
Project Timeline	11
Projected Financial Statements	13

Town of Nantucket
Our Island Home
Nantucket, MA 02554

SK Advisors (“SK”) was engaged by the Town of Nantucket (the “Town”) to conduct an independent financial analysis of Our Island Home (“OIH”), a skilled nursing facility located in Nantucket, MA. This analysis was intended for the purpose of conducting a financial feasibility for a new replacement facility for OIH.

Through extensive study, the Town has determined that the existing OIH needs to be replaced with a new, more contemporary facility to provide care and services to the elderly living on Nantucket. Over the years, the OIH physical structure has aged and does not meet the standard of care for elderly residents. In November 2016, the Board of Selectman voted to explore plans for a replacement skilled nursing facility to be located on a new site on Miacomet Road (the “Project”).

The Town engaged SK to conduct a financial feasibility analysis of the Project. Work conducted by SK included: (i) an analysis of the demographics on Nantucket, which were taken in the context of broader national trends to determine the proper size and bed mix for the Project; and, (ii) a financial feasibility analysis to project the future operations of the new facility.

SK developed a set of detailed revenue assumptions based on OIH’s current rates and utilization metrics. SK also analyzed the current expenses of OIH, and worked with OIH Management to develop a set of expense assumptions. The end result is a financial projection that illustrates the forecasted operations of OIH if it were to proceed with construction of the new facility. Overall, this report includes a summary of the financial projections and key assumptions which SK and OIH Management believe to be significant.

The projections included in this report constitute “forward-looking statements.” When used in this report, the words “estimate,” “expect,” “project,” “intend,” “anticipate,” “believe,” “may,” “will,” “continue” and similar expressions identify forward-looking statements. Any forward-looking statement is subject to uncertainty and risks that could cause actual results to differ, possibly materially, from those contemplated in such forward-looking statements. Although SK and management of OIH believe that the assumptions upon which these projections are based are reasonable, any of the assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions could also be incorrect. All phases of the operations of OIH involve risks and uncertainties, many of which are outside of OIH’s control and any one of which, or a combination of which, could materially affect the results with respect to operations.

Factors that could cause actual results to differ from those expected include, but are not limited to, general economic conditions, reduced third party reimbursement rates, changes in tax laws or governmental regulations, unanticipated expenses or delays encountered during construction and other risks.

This report is not prepared in accordance with the American Institute of Certified Public Accounting's generally accepted accounting principles or accounting or auditing standards.

Background & Summary of the Project

Our Island Home (“OIH”) is a 45-bed skilling nursing facility located on the island of Nantucket, Massachusetts and owned and managed by the Town of Nantucket. The existing OIH facility opened in 1981 and represents a traditional/institutional care model.

As the skilled nursing industry has evolved, the preferred care model has transitioned away from the traditional/institutional model and more toward the resident-centered model (i.e. “small home” care model). This evolution has been driven by many factors, not the least of which is the understanding that the traditional/institutional model of care was not meeting the social and emotional needs of residents. Moreover, government reimbursement (Medicare and Medicaid), which is the primary revenue source for skilled nursing facilities, has been pushing reimbursement dollars away from institutional models of care.

The existing OIH physical structure is predominantly semi-private rooms with shared bathrooms and not handicapped accessible. The existing structure does not support a contemporary standard of care for elderly residents. After extensive study, the Nantucket Board of Selectman voted to explore plans for a replacement skilled nursing facility to be located on the campus of Sherburne Commons, an independent and assisted living community also located on Nantucket.

The new facility would be a 34,611 square foot structure, comprising four 10-bed houses connected by common areas. The facility would comprise a total of 40 beds, 30 designated as long-term care and 10 as Level IV Rest Home beds (also known as a Residential Care Facility). A Rest Home is a housing facility, licensed by the Massachusetts Department of Public Health, which provide 24-7 supervision and supportive services but for individuals who do not need a nursing home level of nursing or medical care.

While OIH has historically reported solid occupancy for its 45-bed facility (average of 91.2% over the past three years), two factors point to a reduction in long-term care beds: (1) there has been a general trend across the country of lower utilization of nursing home beds due to alternative care options; and, (2) an analysis of the acuity mix of OIH residents found that a certain number would be better suited for a lower level of care option, such as a rest home.

For more information on the evolution of the skilled nursing industry and the impact on OIH’s future plans, refer to report “The Future of Eldercare on Nantucket” (March 2016), prepared by SK Advisors and Rabig Consulting.

Summary of Significant Projection Assumptions

Basis of Assumptions

The assumptions utilized in the financial projections dated January 4, 2017 are based on:

- Management's fiscal 2017 budget for the existing facility;
- Program for the Project, consisting of four 10-unit small houses (one Rest Home and three Skilled Nursing houses);
- Operating plan for the Project as developed by Rabig Consulting and Management;
- Development program for the Project as developed by DG Jones International, Inc. and SMRT Architects & Engineering; and
- Management's financing scenario

OIH has historically operated at a deficit, thus requiring an annual subsidy from the Town to cover the shortfalls. The financial projections that follow on the proceeding page are intended to present the projected operations of the new project prior to any required subsidy from the Town.

Summary of Revenue Assumptions

Revenues are driven by occupancy of both the Skilled Nursing and Rest Home beds. OIH's current occupancy is approximately 92% (41.4 out of 45 beds). Stabilized occupancy for the project is assumed to be 94% (37.6 out of 40 beds). See below for detail regarding stabilized occupancy by level of care.

Stabilized Occupancy and Fill Up

Skilled Nursing:

- The proposed, new Skilled Nursing beds are forecasted to be available for occupancy in January 2019 and be full upon opening from existing OIH residents. It is assumed that OIH will reduce its skilled nursing/long-term care occupancy over a twelve month period beginning with the start of construction by allowing for natural attrition and discharges. Based on its historical rate of discharge, as analyzed over a period of five years, the natural annual attrition rate is approximately 16-19 residents.
- Stabilized occupancy of 95% (or 28.5 beds) is projected to be reached in January 2019.

Rest Home:

- The proposed, new Rest Home beds are forecasted to be available for occupancy in January 2019.
- Stabilized occupancy of 92% (or 9.2 beds) is projected to be reached by December 2019 based on a 12-month fill schedule, detailed as follows:

Rest Home Fill-Up Assumption

	Month	Beds Available	Occupied Beds	Cumulative	% Occupied
1	January-19	10.0	-	-	0.0%
2	February-19	10.0	1.0	1.0	10.0%
3	March-19	10.0	1.0	2.0	20.0%
4	April-19	10.0	1.0	3.0	30.0%
5	May-19	10.0	1.0	4.0	40.0%
6	June-19	10.0	1.0	5.0	50.0%
7	July-19	10.0	1.0	6.0	60.0%
8	August-19	10.0	1.0	7.0	70.0%
9	September-19	10.0	1.0	8.0	80.0%
10	October-19	10.0	1.0	9.0	90.0%
11	November-19	10.0	0.2	9.2	92.0%
12	December-19	10.0	-	9.2	92.0%

The first fully stabilized year of occupancy is FY2021.

Daily Service Fees and Payer Mix

It is assumed that OIH will generate its revenue by charging a Daily Service Fee (or per diem rate), as is its current practice. Management has assumed that 75% of the Skilled Nursing residents will be Medicaid/MassHealth payers, 20% will be private payers, and the remaining residents will be Medicare payers (5%).

For the Rest Home, Management has assumed that approximately 90% of the residents will be Medicaid/MassHealth payers; the remainder will pay a private pay rate. Daily service fees, payer mix, and occupied units are presented below, inflated to FY2021 dollars (the first stabilized year of operations):

Unit Type/Payer Type	Payer Mix	Number of Residents	Daily Service Fees (FY2021 \$)
Skilled Nursing			
Private Pay	20%	5.69	\$533.26
Medicaid/MassHealth	75%	21.38	215.30
Medicare	5%	1.43	386.43
Skilled Nursing Occupied Units/ Average Fees			
	100%	28.50	\$287.45
Rest Home			
Private Pay	10%	0.92	\$347.78
Medicaid/MassHealth	90%	8.28	132.50
Rest Home Occupied Units/ Average Fees			
	100%	28.50	\$154.03

Revenue Inflation Rates

The following annual revenue inflation rates are applied in July of each year:

Rest Home private pay rates	3.0%
Rest Home Medicaid rates	2.0%
Skilled nursing private pay rates	3.0%
Skilled nursing Medicaid rates	2.0%
Skilled nursing Medicare rates	2.0%

Summary of Operating Expense Assumptions

Operating expenses were generated from analysis of the FY2017 operating budget and adjusted for the small house model. Variable costs, such as utilities and food costs, are projected to fluctuate with occupancy. Staffing costs (wages and benefits) comprise 63% of total operating expenses, or approximately \$3,851,000 in FY2021. Benefits are assumed to equal 30% of wages. Historically, benefits have ranged from 22.7% to 27.6% of wages, with an average of 24.8%.

Non-staffing costs (excluding debt service) comprise 37% of total operating expenses, or approximately \$2,276,000 in FY2021. Included in this is approximately \$742,000 for Barnstable County Retirement, \$192,000 for utilities, and \$646,000 for professional services.

Most operating expenses (such as food, utilities, supplies) are assumed to increase by 3.0% annually. However, Management anticipates that certain expenses will inflate at a higher rate. Specifically, healthcare insurance benefits are assumed to increase 7.5% annually. Likewise, the Barnstable County Retirement Benefits are assumed to increase 6.0% annually.

Per Patient Day Analysis

The following illustrates the projected expenses on a per patient day (PPD) basis for FY2021:

			FY2021	
	SNF	Rest Home	Total	PPD
Beds	30	10	40	
FTEs	38.80	3.50	42.30	
Patient Days	10,403	3,358	13,761	
	28.50	9.20	37.70	
<i>Expenses</i>				
Salaries & Benefits	3,547	304	3,851	279.85
Barns Cty Rtrmt	681	61	742	53.92
Contractual Oblig	111	36	147	10.68
Utilities	145	47	192	13.95
Food	129	42	171	12.43
Prof Svcs - SNF	452	-	452	32.86
Prof Svcs - Other	147	47	194	14.08
Medical Supplies	71	23	94	6.83
General Insurance	73	23	96	6.98
Other Supplies	47	15	62	4.51
Other Expenses	95	31	126	9.16
Total Expenses	5,498	629	6,127	445.24

Routine Capital Expenditures

Routine capital expenditures are projected at \$41,000 in FY2021. Beginning in FY2022, this amount is inflated 3.0% annually.

Other Financial Assumptions

Certified Public Expenditure Program

Since 2010, OIH has participated in Massachusetts' Certified Public Expenditure program (CPE), which is a program that provides additional reimbursement for municipally owned skilled nursing facilities. There are only two municipally-owned skilled nursing facilities in Massachusetts that receive CPE funding: OIH and Taunton Nursing Home (Taunton, MA).

The timing of the CPE payments is highly inconsistent (e.g. benefits tied to 2011 were not received until 2014), and the continuation of this program is uncertain. OIH (and by extension, the Town) cannot be expected to rely on CPE as a funding source in the future. As a result, the projections do not include any funds received as part of the CPE program.

Summary of Project Budget & Financing Plan

The project budget, which includes four 10-unit small houses, totals approximately \$29.9 million. Construction is assumed to begin in September 2017 and continue for 16 months, with occupancy beginning in January 2019.

The project is proposed to be financed with long term bonds to be issued by the Town. The financing is assumed to close in September 2017. It is anticipated that the bonds would be in place for 20 years. For purposes of the projections, an interest rate on the debt of 3.50% was assumed.

A sources and uses table for the Project is provided below:

Sources and Uses of Funds (in thousands)	
Project	
Sources:	
Bonds	\$29,929
<hr/>	
Total Sources of Funds:	\$29,929
<hr/>	
Uses:	
Construction Total	\$25,627
Design & Engineering	1,978
Owner’s Contingency	1,099
Owner’s Representative	660
Miscellaneous	565
<hr/>	
Total Uses of Funds:	\$29,929

The plan of finance outlined above is for informational purposes only; however, since OIH is a municipally-owned and operated facility, certain rules apply to the financing and operation. The operations and financing will be funded through two separate funds at the Town level.

At this time, no determination on the potential future use of the existing OIH site has been made or how that may impact the projections.

Project Timeline

April 2017	Town meeting to authorize borrowing and ballot to approve debt exclusion
April 2017 - September 2017	Development activities (planning, entitlements, architecture, etc.)
May 2017	Issue Bond Anticipation Notes to fund pre-financing project costs
September 2017	Close on Financing
September 2017 - December 2018	Construction (16 months)
January 2019	Project Available for Occupancy

The above timeline is preliminary and assumes a positive vote at the April 2017 Town Meeting. Note that these dates could change due to a variety of factors, many of which are outside the control of OIH and/or the Town of Nantucket.

PROJECTED FINANCIAL STATEMENTS



Trusted Guidance to the Senior Living Industry

Our Island Home

Projected Statements of Activities and Changes in Net Assets (Deficit)

For the Fiscal Years Ending June 30th

(in thousands of dollars)

	2021	2022	2023	2024	2025
Revenue, gains, and other support					
Net resident service revenues					
Assisted Living and Memory Care	517	529	541	553	565
Health care	3,078	3,151	3,225	3,301	3,379
Total revenue, gains, and other support	3,595	3,680	3,766	3,854	3,944
Expenses					
Wages	2,935	3,023	3,114	3,208	3,304
Benefits and other	916	986	1,059	1,141	1,228
Barnstable County Retirement	742	787	834	884	937
Utilities	192	197	203	210	216
Contractual obligations	147	151	156	160	165
Food	171	176	181	187	192
Professional services	646	666	686	706	728
Medical supplies	94	97	100	103	106
General insurance	96	99	102	105	108
Other supplies	62	64	66	68	70
Other expenses	126	129	133	137	142
Total expenses	6,127	6,375	6,634	6,909	7,196
Cash flows (losses) from operations	(2,532)	(2,695)	(2,868)	(3,055)	(3,252)
Interest expense	(949)	(907)	(864)	(819)	(773)
Principal payments on Series bonds	(1,173)	(1,214)	(1,256)	(1,300)	(1,346)
Cash flows (losses) from operations after debt service	(4,654)	(4,816)	(4,988)	(5,174)	(5,371)
Investment and interest income, net	-	-	-	-	-
Routine capital expenditures	(41)	(42)	(44)	(45)	(46)
Net cash flows before project activity below	(4,695)	(4,858)	(5,032)	(5,219)	(5,417)