

FINAL REPORT OF
TOWN OF GREENWICH
REPRESENTATIVE TOWN MEETING
SPECIAL COMMITTEE ON THE NATHANIEL WITHERELL

Committee Members:

Robert J. Richardson, Chairman
Fred A. DeCaro III, Vice-Chairman
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OCTOBER 19, 2007

GREENWICH, CONNECTICUT

**TOWN OF GREENWICH
REPRESENTATIVE TOWN MEETING
SPECIAL COMMITTEE ON THE NATHANIEL WITHERELL
GREENWICH, CT 06830
October 19, 2007**

Honorable Thomas J. Byrne, Esq.
Moderator
Representative Town Meeting
Town of Greenwich
Greenwich, CT 06830

Dear Mr. Moderator:

Project Renew Witherell

The Special Committee submits herewith its attached report on the above project which is a proposal by The Nathaniel Witherell Board (the "Board") to undertake major renovations to some buildings and to erect a new inpatient rehabilitation facility on its campus at 70 Parsonage Road. Renovation and construction is expected to take about three years with completion in the first calendar quarter of 2011 at a cost of approximately \$36.8 million plus interest expense of up to \$3.2 million to be incurred during the construction period.

It is proposed that the project be financed by the issuance of the Town's short-term bond anticipation notes during the construction period at the conclusion of which the outstanding notes would be refinanced by the issuance of the Town's general obligation 20-year serial bonds. The Board anticipates that the serial bonds can be repaid from the net cash flow from operations of The Nathaniel Witherell Skilled Nursing Facility including (a) an increase, to be negotiated with the Connecticut Department of Social Services, in the Medicaid per patient per day "add-on" based on the increase in fair rental value of Witherell's nursing assets attributable to the project, (b) charitable contributions to be raised by the Friends of Nathaniel Witherell, and (c) additional revenues, not yet quantified, to be generated from new or expanded services now being studied by internal task forces.

The Special Committee has reviewed the renovation/construction project insofar as practicable under the circumstances, i.e., architectural drawings and plans have not yet been developed because a building committee has only recently been established. The Special Committee has also reviewed the financial projections and the budget for FY 2008 and made such sensitivity tests as we thought useful under the circumstances. We have also given consideration to certain other applicable factors including land use legal issues. Our findings, conclusions and recommendations are set forth on the following pages for the information and use of the members of the RTM and other Town officials concerned.

Respectfully submitted,

Robert J. Richardson
Chairman

TOWN OF GREENWICH
REPRESENTATIVE TOWN MEETING
SPECIAL COMMITTEE ON THE NATHANIEL WITHERELL

REPORT ON PROJECT RENEW WITHERELL
(Final Report to the Representative Town Meeting)

This report has four integral parts: 1) The Executive Summary which begins on this page, 2) the report of the committee which begins on page 3 and is reliant on information presented at its meetings, information provided by the Witherell Board and staff, and information contained in the other two parts of this report, 3) the report of the Construction Subcommittee beginning on page 17 which is reliant in part on information contained in the RAMSA Report (please see A.1 below on page 3) and on the subcommittee's own work, and 4) the report of the Finance Subcommittee beginning on page 22 which relies on financial projections and assumptions provided in the Board's Long Range Plan as the bases for the subcommittee's analytical work.

Executive Summary

Based on its experience over a four-year period and careful study of the constituent parts of Project Renew Witherell, the Special Committee draws the following major conclusions:

- A. The renovations and new construction proposed are necessary if Witherell is to compete successfully for long-term private pay and short-term rehab patients whose revenue contributions offset the below-cost Medicaid payments made for most long-term care patients.
- B. The project's capital costs are likely to exceed the current estimate of \$40 million because (1) the new building and the major renovations have not yet been designed, (2) renovating older buildings and bringing them up to code reveals unexpected problems, (3) deferred maintenance and needed systems work which would have been remedied by a complete reconstruction program may or may not get done, and (4) experience suggests that Town projects tend cost more than their original approved estimates.
- C. There is likely to be a decline in occupancy-related revenues during construction and a consequent shortfall in operating cash flow until post-construction occupancy and financial stability is restored. Thereafter, expenses are projected to increase faster than revenues.
- D. As a result of the factors mentioned in B and C above and other factors discussed more fully below, the committee believes that it is very unlikely that TNW will be able to meet its operating expense and debt service requirements from operating revenue, resulting in cash flow deficits which the Town will have to meet from tax-levy funds.

As a result, we recommend that the RTM be especially diligent in reviewing the appropriation request to be presented by TNW in the spring 2008. If the project is then approved, we also recommend that the RTM exercise continuing, constructive oversight to promote both the delivery of compassionate care and sound business practice.

In our view, it is essential that the remedial efforts undertaken by the Board and management in the past three years be continued with the assistance of the Witherell staff and their union representatives to ensure that the facility is appropriately staffed and fairly compensated but that the excesses of the not too distant past do not recur. As stated in our report of August 31, 2004: “Nathaniel Witherell ranks with our schools, housing authority, libraries, museum, and recreational facilities as valued quality of life amenities which collectively distinguish our community. It also reflects our community’s long-standing sense of social responsibility toward our infirm elderly and their families.”

We express our gratitude to the Moderator and the members of RTM for their support of our efforts, and we thank all those who have contributed to or assisted us in our work over the last four years.

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Report of the Special Committee

A. The Building and Renovation Project

1. Concerning the purposes of the Project

Findings:

In 2005 The Nathaniel Witherell Board (the “Board” or “TNWB”) engaged Robert A. M. Stern Architects (“RAMSA”) to make a study of the four main buildings which house The Nathaniel Witherell Skilled Nursing Facility (“Witherell” or “TNW”) at 70 Parsonage Road. RAMSA, in turn, retained six firms well qualified in individual fields to perform various aspects of the physical and functional analyses of the buildings. The six firms have recommended that specific actions be taken to correct deficiencies in systems and structure, to make renovations to the buildings in order to extend their useful lives for a minimum of 15 years, and to construct a new, yet to be designed building to house a relatively new and expanding inpatient service without increasing the institution’s overall limit of 202 beds. This short-term physical rehabilitation function will serve primarily new patients recuperating from recent orthopaedic, cardiac, and other surgery as well as long-term TNW residents requiring rehab services.

The Town Building Committee appointed in June 2007 is to determine whether to demolish or renovate the West Wing and how the “nursing home specifications” prescribed by the Board are to be realized at a cost of \$36.8 million or less. To that cost will be added about \$3.2 million (perhaps more if the current volatility in capital markets continues) of short-term interest expense to be incurred during the three-year construction period. Included in the estimated total cost is \$7.3 million, which was appropriated at the May 14, 2007 RTM meeting, consisting of \$3.6 million for construction manager’s and architects’ fees and other preliminary costs plus \$3.7 million for “implementation of recommended priority items.”

The Town’s recent experiences with the Hamilton Avenue School project suggest that the project will warrant close, continuous, and vigorous oversight by the Building Committee.

Conclusions:

Correction of the deficiencies in major systems and deferred maintenance are necessary and overdue.

Renovation of the buildings and construction of a new short-term rehab facility are important if Witherell is to be able to compete for long-term private pay residents and short-term rehab patients, the revenues from which compensate for the below-cost reimbursement paid by the state for the 65% of Witherell’s residents who are covered by the Medicaid long-term care program.

A determination needs to be made by the Building Committee whether to engage a construction manager or to use a prime contractor as was done for the Hamilton Avenue School project.

Recommendations:

Implementation of the project should begin as planned by the Building Committee's use of the \$7.3 million appropriated at the May 14, 2007 RTM meeting. A primary goal should be to determine a refined cost for the design selected by the Building Committee for use in submitting a certificate of need ("CON") application to the Connecticut Department of Social Services ("DSS") and to refine the financial analysis of the project.

Unless there are compelling reasons to the contrary, a construction manager should be engaged by the Building Committee.

In March-April 2008, a careful review of the project's refined cost vis-a-vis TNW's projected debt servicing capacity should be made by RTM oversight committees before the appropriation of almost \$30 million is made in May 2008. For this purpose, the Board and/or the Building Committee should submit to the RTM oversight committees the CON issued or to be issued by DSS showing (a) the approved Fair Rental Value ("FRV") and add-on, (b) the construction plan and organization, and (c) revised revenue and cost projections.

2. Concerning the costs of the project

Findings:

The project has been proposed as a "black box", i.e., the project's cost was knowledgably estimated using the "nursing home specifications" furnished by the Board but without the benefit of being able to cost out an actual design. The architects to be engaged by the Building Committee will furnish the actual designs to meet the Board's specifications and comply with the building codes. The project's cost is estimated at \$36.8 million (not including interest during construction) for the following:

New construction	\$14.6 million
Mechanical infrastructure	6.3
Administration Wing	1.0
Tower Wing	1.0
Demolition	0.7
Construction Contingency	1.2
Mid-2009 Escalation factor	3.6
Soft costs	5.2
Project contingency	3.3

Mr. Paul Toretta, a member of the Board with substantial school building committee experience, indicates that the project has been carefully costed and the escalation/contingency factors are very generous. All together the \$36.8 million equates to ~\$400 per square foot. Our Construction Subcommittee thinks that the latter figure may prove inadequate and that a range of \$500-\$600 per square foot would be more realistic inasmuch as no design work has yet been done, and unforeseen costs associated with the facility's function as a nursing home and with renovation of the historic Administration Building may be incurred.

There is a lack of agreement as to whether the renovations proposed will have a useful life of only 15 years or a minimum remaining useful life of at least 15 years. It is generally agreed that the useful life attributable to new construction is 30 years.

Conclusions:

The project may cost from \$46 million to \$55 million or 25% to 50% more than now estimated, plus a proportionate increase in interest expense to be incurred in the construction period.

There may be a hidden, deferred cost if the useful life of the renovations does not significantly exceed 15 years.

Recommendations:

Any potential cost overrun problem may possibly be moderated or eliminated by initiating in the Greenwich community a major capital campaign led by a professional fundraiser with a proven track record in Greenwich, as has been mentioned in recent months by Mr. Ormsby. The primary goal should be to raise funds during the construction period to contribute to the total capital costs of the project and, if possible, limit total borrowings to \$40 million or less. If large contributions are received or pledges are fulfilled after the construction period, the funds should be used to prepay the long-term debt owed to the Town. A secondary goal should be to raise an endowment fund of \$5 million or more, future earnings on which might be used for programmed maintenance expenses.

Upon completion of the project, the Building Committee should make an evaluation of the remaining useful life of the renovations and, if warranted, recommend to the Board a CIP placeholder (amount and timing) for the future funding likely to be required.

3. Concerning other aspects of the project

First, it is recognized that the Board cancelled the original \$45 million all new construction project proposed in 2002 and settled on a plan of renovation and limited new construction. Both decisions were based on an appraisal of the institution's future debt servicing capacity and a determination to get the institution's house in order and live within its means. That determination, in which the work force is actively cooperating, is a prudent one and is beginning to produce positive financial results.

Yet it may result in continuation of systems that might better be replaced now. For example, continuing to use "through the wall" room air conditioning units which require periodic replacement instead of expanding the existing central air conditioning system to include individual rooms may result in greater equipment and maintenance costs in the long run. The \$7.3 million initial appropriation mentioned above includes more than \$600,000 to provide new components for an old air conditioning system.

Second, there are grandfathered current code deficiencies in the existing structures. This is an area which requires careful review by the architects and engineers to be engaged for the project.

Third, the construction of a new building for the short-term rehab function generally makes sense, especially as an attraction to prospective patients and their physicians. There is, however, a risk of establishing a two-class facility, one a new upscale, state-of-the-art facility for the short-term patients who typically arrive from a hospital and within a month are discharged to their homes and the other a familiar, older place for the long-term care residents for whom Witherell is a permanent home.

Fourth, the Pavilion, the oldest building on the campus which was erected in 1910-12 as a gift from Mrs. Witherell, is not included per se in Project Renew Witherell. The 2002 \$45 million plan contemplated its demolition so that the new building would conform to the FAR limits. An assumption underlying the \$36.8 million plan is that demolition would still be required for this structure in which the currently vacant apartments are authorized for rental to elderly residents of the Town under Charter Section 57. We think that the “Action Priority” stated in Section 6.0 of the 1998 Town Plan of Conservation & Development [to] “Encourage quality design and preservation of historic residential, commercial, and public buildings” applies to the Pavilion.

Conclusions:

An opportunity exists for the building committee in collaboration with the Board to make adjustments to the Priority Items list, to ensure code compliance, to ensure quality parity from one building to another, and to reconsider the future of the Pavilion.

Recommendations:

The Building Committee should make a careful review of the Entech list of Priority Items prior to implementing them.

All areas in which residents are housed should be brought into current code compliance.

The architects engaged to renovate the existing structures and design the new rehab building should apply a single quality standard throughout the facility. While the amenities to be included in the short-term rehab facility and in the long-term residence need not be the same, the Board and management should ensure that the quality of the two are comparable.

The Building Committee in consultation with the Planning & Zoning staff should determine whether the FAR limits for the project will require demolishing the Pavilion. Every effort should be made to preserve the Pavilion for continued productive use in keeping with the POCD. If the Pavilion can be preserved, the Board should consider how to use the building as part of the nursing facility. Otherwise, consideration should be given to whether the building can be used legally by another part of Town government (please see “C. Legal Issues” below), for example, adaptive re-use by the Greenwich Housing Authority to house Town employees. In either case, plans should be made to fund its rehabilitation and, if necessary and legally appropriate, a revision of Charter Section 57 should be proposed.

B. Witherell's Long Range Plan ("LRP") and Related Matters

1. Concerning TNW's long range financial projections

Findings:

If the conclusions of the Construction Subcommittee in A.2 above on the costs of the project are realized, Witherell's debt servicing capacity will be severely challenged and a much more aggressive plan for increasing revenues and cutting costs will be required.

Absent project cost overruns, the projections presented to the committee and other Town bodies generally contemplate positive cash flows until the mid-2020's when the faster rate of increase in expenses compared to revenues causes the already narrowing cash margins to turn negative. We have no historical reason to expect that Medicaid rates and revenues will grow at a faster rate than staff expenses. There are two other factors of major importance.

The first is the size of and the payment period for the Medicaid fair rental value add-on. The CT Department of Social Services ("DSS") is said to be favorably disposed to recognizing all of the project costs for purposes of calculating fair rental value. While the matter will not be negotiated until after a certificate of need ("CON") is submitted to DSS, the Board has made the assumption that 100% of project costs will in fact be allowed as compared to the \$25 million allowed by DSS in the case of the 2002-04 \$45 million project. DSS is also said to be willing to negotiate payment of the add-on over a 20-year period rather than the standard 30-years which the Board has used in its projections. The effects on the net present value of net cash flow is \$8.0 million for allowing full cost rather than only \$25 million and \$2.7 million for payment in 20 versus 30 years. In view of the uncertainties relating to the State's budget, a conservative approach to both aspects of the add-on is warranted.

The second major factor is occupancy rates. The Board has projected a 96% occupancy rate during the 2008-10 construction period as well as in later years. We regard this assumption as unrealistic. Even without the din and dust of a construction site, occupancy in FY'06 averaged 95.4 % of bed capacity. For the year just ended on 6/30/07, occupancy was 93.7% reflecting a shortfall against budget of five Medicaid beds and, notwithstanding increasing rehab volume, the vagaries of scheduling rehab patient turnover. In all likelihood, occupancy during the construction period will be lower than 94%.

But, just to test the sensitivities of these two major factors, when we assume – based on recent history – a \$25 million fair rental value payable over 30-years and a constant 94% occupancy, the cash flows become negative in the period 2008-10 and again in 2034-36. Moreover, debt service capacity becomes inadequate throughout the 30-year period. When other sensitivities are tested as shown in our Finance Subcommittee's analysis on pages 23-24, the picture projected becomes financially darker rather than brighter.

With respect to cost reductions, important negotiations between the Director of Labor Relations on behalf of the Board and the unions which represent Witherell's able staff were begun in 2006 and concluded in May 2007. The Board's long range plan projections for the total of salaries, professional fees, and employee benefits show a decline of \$2.2

million from FY'07 (\$17.2 million) to FY'08 (\$15.0 million). The Board's narrative dated February 15, 2007 which accompanied and explained the projections said in part: "The cost re-structuring is essentially complete as a result of recent employee negotiations and management initiatives." Our understanding, based on the conclusions presented at the committee's May 3, 2007 meeting, is that recently agreed labor contracts will contribute salary and benefit savings of about \$400,000 annually. The elimination of 10 full time equivalent positions in June 2007 will likely contribute another \$600,000 or more. Therefore, the plan projections suggest that additional steps are necessary for the Board to meet its cost reduction goals in FY'08 which, in turn, are needed to achieve a net positive cash flow of \$900,000 as projected.

Conclusions:

The Board's major revenue projections are essentially more optimistic than realistic. On the other hand, the expected revenue contributions to be realized from the new fund-raising and development efforts of Friends of Nathaniel Witherell and from the new service programs being planned by the Board/staff task forces, both of which seem to have good potential, are quite cautious and imply decidedly low expectations. On balance, it is our view that there is little likelihood that the LRP projections, as presented, can or will be achieved, notwithstanding that the basic thrust of the plan - to enhance revenues, restructure costs, and invest in facilities - continues to be valid.

During the three year construction period, there is likely to be a decline in revenues caused by a decline in both short-term rehab occupancy and the less sensitive long-term occupancy. Thus, it should not be surprising if the positive net cash flow anticipated for FY'08 turns negative in the following two or more fiscal years. Once construction has been completed and stability - both physical and financial - has been restored, a reassessment of Witherell's financial outlook will be needed.

Recommendations:

The need for a capital development campaign mentioned in A.3 above is reiterated. In addition to seeking broad community support, it is recommended that an effort be made to solicit the well-to-do residents whose parents are or once were Medicaid patients at Witherell. They have a moral (though not legal) responsibility to contribute as their means may permit.

The Board and management should make every effort to complete the execution of their cost restructuring plan early in FY'08 while simultaneously concluding and then implementing the new service plans recommended by the task forces. The results of these efforts should be included in the revised revenue and expense projections to be submitted to the RTM in March-April 2008 as recommended in A.1 above.

Contingent upon real progress being made in implementing the plan and achieving a positive cash flow in FY'08 (based on actual results through either 2/28/08 or 3/31/08 plus forecast for the remaining months in the fiscal year), and with the benefit of construction cost estimates based on an actual design and known CON fair rental value and payment period, the RTM should be able to make a knowledgeable and prudent judgment about whether to

proceed with the project by appropriating the \$30 million (perhaps more) and authorizing the issuance of an equivalent amount of 20-year bonds to fund the appropriation. A negative decision would imply halting the project after completion of the \$3.7 million “Priority Items” and writing off the costs of the architectural and engineering design work.

Assuming that the RTM will make an affirmative decision on the project, the Town should also be prepared and willing to finance a cash flow deficit during the construction and the post-construction “ramp up” periods in the event of occupancy shortfalls.

After restoration of stability and a careful assessment has been made of Witherell’s financial outlook, there may well be a need for Town government to consider a periodic, variable subsidy or borrowing facility for Witherell. If in fact a subsidy or a loan is likely to be needed from time to time, a standing arrangement for it should be agreed in advance as part of a written proposal by the Board concerning the determination of annual cash surpluses or deficits, subject to the concurrence of the BET and RTM. Basic to the arrangement should be the understanding that TNW is to operate ordinarily on a cash flow positive basis. Yet there should be recognition that unforeseen circumstances may occasionally result in operating deficits and an inability to meet the full amount of debt service payments due to the Town in which event the Town should forbear.

2. Concerning the differences between the FY’08 budget figures and the FY’08 component of the long range plan; comments on financial reporting.

Findings:

It will be recalled that there were some not insignificant differences between TNW’s budget and long range plan numbers in several categories of both revenue and expense. From the Board’s perspective both sets of numbers were right in that they were prepared for different purposes and to some degree follow different rules and accounting practices. In fact, there are some variations in the accounting practices required for the Town’s Munis system and for reporting to DSS, and there is a ongoing need for adding “enterprise expenses” furnished by the Comptroller’s Division to census, revenue and expense data generated by TNW. It was also recognized that contributing to the differences was the simple fact that the two plans had been done at different times and submitted or shown to different Town bodies. Perhaps the preferable route would have been to revise the long range plan numbers when the budget was prepared and then annotate them for any noticeable accounting differences. In addition, in FY’06-07 TNW’s financial staff did not yet have an MDI (MDI Technologies, Inc.) nursing home software package to improve operating efficiency in clinical, staff, marketing, general ledger and other record keeping functions. A new MDI package will likely be in place in early FY’08, and we understand that, *inter alia*, its general ledger function will permit issuance of balance sheets and perhaps sources & uses of funds statements.

Conclusions:

The differences between the budget and long range plan unnecessarily obscured study and understanding of the plan and should have been reconciled and revised prior to TNW presenting its case to the RTM and other governing bodies. Differences of this sort should be

avoided in the future. Yet there is no panacea available for altering the fact that TNW is unique among Town departments for most of which accounting is a relatively simple function focused mainly on expense authorization and expenditure control. Additionally, TNW is one of only two municipal nursing departments among 400+ privately-owned or not-for-profit entities reporting to DSS, i.e., it is unlikely that either the Town or DSS will revamp their systems to accommodate a one-off situation. Thus Witherell, a complex business within a municipality, incurs some reporting responsibilities that its competitors do not have.

Recommendations:

The Board and management should decide the form, content and frequency of reports, within the capabilities of MDI and the financial staff, which will meet their own needs for tracking and managing the institution.

Management should inform the BET and RTM officials concerned about the reports to be used by the Board and management and inquire whether those reports would also meet their oversight needs. BET and RTM officials should limit or avoid asking for “tailored” reports.

Annual budgets, prepared in customary Town format, should be the basis for revising the long range plan. There should be no differences in census, payer mix, staff headcount, or the major components of revenue and expense. Monthly statements on an all-in enterprise basis should show actual versus budget, LRP, and the comparable year ago month and year-to-date. Balance sheets should be produced as desirable along with profit and loss, cash flow statements (or sources and uses of funds statements), and a reconciliation made for differences in capital, depreciation, and other items which are treated differently by the Town and DSS.

3. Concerning establishing Witherell as an “enterprise fund.”

Findings:

On page 16 of its report to the RTM dated August 31, 2004, the Special Committee recommended that “The Town should begin accounting for TNW as an Enterprise Fund as soon as possible to develop, *inter alia*, an accurate estimate of the cost of services provided by the Town to TNW.” The recommendation is restated in slightly different form on pages 20 and 55 of the report. Some readers have understood this recommendation to mean that TNW should be established as an enterprise fund, i.e., as a separate proprietary fund as defined in GASB 20 similar to the Town’s Parking Fund. Our intention was that the accounting for TNW should be like that of an enterprise fund reflecting all the income and particularly all the expenses such as employee benefits paid centrally by the Town for employees assigned to TNW, expenses incurred or paid by other departments on behalf of Witherell, and the value of services rendered to Witherell by other departments. Our recommendations have been put into effect and, as a result, TNW’s financial picture is better understood today.

We understand that some Board members wish to go further and have TNW established as an enterprise fund. The idea would be to work out an operating agreement with the BET which would effectively exempt TNW from a variety of procedural limitations and give the Board and management greater latitude in such areas as hiring, information technology, legal services, purchasing, risk management, and, most importantly, budgeting. The budget could continue

to provide a detailed description of revenues, expenses, etc., but the appropriations would be reduced to (a) appropriating a single, annual transfer in from the General Fund to cover any net deficit, (b) a single annual transfer out of unneeded surplus, perhaps to prepay debt, or (c) the retention and build up of surpluses in order to meet future liabilities or to finance future capital expenditures. Witherell would benefit by greater efficiency, less red tape, and having control over its funds. The Town and Witherell would benefit by reducing operating costs, and the operating agreement could also define a borrowing facility and/or subsidy arrangement as recommended in B.1 above.

Conclusions:

We strongly favor continuing to *account* for Witherell like an enterprise fund. The RTM voted in April 2007 to keep Witherell as a Town department until such time in the future after completion of Project Renew Witherell that consideration may again be given to converting it to a not-for-profit. We see little advantage to be gained for either the Town or the taxpayers by granting major exceptions to one department, especially one with almost \$20 million in revenue flows, unless it is in the context of a commitment to transition to not-for-profit governance. In that context, gradual relaxation of Town strictures in order to provide the Board and management hands-on experience in managing new functions might be warranted. In light of the decision made by the RTM in April to continue TNW as a Town department, however, the taxpayers are entitled to have their interests protected by keeping in place the same limitations, safeguards, and oversight which are applicable to all departments. In our view, this conclusion is reinforced by TNW's request on June 7, 2007 to the BET Budget Committee that \$250,000 be transferred between object codes to permit spending those funds before the close of the fiscal year without reference to the fact that TNW was still running an all-in deficit. Moreover, some of these funds had already been spent or requisitions placed without appropriate authorization. While the request was pared to \$133,500 and approved at the June 18, 2007 meeting of the full BET, TNW's initiative was a disappointment to us.

The need for a written agreement covering the use of surplus cash flow and providing a mechanism for borrowings or subsidies remains evident.

Recommendations:

Witherell should *not* be established as a proprietary enterprise fund on the Town's books but it should continue to render its accounting reports as though it were.

The Board may wish to propose to the BET and RTM a written agreement to govern the use of any earned surplus and to establish a standby borrowing facility and or subsidy arrangement to govern handling of future contingencies.

4. Concerning Witherell's relationship with Friends of Nathaniel Witherell.

Findings:

Friends of Nathaniel Witherell, Inc. ("Friends") is a 501.c.3 not-for-profit corporation

established to raise funds for the nursing home. The Nathaniel Witherell Auxiliary was merged into Friends earlier this year. We understand that the members of the Board also comprise the board of trustees of Friends. Friends has received several donations since its inception including contributions from members of the Board. A search for a director of development was undertaken, and the post was filled in July. The director's salary and benefits will be paid by Friends which will also likely cover the costs of employing data programmers on an hourly basis. It is also understood that TNW has or will purchase a Raiser's Edge software fund-raising package for use by the Friends development staff and absorb other initial expenses at a total cost of about \$75,000 from its FY'07 budget.

Other aspects of the relationship including the procedures for Friends to make financial contributions to TNW and for TNW to account for those funds have not yet been defined.

Conclusion:

While it is perhaps "early days" to be thinking about Friends remitting contributions to Witherell, it would be desirable to have an agreed mechanism defining how Friends should remit funds to the Town for TNW's benefit and, if necessary, how TNW may make payment for Friends operating expenses (effectively a loan) and receive repayment therefor.

Recommendations:

The Board and the trustees should consult with the Comptroller to establish a written procedure defining the manner and timing of contributions made by Friends to the Town to benefit Witherell and how they are to be recorded and reported. Consideration should be given to the handling of gifts made to Friends for Witherell, gifts made directly to Witherell or the Town for Witherell without going through Friends, and for proper treatment of restricted gifts. If applicable, procedures should also be established to record and report the incurrence of any expenses on behalf of Friends and their subsequent reimbursement. All procedures agreed to by the Board, trustees and the Comptroller should be approved by the BET and notice of them given to the Moderator and applicable RTM oversight committees.

C. Legal Issues

1. Concerning the deed to the property at 70 Parsonage Road

Findings:

The deed executed by Mr. Robert M. Bruce dated October 14, 1903 conveys to the Town the land, caretaker's house, three contagious hospital buildings, and the goods and supplies therein at 70 Parsonage Road as a gift from Mr. Bruce and his sister, Sarah E. Bruce, subject to six conditions requiring or relating to the use of the property for the care and treatment of persons...who may be afflicted with any contagious (sic) or infectious disease. Mr. Bruce died in 1909 and his sister and sole legatee died in 1933, leaving three residuary legatees. In 1956 two of the latter legatees executed quitclaim deeds providing "that said premises shall be used solely for non-profit hospital purposes." In 1995 the third residuary legatee executed a similar deed.

On page 85 of its report of August 31, 2004, the committee noted that:

“The current deed to the NW on Parsonage Road states that the Town, ‘its successors and assigns forever, to wit: that said premises shall be solely for non-profit hospital purposes.’ Discussions with the Assistant Town Attorney indicate that the town should contact the descendants of Robert and Sarah Bruce to modernize this language. This modernization is necessary prior to an investment of \$45 million for a new facility, regardless of its governance.”

A footnote (No.17) accompanying the first quoted sentence above refers to Greenwich Land Records, Book 559, Page 404. and adds:

“Since 1956, when this deed was last modified, this property has had a variety of uses in addition to ‘non-profit hospital purposes.’ The property currently contains low and moderate-income apartments and adult day-care facilities.”

The recommendation to modernize the language was included in the committee’s Sense of the Meeting Resolution, which was adopted by the RTM on September 20, 2004, as the first of six conditions precedent to be carried out prior to commencement of the building project. That condition precedent called for:

“Prompt action by the Law Department to resolve any issues relating to title to the land at 70 Parsonage Road.”

To implement the condition precedent, research was initiated by the Law Department, but it was interrupted by turnover among the professional staff. In December 2006 and again in February and April 2007, the Special Committee asked that the matter be addressed along with other questions which had arisen during the committee’s meetings, particularly (a) the suggestion by David Ormsby, Esq., Chairman of the Witherell Board, that use of the property for a nursing home operated by a Town department may have created a “constructive trust” restricting the property’s future use to that of a Town-operated nursing home, excluding use as a nursing home operated by a not-for-profit corporation, and (b) whether leasing the land and transferring the buildings by sale or lease to a not-for-profit might, under DSS rules, invalidate the preference in admission for Greenwich residents authorized in Charter Section 57, as suggested on page 14 of the Report prepared on behalf of the International Brotherhood of Teamsters, Local 456, by LRA Consulting and Fred Hyde & Associates, Inc., and submitted in September 2004. The Special Committee was reasonably assured of continuation of preference because, prospectively, the Town would continue to be the owner of the land as well as the facilitator and financier of the project. However, the theory of the constructive trust also had the potential for invalidating the current use of the property for a nursing home, adult day care, rental apartments, and Parsonage Cottage and perhaps for reinforcing a narrow interpretation of the quitclaim phrase “... used solely for non-profit hospital purposes.”

The Town Attorney, John Wayne Fox, Esq., telephoned the chairman in April 2007 to advise that the matters posed by the committee had been reviewed. Mr. Fox indicated that Charter preference for Greenwich residents in admissions would not be prohibited or inhibited by transference of governance to a 501.c.3 not-for-profit corporation inasmuch as state regulations, which are controlling, permit such preference. Mr. Fox indicated that, in his opinion,

the transfer of governance to a not-for-profit would not be precluded by the concept of a “constructive trust.” On the underlying question of the continuing use of the property for a nursing home and a licensed home for the aged (note: the apartments in the Pavilion are now understood to be vacant, and GADC will soon be vacating its leased space in TNW) vis-à-vis the language of the original deed and the quitclaim deeds, Mr. Fox opined that the legal concept of “*cy pres*” (Fr.: *cy pres comme possible*) infrequently used in estate and trust law would permit the Town to ask the Probate Court whether the current uses are in line with the general intentions of the makers and to make the case that they are. Mr. Fox opined that there is no inhibition on continuing to use the property as it is now used. The chairman’s request that the Town Attorney’s views reported above be furnished in writing remains outstanding.

Conclusion:

It is committee’s view that the uncertainties surrounding the language of the original deed and of the subsequent quitclaim deeds should be resolved definitively *prior to* the appropriation and expenditure of \$30 million or more to implement the project.

Recommendations:

The Law Department is requested to (a) seek from the court having jurisdiction a ruling validating the current and prospective uses of the property at 70 and 88 Parsonage Road, and (b) now, pending receipt of the court’s ruling, provide to the interested parties in Town government and to the Greenwich Housing Authority a written opinion on the current use of the property.

D. Other Matters

1. Concerning RTM Oversight

Comments:

Following submission of this report, the Special Committee will ask the Moderator to discharge the committee of its oversight responsibilities and to dissolve the committee. It will then be necessary for other committees of the RTM, i.e., the Health and Human Services Committee which has primary operational and budgetary responsibility for TNW, the Budget Overview Committee, the Finance Committee, and the Public Works Committee, to collaborate in establishing an effective oversight arrangement concerning the project in the short and medium term ahead. Following completion of the project, effective collaboration among Heath and Human Services, BOC, and Finance will be necessary, especially with respect to TNW’s debt servicing capacity and performance.

Recommendations:

The chairmen of the committees mentioned above should meet with the Moderator in the fall of 2007 to work out cooperatively an arrangement for effective and timely tracking of the project and TNW’s activities which will not impose an unreasonable burden on either Witherell or the Building Committee. The membership of the RTM should be updated on the

project at least quarterly.

2. For the record

Comments:

In a news report appearing in the *Greenwich Citizen* on July 20, 2007, the First Selectman is reported to have said “Take the Nathaniel Witherell construction project as one example. With the RTM meddling, the Witherell construction has been set back three-to-four years.”

Without presuming the accuracy of the citation, we are obliged to say that the statement is objectively and demonstrably contrary to the facts.

3. Concerning committee relationships with other parts of Town government

Comments:

The committee wishes to express its appreciation to the past and present members of the Witherell Board under the leadership of Edmund A. Kavounas, Ronald B. Dreskin, and David G. Ormsby. We thank all the directors for the excellent working relationship which has existed between the Board and the committee even when we did not see eye-to-eye. We also wish to thank the Witherell management team now under the capable leadership of William Kowalewski and previously led during our tenure by Edward Madden, Curtis Milton, and Christine Clark. We especially appreciate the excellent work and cooperation given us by Ray Augustine, Director of Financial Operations, Lynn Bausch, Director of Nursing, Mary Bruce, Director of Recreation, and Susan Welsh, Director of Admissions. The Town is blessed to have such high quality and capable people serving the Town both as Board volunteers and as professional staff.

Our collegial thanks go to the BET under the leadership of Peter Tesei, particularly to those members who have served as liaisons to TNW and the committee and whose interest and counsel has always been appreciated: Val Storms, Larry Simon, Janice Gardiner, Alma Rutgers, and Leslie Tarkington. Similarly, we appreciate the interest and input into the committee’s work made by Sam Deibler of the Commission on Aging, Dr. Peter Arturi of the Board of Health, Caroline Baisley and Stephanie Paulmeno of the Department of Health, John Wetmore, John Wayne Fox and Gene McLaughlin of the Law Department, Roland Gieger of the Finance Department, Ed Gomeau, our former Comptroller and former Town Administrator, and Linda Ziac, Chair of the Witherell Family Council.

We owe a special debt of gratitude to certain members of the Town Hall staff who facilitated our room assignments, our notices, our meetings, and our printing work: Dorothea Meilinggaard, Assistant Town Clerk, Carol Dixon and Ann Augustine of the Department of Health, Michelle Hackett, Michael Hackett, and Nedda Watkins of Administrative Services, and Frank Petillo of Custodial Services. Their continuing helpfulness, patience, and kindness has been and is much appreciated.

For all those good people who have aided our work or contributed to the committee’s thinking over the last four years and whose names we have inadvertently omitted, please accept our

apologies and our sincere gratitude. Greenwich continues to be a wonderful community of concerned, caring, and committed people. We trust that our townspeople will long be served by a vibrant, vital Nathaniel Witherell where the highest quality skilled nursing care may be expected and delivered.

###

Report of the Construction Subcommittee

A. Overview

The construction aspects of Project Renew Witherell (“PRW”) have been driven to date by the process of engaging an architect, Robert A.M. Stern Architects (“RAMSA”) and other technical specialists to evaluate the existing facility and to consider current options regarding repair, renovation, upgrades, and replacement in order to meet key goals set by the Board. The formal report back to the Board consists of reports from the six specialists with some specific guidance, a conceptual direction about PRW, and a very preliminary but thoughtful cost estimate.

This subsection provides general comments on each of the main buildings at NW and then a section by section commentary to each of the specialist reports to the Board. Since the PRW plan is only conceptual, we can only comment on the theoretical aspects of what may be planned in light of what exists at TNW today. We cannot make an objective analysis of the true viability of the PRW plan until an accurate final design is available to do take-offs (detailed cost estimates) for actual bid estimate purposes and the final contract scope of work (specifications) is available for review. We would expect this to occur within the next 12 months.

Section	Professional
Physical Facility Analysis	Entech Engineering Inc.
Field Condition Report	Robert Sillman Associates, P.C.
Functional Assessment & Proposed Program	Bardwell + Associates
Code Compliance	Philip R. Sherman, P.E.
Conceptual Designs	Robert A.M. Stern Architects
Project Cost Projections	Davis Langdon

Each of the above consultants provided sufficient information and support to develop what the Board determined to be an executable plan. From these reports the Board developed a cost estimate of \$36.8 million, which was presented to the RTM during the spring of 2007. The plan appears to be an aggressive one. The complexities of the construction are compounded by the desire to re-use and rehabilitate older facilities, all while maintaining full occupancy during construction. Combining historic rehab with new construction is a complex and very challenging effort. Integrating existing building codes, including seismic upgrades for older buildings, with historic structures that do not meet a myriad of existing building codes tends to increase construction costs well beyond those of a new building. This last comment summarizes report caveats of the technical advisors for PRW.

Old hospitals and nursing homes have historically not been renovated due to cost, code, functionality, and maintenance issues. The committee has been very concerned since its formation with any plan that would require significant expenditure that would not result in a durable, cost effective, and best of class facility. The reason for a highly desirable facility is clear: the higher the perceived quality and condition of the physical plant, including the flow of care and sound practical design, the more likely that the private pay patient and other higher revenue residents will be attracted to the home, buoying the financial aspects and supporting the balance of the residents. While the Special Committee expects the new construction to have a full service life of up to 30 years, we expect the renovated facilities to have no more than a 15 year life expectancy considering the anticipated expenditure. This will likely create a future financial burden for the facility not defined in their long-term projections. Thus, we recommend a \$12mm current value placeholder for the year 2023 in the CIP.

We must note that PRW is at this point only a *conceptual* plan. With the exception of the RAMSA option (C-2 in Section 5) which provided the cost basis of PRW, no other firm design concept was considered for current planning purposes. In fact, TNW has indicated that the C-2 Option is the most inefficient design and will not be the final design for the building. A final cost estimate cannot be determined until a final design, in at least schematic design phase, can be produced. The RTM was asked at the May 2007 budget meeting for an appropriation to begin the process of identifying what will be the actual physical construction plan plus funds to get going on code compliance and badly need capital maintenance. Only after this design process is complete and accepted by the Building Committee can a true firm estimate of the actual market price of construction be known.

B. The Facilities

For those not familiar with TNW, the reports are driven by four primary buildings:

1. The Administration Building (the front “face” of NW and built in 1933)
2. The West Wing (located behind the Administration building, and built in 1961)
3. The Tower (built in 1974 as an addition to the north of the West Wing and attached to the Administration Building)
4. The Pavilion (a 1910-12 free-standing building containing five apartments for rental to elderly residents) and essentially not considered by TNW as part of its nursing facilities.

Some other key points about the four buildings:

The Administration Building is a grand building that for the most part is functionally obsolete, has notable current code compliance issues, and is not handicapped accessible. The previous TNW design called for the demolition of this building due to the long-term costs to rehabilitate and reconfigure the facility to be an efficient and fully compliant part of TNW. In other words, the design needs of current nursing homes could not cost effectively integrate the building into a 21st century facility. Immediate capital maintenance and upgrades are needed, and the RTM’s May 2007 appropriation provides some of these funds. The balance would be expected to come as part of the final appropriation. A basic concern of the Special Committee is that in the long run the capital expenditures and underlying inefficiencies will subtly hamper operations and finances.

The West Wing has quad units that the Board has required to be eliminated as a key goal of PRW. This building may be reconfigured in a way determined by the architects, but although a “solid” building, it could be considered more “in the way” to a more efficient and dynamic design. Some of the problems with the current TNW are the inefficiencies brought on by distinct buildings and design limitations. The factors cause inefficiencies in staff movement, cause specific facility mechanical limitations and design parameters that show up in higher construction costs.

The Tower building is in the best condition of the facilities. An underlying problem, however, is the ADA accessibility issues that the previous design would have addressed. Currently residents’ accommodations do not have clearance for wheelchair turnaround in either bedrooms or bathrooms. This could be a problematic issue that is very visible to potential clients considering TNW. A possible problem in the renovation model is the floorplate limitation in terms of square footage, but more of an issue from a mechanical rehabilitation perspective is the ceiling height limitations. Only full detailed

engineering can determine the extent of special design needs or if “off the shelf” components can be used.

The Pavilion renovation/rehabilitation costs are not a part of the plan. Notable maintenance and capital expenditure is needed. At least \$1M has been identified for capital and deferred maintenance needs. Pavilion costs should be allocated in the CIP in the next budget cycle if the building is to be preserved.

In summary, only the final design will show the more accurate construction costs, but PRW indicates the Board and RAMSA’s inclination that the impediments posed by the existing construction and facilities will be surmountable with the proposed budget.

C. PRW Construction Reports

Physical Facility Analysis – **Entech Engineering Inc.**

The purpose of this report was to identify the specific maintenance and repair needs in concert with developing a rating of the four main buildings that comprise TNW. The results of the work indicate many required repairs and maintenance strategies. Some of these costs were used to develop the initial capital appropriation presented to the RTM in May 2007, while other expected costs are allocated within the RAMSA / Davis Langdon cost projections in Section 6. The specific findings of this report are related to current conditions, and should not be absolutely relied upon since the final PRW may encompass more or less work indicated by Entech.

The report developed a Facility Condition Index (FCI) for each of the 4 NW buildings. An FCI of >.10 indicates complete rehabilitation is likely necessary as compared to the “piecemeal repairs” identified in the report. Part of the basis for this judgment is the ultimate cost to construct, and if the building exceeds ~50% of the anticipated cost, the benefits of the new construction likely outweigh any “repaired” facilities. Since there is very limited new nursing home construction (but it is near hospital costs in many ways) the Entech and other reports to the Board struggled with proposed costs for the work. Reasonable factors and rates were used to develop most of the cost projections. The Special Committee, however, notes that the conceptual plan offered in PRW is not a final cohesive and comprehensive plan; PRW is a conceptual plan at this point. Only the actual final agreed design will be able to indicate a firm cost estimate. An additional concern of the committee is the position that the costs must remain at the ~\$37mm level, resulting in cost cutting (not to be confused with value engineering) that will otherwise need to be spent in later years. We desire that the work be done correctly in the first place.

Field Condition Report - **Robert Sillman Associates, P.C.**

The purpose of this engineer’s report was to determine the structural condition of the buildings and consider how they could be used as part of a hybrid renovation-repair-new construction program. The survey was conducted in one day. The report indicates roofing issues plus typical masonry repair needs. The extent of work to repair ranges from simple pointing of failed mortar, to perhaps structural work if further investigation or attempts to repair indicate the need. The report indicated a clear need to address the failed condition of the retaining wall between the Pavilion and Administration building.

This report also identified the Connecticut Building Code requirements for structural upgrades for renovation work. The committee feels that the extent and expense of the work should require that the

entire facility be up to all current codes. It appears that until the final architecture and engineering plans present affirmation of complete current code compliance, this may not be the case with PRW. See Code Compliance Section for further comment.

Functional Assessment & Proposed Program - **Bardwell + Associates**

This report was developed to consider the strategic charge by the Board in light of the business needs to assure NW's future. The current facilities developed scores that did not meet the minimum threshold level for long-term investment. These scores were close to the threshold but were more indicative of the need to change the existing facilities to meet the needs of current care dynamics. Scores for the West Wing, for example, were very low due to the quad rooms and limited space; We expect most of these issues to be addressed in the final PRW plans, but do have reservation about the ability to extract a fully functional 21st century level of space for the residents. The committee understands the scope of the existing facilities limitations, and it is critical that the final plan maximize the amount of positive changes to ensure the best care and most effective staff and facility utilization. The report identified scenarios of renovation for the West Wing to reconfigure the available space from the quad rooms into semi-private or private rooms. The resulting square footage requirements plus other tabulations were used to further the conceptual plan of PRW. We suggest that this report in particular be read to get an understanding of the scope of specific items that need to be addressed.

Code Compliance - **Philip R. Sherman, P.E.**

This report evaluates the current facility for what it is in light of current building codes. The report does not extend deeply into conceptual best practice areas of PRW construction and code application. The extent of final design for PRW work will define what code items will be permitted to remain as "grandfathered" (as acceptable to the Authority Having Jurisdiction) and those that need to be corrected regardless of the scope of work.

This report establishes unequivocally that current building code deficiencies exist. We must be realistic though and note that that all code items will not be addressed until full review by the architects and engineers is complete, plans approved, the work bid, and the work completed. The Special Committee expects that all residential areas will ultimately be fully current code compliant.

All involved in the approval process must ensure the best level of occupant protection is provided. The PRW conceptual financial plan includes contingency and escalation funding that could be used to cover unanticipated cost to address these issues. The final approved plan and resulting engineers estimates will be the first clear sign if the contingency and escalation funding is sufficient for the scope and ultimate cost of code related work.

Conceptual Designs - **Robert A.M. Stern Architects**

Using the information from the consultants, RAMSA assembled five conceptual plans. These five plans were reviewed and cut to two plans for consideration as possible plans for PRW. Ultimately, an option C-2 was used to develop a base cost estimate for PRW. **Note: Option C-2 is not the planned PRW.** The plan of building an enclosed courtyard is flawed and a different configuration would likely be developed by the design professional. The key item, however, is that the Board and RAMSA felt that the layout in terms of square footage, and other core needs, in conjunction with the renovated

existing spaces, would be a fair representation of where a final plan would fall from a cost standpoint. The Special Committee asked for back-up data and information to further evaluate this option, but it was not provided.

Project Cost Projections - **Davis Langdon**

The PRW pricing estimate is developed in a logical fashion by the Board, but there are inconsistencies and likely omissions that will possibly drive costs upward. The key aspect of the conceptual design that established the roughly \$37mm estimate is that it has accumulated each of the specialists reports on the current facility, evaluated the current code, engineering and operational factors, and carefully transposed the cost estimates for an *as yet to be designed* PRW. This is a potentially flawed process. Many of the expert reports use solid base data and fair assumptions, but it is the sum of the parts and the construction logistics that can compound cost escalations. One good point, for example, is a concept known as “interferences”.

With a complete new design, and a clean slate, building mechanicals such as electrical, sprinkler, plumbing, alarms, etc., can easily be placed above ceilings, in walls and wherever they need to go. In NW, much of what needs to be done must consider the interferences that all of the new “mechanicals” will generate since so many walls and ceiling are where they are, and there is only so much room available. Furthermore, interferences can impact engineered items, requiring further design and adjustments. Since interferences can be a problem in new facilities, one should be aware that renovated facilities create complex conditions of a different order of magnitude. Finally, consideration has to be given to the specialized and highly important “mechanicals” associated with a skilled health care facility.

Conclusions

The Construction Subcommittee does not have a high level of comfort in affirming (or rejecting) an estimate based on what has and has not been provided. The reader alternatively may wish to consider the Town’s (and other governmental) historical experience in building large projects.

A careful review of the other cost projections in this report suggest much higher cost of construction than presented in the final plan. Some of these conceptals were clearly more substantial, but they also met key objective (Board) needs. The committee does wonder what may have been omitted or short changed to get to the final numbers. We would warn that a low cost renovation and construction program that generates less than ideal programming capabilities and other impacts could be very problematic in the long run. This type of plan will again result in future unknown substantial capital expenditure. Also, some flexibility of the physical plant to meet future special demands should be considered. If, for example, the option C-2 costs are in fact low, and the “soft” or non-pure construction costs are also higher than anticipated, a much higher ultimate cost will develop. Finally, the inherent limitations with renovation work at TNW will require additional future significant unknown expenditures.

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Report of the Finance Subcommittee

Findings

The Finance Subcommittee and subsequently the Special Committee have reviewed the long range financial projections prepared by the TNW Board which are attached hereto with their assumptions. The projections present the optimistic case for TNW.

In the Board's projections, there are four major variables which mainly determine TNW's financial performance by which we mean its ability to generate a positive cash flow from operations sufficient to repay the debt incurred to finance the project. Those variables, which are discussed below, are:

- Capital costs incurred to repair and renovate or construct the facilities.
- The proportion of the capital costs which the Connecticut Department of Social Services will consider in calculating the Medicaid fair rental value and related "add-on."
- Occupancy rates.
- Rate of increase of unit revenue and operating costs.

Capital Costs

TNW estimates that total repair, renovation and construction costs, including interest during construction ("IDC"), will be \$39.5 million, expended in the fiscal years 2008 – 2011 as follows: \$3.8 in FY'08, \$12.3 in FY'09, \$23.4 in FY'10 and \$0.1 in FY'11. The projected capital costs appear to be back loaded as the TNW board has asked for \$7.3 million in FY'08, with the consequence that IDC may exceed \$3 million and cause total costs to be greater than \$39.5 million, depending on actual interest rates and the timing of borrowings.

Fair Rental Value "Add-on"

"Fair rental value" ("FRV") or "Admitted Capital Cost" ("ACC") are the terms used by DSS to designate the portion of the project's costs which will be recognized for rate setting purposes. It may be thought of as the dollar value of the physical space and improvements devoted to nursing care. The fair rental value "add-on" is an amount which is added to the daily Medicaid resident reimbursable rate to recover capital costs. It is the "admitted capital cost" (ACC) leveled over 30 years at a specific interest rate, divided by 365 days per year, divided by 202 beds. The amount calculated by TNW is \$44.06 per Medicaid resident per day, or \$1.9 million in 2011 (96% occupancy). TNW assumes that CT DSS will allow 100% of the project's capital costs to be included in the ACC. The Certificate of Need approved in 2002 for the original plan allowed about \$25 million of the \$45 million estimated project costs.

The ACC is a negotiated amount, but it represents the capital costs reasonably attributable to support Medicaid residents. Thus amenities to attract private pay patients or special facilities to support rehabilitation patients may arguably be excluded from the ACC. The Special Committee believes that

absent documentation from DSS supporting the 100% ACC that the lesser amount from the previous CON should be used. The result is a \$27.88 per Medicaid resident per day rate, or \$1.2 million in 2011 (96% occupancy).

The Board chose the 23-year, 6% present value of various lines in its financial projections as the "figure of merit". On this basis, reduction of the ACC results in a reduction of net cash flow after debt service from \$7.1 million to \$0.4 million. Annual cash flow turns negative in 2016.

Occupancy Rates

TNW projected annual occupancy rates at 96% for the entire project. A change in occupancy of 1% is equivalent to about \$4 million in a 23-year discounted cash flow. The effect of a 1% change during the 2008 – 2010 construction period is about \$0.6 million.

TNW assumes it will maintain steady occupancy through the three-year construction period. If private pay days are halved for the three years from ~48 thousand to ~24 thousand, revenue loss would be \$9 million.

Between FY'07 and F'Y'15, Medicare, Medicaid & Self-pay census rates are projected to change from 12% to 19%, 66% to 54%, and 22% to 27%, respectively. Medicare is primarily for short-term rehabilitation. As the percentage increases from 12% to 19%, the number of beds dedicated to the rehab function increases from 23 to 37. With the higher Medicare turnover rate, more beds are likely to remain empty, and a mismatch between available beds and beds needed is more likely. In short, it will be more difficult to maintain a 96% overall occupancy rate with a higher Medicare census, especially during construction. If the average number of open beds increases from 8 to 12 because of Medicare rehab patient turnover, the increase is equivalent to a 2% decrease in the occupancy rate from 96% to 94%.

Revenue & Expense Projections

Over the 29 years from F'Y'08 through FY'36, unit revenue from all sources is projected to increase at about 2.9%. Over the same period, cash expenses are projected to increase at about 3.0%. The effect of expenses increasing more rapidly than revenue over the life of the project is progressively narrowing margins. Among the expenses, salaries and benefits are projected to increase at an average of 3.2% annually. This is below the rates Greenwich has historically seen. Benefits are projected at 31.7% of salaries. Salaries are projected to decrease in FY'08, then increase at 1.4% and 1.5% in FY'09 and FY'10, and thereafter begin to increase at 3.5%.

Summary Sensitivity Analysis

As indicated above, the Board has used as its principal tool or "figure of merit" for measuring debt servicing capacity the summary net cash flow value of the various revenue and expense values shown in its 30-year projections. For ease of understanding, we have summarized below the effect on summary net cash flow of key variances from the Board's projections. Our beginning point is an adjustment to increase the amount of the "20 year General Obligation Bond" shown in the projections from \$35.1 million to \$39.5 million to give account to estimated amount of short-term interest expense to be incurred during construction.

	<u>Millions</u>	
Net present value of TNW 23-year net cash flow discounted at 6%	\$ 8.15	
Effect of including all \$39.5 million of capital costs	(1.03)	
Adjusted NPV of TNW net cash flow	\$ 7.12	
		<u>Annual Rate</u>
Effect of individual variances on adjusted NPV:		
- DSS admitting only \$25MM of project costs for Medicaid add-on	\$ (8.04)	\$ 0.58
- 94% versus 96% occupancy	(7.67)	0.56
- Attaining only 85% of planned self-pay/Medicare census in FY'09 & FY'12 and 50% in FY'10 & FY'11	(12.86)	0.93
- Capping Medicare & Medicaid payments at 2% annual growth	(6.30)	0.46
- Payroll cost increasing at 3.5% annual growth from FY'08 onward	(9.22)	0.67

The above sensitivities are not intended to be predictive. Rather, we have provided them to show that any one of several deviations from the Board's projections can eliminate the narrow cash flow margin and more than one could jeopardize debt servicing capacity.

Interest during Construction

Interest during construction ("IDC") will not be part of the Building Committee's budget because financing is provided by the Finance Department. It is necessary, therefore, to make specific provisions in the major appropriation to be considered in Spring 2008 for IDC.

Conclusions

As stated in the opening paragraph, the projections present an optimistic case. There do not appear to be any significant variables which one could reasonably argue can be made better. Rather, it is reasonable to assume that the financial performance will be poorer than presented. If only \$25 million is accepted for the fair rental value calculation, if the occupancy rate is reduced to 94%, and if the private pays during construction are reduced by half, there would be (in present value terms) a cash flow deficit of about \$14 million, or \$22 million less than TNWB's projections. The implication is that the Town will have to subsidize TNW over most of its next 30 years. The risk is that the subsidy may become substantial, especially if salary expense becomes more in line with historical experience and if Medicaid and Medicare rates rise less rapidly than projected.

Recommendations

In preparation for the May 2008 budget meeting at which the RTM will most likely be asked to appropriate the additional \$30 million or more required for the project, the RTM should make a careful assessment of TNW's debt repayment capacity in light of (a) the project costs determined by the Building Committee, and (b) the key elements of the certificate of need approved or expected to be

approved by the CT Department of Social Services, particularly the fair rental value and Medicaid add-on. The TNW Board should assist the RTM by revising its long range plan to reflect the previously mentioned construction costs and CON elements as well as any plan components requiring updating.

Interest during construction should be shown as a separate line item in budgets presented to the BET and RTM by TNW and added to requests for construction appropriations presented to both bodies. IDC should also be captured as part of total project costs presented to DSS.

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Note to readers

On the following pages are the excerpts from the Board's Long Range Plan listed below which are provided for your review and reference:

- | | | |
|---------------|---|---|
| Page 26 | - | Original LRP Assumptions 120606 and Revised LRP Assumptions |
| Pages 27 | - | Revised LRP Assumptions (continued) |
| Pages 28 - 31 | - | TNW Base Projections FY2007 - FY2036 |

ORIGINAL LRP ASSUMPTIONS 120505

1. Medicaid and medicare rates increase 1.5% for years 2-5, 2.0% years 6-10, 2.5% years 11-15 and 3% thereafter
2. ***6/15/05 Inflation @ 3% and wages @3.5%
3. Medicaid Capital relates to those items that may be expensed for medicaid reimbursement purposes ~ \$2500 minimum/item
Year 1 medicaid rates include a \$9.47 per diem predicated on today's \$9.35 million of real property assets
4. \$350mm added in \$50m increments in years 2-8 to TNW maintenance and sustained with inflation ~ 2% of \$30mmm value
5. Salary expense reduced by 17% in year 2
6. Benefits reduced from 36% to 30% of salaries in Year 2

REVISED LRP ASSUMPTIONS

	OTHER INCOME				\$
	Year 1	Year 2	Year 3	Year 4	
3rd floor	\$15,000	\$30,000	\$30,000		
Pavilion	14,000	14,000			
GADC	17,460				
RehabAnc	10,000	10,000	10,000	10,000	
Cafeteria	16,200	35,000	35,000	35,000	
Totals	<u>\$72,660</u>	<u>\$89,000</u>	<u>\$75,000</u>	<u>\$45,000</u>	

MEDICARE B

125MM	200MM	200MM	medicaid rate increase thereafter ~ 1.5 - 3.0%
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1. Year 1 changed from 2006 to 2007
2. Year 2 TOG and Medicaid Capex @ \$300m and \$150m respectively at +3%/yr. based on 10 year CIP of \$2.8mm ex RENEW
3. Maintenance identified as \$189 in year 1 (2007) and increased by \$50m for 7 years
3. Other expenses exclude Professional fees (line68)/medicaid capex and maintenance

4. Existing Medicaid Capex Expiry	5E+06	479175	373435	71522	247205	256814	16744	64122	66746
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- 6643.8 is less than NPV of proposed operating Capex of \$8.79mm 7.62MM
6. Leap years added \$.3m revenue npv
 7. Occupancy reduced from 97 to 96% - \$.37mm revenue npv
 8. Medicaid occupancy changed from 67,66,64,62,60,58
 9. Self pay occupancy changed from 23,23,24,25,26,27
 10. Medicaid rate increased from \$213 to \$233.63(07) and \$237.13 (08Budget), 1.015% years 3-5 2.0% years 6-10, 2.5% years 11-15 and 3% thereafter
 - 11 Self Pay rate increased from \$330 to \$360(07) and \$365.4 (08 Budget)
 12. Medicare rate increased from \$370.75 to \$425(07) and \$435.44 (08 Budget),1.05% years 3-5, 2.0% years 6-10, 2.5% years 11-15 and 3% thereafter
 13. Bad Debt/Medicaid Credit changed from 2.2% of Self pay to 1.5% of self pay + .5% of Medicaid
 14. Other Income changed to 2007 budget - from\$105860/78200/71000/41000 to \$70660/62000/58000/28000
 15. Medicare B revenue changed from \$50m/250/350/400 to \$125m/200/200
 16. Fund raise based on base year \$150m net and increased by 3% per annum
 16. Apartment and Pavillion department expense (07 budget)deducted beginning year 4 and removal of cafeteria deficit beginning year 1
 17. Medicare B rehab service reimbursement at 70% of Med B evenue line 53
 18. Professional fees reduced by 20% in year 1 and 2% in years 2 and 3
 19. Construction period interest based on short term bond anticipation notes @ 4%
 20. 20 year Town general obligation bond of \$39.26mm @5.0%
 21. 07/year 1 fringe benefits of 3736614 (RA adjusted McGladrey for higher pension) @32.4% salaries incl longevity/uniform payments
 22. Beginning 2009 provision made for incremental Medicare costs based on census change @ \$93/ day ('08 Budget)
 23. Year 1 Capex excludes grinders @ \$500m
 24. Additional maintennce/energy costs added (line 77) for 12000 sq ft addition at rate of \$767101/126939 sq ft current rate
 25. Medicaid cash flow assumes \$39.51 mm DSS approval (including financing charges of \$2.61mm and contingency of 3.3mm), 30 year fair rent @ 7.2030% (CJLC LLC calculator @2006 rates)
 26. Fund Raise increased from net \$100m to \$150m annually
 27. Other Expenses, including Professional fees reduced by 5% before inflation for years 3-5 ie. 8.3% reduction from 07 budget
 28. all NPV based on end of 20 year gov't bond 2030 (\$.9mm)
 29. other Town Expenses include \$90m unbudgeted insurance and \$240m of estimated Town department expenses to service Witherell.
 30. Fringe benefits from 32.4%(McGladrey 2006) to 30.5% - see benefit negotiations 01/17/2007
 31. 09 salary increase adjusted to 1.3%% versus 3.5%- new contracts LIUNA 3.25% and Teamster freeze extended
 32. 08 adjustment of 441846 to salary amount incorporates 7 staff (275846), 5CNA retire/replace (35000), and 40 hr week (110000)
 33. 08 fringe benefits adjusted .324 to .312 incorporating 93000 med plan, 11600 med retiree,7200 WC network

EXHIBIT C OPTION 3 -TNW BOD
"RE-STRUCTURE COSTS AND REINVEST"
(\$ in Millions)

	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>FY2022</u>
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>	<u>Year 11</u>	<u>Year 12</u>	<u>Year 13</u>	<u>Year 14</u>	<u>Year 15</u>	<u>Year 16</u>
Beds	202	202	202	202	202	202	202	202	202	202	202	202	202	202	202	202
Days	365	366	365	365	365	366	365	365	365	366	365	365	365	366	365	365
<u>Avg. Daily Census:</u>																
Medicare	23	25	26	27	29	31	33	35	37	37	37	37	37	37	37	37
Medicaid	128	126	125	120	116	112	109	107	105	105	105	105	105	105	105	105
Self Pay	43	43	43	47	48	50	52	52	52	52	52	52	52	52	52	52
Total	194	194	194	194	194	194	194	194	194	194	194	194	194	194	194	194
<u>Patient Days:</u>																
Medicare	8,494	9,227	9,555	9,909	10,617	11,356	12,033	12,741	13,448	13,485	13,448	13,448	13,448	13,485	13,448	13,448
Medicaid	46,715	46,134	45,654	43,884	42,468	41,165	39,637	38,929	38,222	38,326	38,222	38,222	38,222	38,326	38,222	38,222
Self Pay	15,572	15,614	15,572	16,987	17,695	18,453	19,111	19,111	19,111	19,163	19,111	19,111	19,111	19,163	19,111	19,111
Total	70,781	70,975	70,781	70,781	70,781	70,975	70,781	70,781	70,781	70,975	70,781	70,781	70,781	70,975	70,781	70,781
<u>Patient Mix:</u>																
Medicare	12.0%	13.0%	13.5%	14.0%	15.0%	16.0%	17.0%	18.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Medicaid	66.0%	65.0%	64.5%	62.0%	60.0%	58.0%	56.0%	55.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%
Self Pay	22.0%	22.0%	22.0%	24.0%	25.0%	26.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%
Occupancy	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%
<u>Per PatientDiem:</u>																
<u>Revenue</u>																
Medicare-A	\$425.00	\$435.44	\$441.97	\$448.60	\$455.33	\$464.44	\$473.73	\$483.20	\$492.86	\$502.72	\$515.29	\$528.17	\$541.38	\$554.91	\$568.78	\$585.85
Medicare-B	1.77	2.82	2.86	2.90	2.95	3.01	3.07	3.13	3.19	3.25	3.33	3.42	3.50	3.59	3.68	3.79
Medicaid	233.63	237.13	240.69	244.30	247.96	252.92	257.98	263.14	268.40	273.77	280.61	287.63	294.82	302.19	309.75	319.04
Self Pay	360.00	365.40	376.36	387.65	399.28	411.26	423.60	436.31	449.40	462.88	476.76	491.07	505.80	520.97	536.60	552.70
Other	1.03	1.25	1.06	0.64	0.65	0.67	0.69	0.72	0.74	0.76	0.78	0.81	0.83	0.85	0.88	0.91
New Business	0.00	0.00	0.00	0.35	0.71	1.06	1.41	1.48	1.56	1.63	1.72	1.80	1.89	1.98	2.09	2.19
Fund raise	0.00	2.11	2.18	2.25	2.32	2.38	2.46	2.53	2.61	2.68	2.77	2.85	2.93	3.01	3.11	3.21
Total Rev/Day	\$273.77	\$286.70	\$293.26	\$302.95	\$313.15	\$324.77	\$336.85	\$347.31	\$358.06	\$366.68	\$376.77	\$387.11	\$397.72	\$408.60	\$419.83	\$432.71
<u>Cash Expenses/Per Diem:</u>																
Salaries	\$162.96	\$144.00	\$146.42	\$148.61	\$153.81	\$158.76	\$164.77	\$170.54	\$176.51	\$182.18	\$189.08	\$195.70	\$202.54	\$209.06	\$216.97	\$224.57
Professional fees	28.41	23.18	22.74	22.25	22.92	23.54	24.31	25.04	25.80	26.50	27.37	28.19	29.03	29.82	30.80	31.73
Benefits	52.96	45.65	46.41	47.11	48.76	50.33	52.23	54.06	55.95	57.75	59.94	62.04	64.21	66.27	68.78	71.19
Capital	16.81	10.98	6.61	6.80	7.01	7.20	7.44	7.66	7.89	8.10	8.37	8.62	8.88	9.12	9.42	9.70
Rehabilitation Med A census change			0.43	0.48	0.96	1.00	0.92	0.96	0.96	0.98	1.02	1.05	1.08	1.11	1.14	1.18
Maintenance	2.67	3.45	4.16	4.87	5.58	6.27	6.99	7.70	7.93	8.14	8.41	8.66	8.92	9.16	9.46	9.75
Other Expense	38.17	41.71	40.93	40.05	39.19	40.25	41.57	42.82	44.11	45.30	46.79	48.20	49.64	50.99	52.66	54.24
Bad Debt/Medicaid Credit	1.15	1.17	1.19	1.22	1.24	1.27	1.29	1.31	1.33	1.36	1.40	1.44	1.48	1.52	1.56	1.61
PavillionExpense Adj		(1.18)	(1.19)	(1.22)	(1.24)											
Plus 12m sq ft (Renew)-maintenance						1.02	1.06	1.09	1.12	1.15	1.19	1.22	1.26	1.29	1.34	1.38
Other Town Expenses	4.67	4.80	4.96	5.11	5.26	5.40	5.58	5.75	5.92	6.08	6.28	6.47	6.67	6.85	7.07	7.28
Total Cash Exp.	\$307.82	\$273.76	\$272.66	\$275.29	\$283.48	\$295.04	\$306.16	\$316.92	\$327.50	\$337.56	\$349.84	\$361.58	\$373.71	\$385.20	\$399.21	\$412.62
<u>Cash Margin:</u>	(\$34.05)	\$12.94	\$20.59	\$27.67	\$29.67	\$29.73	\$30.68	\$30.39	\$30.56	\$29.11	\$26.93	\$25.53	\$24.02	\$23.41	\$20.62	\$20.10

EXHIBIT C OPTION 3 -TNW BOD
 "RE-STRUCTURE COSTS AND REINVEST"
 (\$ in Millions)

	<u>FY2023</u>	<u>FY2024</u>	<u>FY2025</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>	<u>FY2031</u>	<u>FY2032</u>	<u>FY2033</u>	<u>FY2034</u>	<u>FY2035</u>	<u>FY2036</u>
	<u>Year 17</u>	<u>Year 18</u>	<u>Year 19</u>	<u>Year 20</u>	<u>Year 21</u>	<u>Year 22</u>	<u>Year 23</u>	<u>Year 24</u>	<u>Year 25</u>	<u>Year 26</u>	<u>Year 27</u>	<u>Year 28</u>	<u>Year 29</u>	<u>Year 30</u>
Beds	202	202	202	202	202	202	202	202	202	202	202	202	202	202
Days	365	366	365	365	365	366	365	365	365	366	365	365	365	366
<u>Avg. Daily Census:</u>														
Medicare	37	37	37	37	37	37	37	37	37	37	37	37	37	37
Medicaid	105	105	105	105	105	105	105	105	105	105	105	105	105	105
Self Pay	52	52	52	52	52	52	52	52	52	52	52	52	52	52
Total	194	194	194	194	194	194	194	194	194	194	194	194	194	194
<u>Patient Days:</u>														
Medicare	13,448	13,485	13,448	13,448	13,448	13,485	13,448	13,448	13,448	13,485	13,448	13,448	13,448	13,485
Medicaid	38,222	38,326	38,222	38,222	38,222	38,326	38,222	38,222	38,222	38,326	38,222	38,222	38,222	38,326
Self Pay	19,111	19,163	19,111	19,111	19,111	19,163	19,111	19,111	19,111	19,163	19,111	19,111	19,111	19,163
Total	70,781	70,975	70,781	70,781	70,781	70,975	70,781	70,781	70,781	70,975	70,781	70,781	70,781	70,975
<u>Patient Mix:</u>														
Medicare	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Medicaid	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%
Self Pay	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%
Occupancy	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%
<u>Per PatientDiem:</u>														
<u>Revenue</u>														
Medicare-A	\$603.42	\$621.52	\$640.17	\$659.38	\$679.16	\$699.53	\$720.52	\$742.13	\$764.40	\$787.33	\$810.95	\$835.28	\$860.34	\$886.15
Medicare-B	3.90	4.02	4.14	4.27	4.40	4.53	4.66	4.80	4.95	5.10	5.25	5.41	5.57	5.73
Medicaid	328.61	338.47	348.62	359.08	369.85	380.95	392.38	404.15	416.27	428.76	441.62	454.87	468.52	482.57
Self Pay	569.28	586.36	603.95	622.07	640.73	659.95	679.75	700.14	721.15	742.78	765.07	788.02	811.66	836.01
Other	0.93	0.96	0.99	1.02	1.05	1.08	1.11	1.15	1.18	1.21	1.25	1.29	1.33	1.37
New Business	2.30	2.41	2.54	2.66	2.80	2.93	3.08	3.24	3.40	3.56	3.75	3.94	4.13	4.33
Fund raise	3.30	3.39	3.50	3.61	3.72	3.82	3.94	4.06	4.18	4.30	4.44	4.57	4.71	4.84
Total Rev/Day	\$445.98	\$459.62	\$473.73	\$488.24	\$503.18	\$518.54	\$534.43	\$550.76	\$567.58	\$584.88	\$602.77	\$621.16	\$640.11	\$659.59
<u>Cash Expenses/Per Diem:</u>														
Salaries	\$232.43	\$239.90	\$248.98	\$257.69	\$266.71	\$275.29	\$285.71	\$295.71	\$306.06	\$315.91	\$327.86	\$339.33	\$351.21	\$362.51
Professional fees	32.68	33.57	34.67	35.71	36.78	37.78	39.02	40.19	41.39	42.52	43.92	45.23	46.59	47.86
Benefits	73.68	76.05	78.93	81.69	84.55	87.27	90.57	93.74	97.02	100.14	103.93	107.57	111.33	114.92
Capital	9.99	10.26	10.60	10.92	11.25	11.55	11.93	12.29	12.66	13.00	13.43	13.83	14.25	14.63
Rehabilitation Med A census change	1.21	1.25	1.29	1.33	1.37	1.40	1.45	1.49	1.54	1.58	1.63	1.68	1.73	1.78
Maintenance	10.04	10.31	10.65	10.97	11.30	11.61	11.99	12.35	12.72	13.06	13.49	13.90	14.32	14.70
Other Expense	55.87	57.39	59.27	61.05	62.88	64.59	66.71	68.72	70.78	72.70	75.09	77.34	79.66	81.83
Bad Debt/Medicaid Credit	1.66	1.71	1.76	1.81	1.86	1.92	1.98	2.04	2.10	2.16	2.23	2.29	2.36	2.43
PavillionExpense Adj														
Plus 12m sq ft (Renew)-maintenance	1.42	1.46	1.50	1.55	1.60	1.64	1.69	1.74	1.80	1.85	1.91	1.96	2.02	2.08
Other Town Expenses	7.50	7.71	7.96	8.20	8.44	8.67	8.96	9.23	9.50	9.76	10.08	10.38	10.70	10.99
Total Cash Exp.	\$426.47	\$439.60	\$455.61	\$470.92	\$486.74	\$501.73	\$520.01	\$537.49	\$555.56	\$572.68	\$593.56	\$613.52	\$634.16	\$653.72
<u>Cash Margin:</u>	\$19.51	\$20.02	\$18.12	\$17.32	\$16.44	\$16.81	\$14.42	\$13.27	\$12.02	\$12.20	\$9.21	\$7.64	\$5.95	\$5.87

EXHIBIT C OPTION 3 -TNW BOD
"RE-STRUCTURE COSTS AND REINVEST"
(\$ in Millions)

		<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>FY2022</u>
	6% NPV 2008 - 2030																
Revenues (ex user fees):																	
Medicare A	\$79.9	\$3.6	\$4.0	\$4.2	\$4.4	\$4.8	\$5.3	\$5.7	\$6.2	\$6.6	\$6.8	\$6.9	\$7.1	\$7.3	\$7.5	\$7.6	\$7.9
Medicare B	2.8	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Medicaid	140.9	10.9	10.9	11.0	10.7	10.5	10.4	10.2	10.2	10.3	10.5	10.7	11.0	11.3	11.6	11.8	12.2
less user fee	(6.1)	(0.6)	(0.6)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Self Pay	108.8	5.4	5.7	5.9	6.6	7.1	7.6	8.1	8.3	8.6	8.9	9.1	9.4	9.7	10.0	10.3	10.6
less user fee	(2.7)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Other Income	0.8	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
New business(net)	1.3	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Fund Raise(net)	2.4	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
HUD/OlderAmericanAct/Trusts																	
Total Revenues	328.1	19.4	20.3	20.8	21.4	22.2	23.1	23.8	24.6	25.3	26.0	26.7	27.4	28.2	29.0	29.7	30.6
Cash Expenses:																	
Salaries	166.5	11.5	10.2	10.4	10.5	10.9	11.3	11.7	12.1	12.5	12.9	13.4	13.9	14.3	14.8	15.4	15.9
Professional Fees 51410-51970	24.1	2.0	1.6	1.6	1.6	1.6	1.7	1.7	1.8	1.8	1.9	1.9	2.0	2.1	2.1	2.2	2.2
Benefits	52.8	3.7	3.2	3.3	3.3	3.5	3.6	3.7	3.8	4.0	4.1	4.2	4.4	4.5	4.7	4.9	5.0
Capital - TOG	5.1	1.0	0.6	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5
- Medicaid	2.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Rehabilitation Med A census change	0.9			0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Maintenance expense	6.7	0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7
Other Expense	41.7	2.7	3.0	2.9	2.8	2.8	2.9	2.9	3.0	3.1	3.2	3.3	3.4	3.5	3.6	3.7	3.8
Bad Debt/Medicaid Credit	1.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
PavillionExpense Adj	(0.1)	0.0	(0.0)	(0.0)	(0.0)	(0.0)											
Plus 12m sq ft (Renew)-maintenance	1.0					0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Town Expenses	5.5	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Total Cash Expenses	307.7	21.8	19.5	19.4	19.5	20.1	20.9	21.7	22.4	23.2	24.0	24.8	25.6	26.5	27.3	28.3	29.2
Cash Flow - Existing Operation	20.4	(2.4)	0.9	1.4	1.9	2.0	2.1	2.2	2.2	2.2	2.1	1.9	1.8	1.7	1.7	1.5	1.4
Cash Flow For Debt	\$20.4	(\$2.4)	\$0.9	\$1.4	\$1.9	\$2.0	\$2.1	\$2.2	\$2.2	\$2.2	\$2.1	\$1.9	\$1.8	\$1.7	\$1.7	\$1.5	\$1.4
Project Renew Capex	\$31.9		\$3.6	\$11.6	\$21.7												
Debt Placement costs	0.2		0.0	0.1	0.1	0.1											
Construction Period Interest	2.0		0.1	0.6	1.6												
20 year General Obligation Bond	35.1					3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Incremental Medicaid Rate Cash Flow	20.5					1.9	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Net Cash Flow -after 20 year debt service	\$8.1	(\$2.4)	\$0.9	\$1.4	\$1.9	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	\$0.8	\$0.6	\$0.5	\$0.4	\$0.4	\$0.2	\$0.1

EXHIBIT C OPTION 3 -TNW BOD
"RE-STRUCTURE COSTS AND REINVEST"
(\$ in Millions)

	<u>FY2023</u>	<u>FY2024</u>	<u>FY2025</u>	<u>FY2026</u>	<u>FY2027</u>	<u>FY2028</u>	<u>FY2029</u>	<u>FY2030</u>	<u>FY2031</u>	<u>FY2032</u>	<u>FY2033</u>	<u>FY2034</u>	<u>FY2035</u>	<u>FY2036</u>
<u>Revenues (ex user fees):</u>														
Medicare A	\$8.1	\$8.4	\$8.6	\$8.9	\$9.1	\$9.4	\$9.7	\$10.0	\$10.3	\$10.6	\$10.9	\$11.2	\$11.6	\$11.9
Medicare B	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Medicaid	12.6	13.0	13.3	13.7	14.1	14.6	15.0	15.4	15.9	16.4	16.9	17.4	17.9	18.5
less user fee	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Self Pay	10.9	11.2	11.5	11.9	12.2	12.6	13.0	13.4	13.8	14.2	14.6	15.1	15.5	16.0
less user fee	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Other Income	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
New business(net)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Fund Raise(net)	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
HUD/OlderAmericanAct/Trusts														
Total Revenues	31.6	32.6	33.5	34.6	35.6	36.8	37.8	39.0	40.2	41.5	42.7	44.0	45.3	46.8
<u>Cash Expenses:</u>														
<i>Salaries</i>	16.5	17.0	17.6	18.2	18.9	19.5	20.2	20.9	21.7	22.4	23.2	24.0	24.9	25.7
<i>Professional Fees 51410-51970</i>	2.3	2.4	2.5	2.5	2.6	2.7	2.8	2.8	2.9	3.0	3.1	3.2	3.3	3.4
<i>Benefits</i>	5.2	5.4	5.6	5.8	6.0	6.2	6.4	6.6	6.9	7.1	7.4	7.6	7.9	8.2
<i>Capital - TOG</i>	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7
<i>- Medicaid</i>	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4
<i>Rehabilitation Med A census change</i>	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<i>Maintenance expense</i>	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.9	0.9	0.9	1.0	1.0	1.0	1.0
<i>Other Expense</i>	4.0	4.1	4.2	4.3	4.5	4.6	4.7	4.9	5.0	5.2	5.3	5.5	5.6	5.8
<i>Bad Debt/Medicaid Credit</i>	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
<i>PavillionExpense Adj</i>														
<i>Plus 12m sq ft (Renew)-maintenance</i>	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<i>Other Town Expenses</i>	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.8	0.8
Total Cash Expenses	30.2	31.2	32.2	33.3	34.5	35.6	36.8	38.0	39.3	40.6	42.0	43.4	44.9	46.4
<u>Cash Flow - Existing Operation</u>	1.4	1.4	1.3	1.2	1.2	1.2	1.0	0.9	0.9	0.9	0.7	0.5	0.4	0.4
<u>Cash Flow For Debt</u>	\$1.4	\$1.4	\$1.3	\$1.2	\$1.2	\$1.2	\$1.0	\$0.9	\$0.9	\$0.9	\$0.7	\$0.5	\$0.4	\$0.4
Project Renew Capex														
Debt Placement costs														
Construction Period Interest														
20 year General Obligation Bond	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1						
Incremental Medicaid Rate Cash Flow	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Net Cash Flow -after 20 year debt service	\$0.1	\$0.1	(\$0.0)	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.3)	(\$0.4)	\$2.6	\$2.6	\$2.4	\$2.3	\$2.2	\$2.2