

TOWN OF GREENWICH
THE NATHANIEL WITHERELL

2007-2008 MID-YEAR REPORT CARD

January 30, 2008

To Members of the Representative Town Meeting:

At the mid-point in the Town's current fiscal year, the Board of Directors of Nathaniel Witherell ("TNW") believes we owe you a report on our progress in the operational performance, the rebuilding program and the future plans for our Town's skilled nursing facility. You have placed your trust in our leadership. We do not take your trust for granted.

A few statistics to remind you what an extraordinary resource the Town of Greenwich owns and operates: TNW has been operated since 1903 and was originally The Greenwich General Hospital. Today it is licensed by the State of Connecticut to operate 202 beds as a skilled nursing facility. Last year TNW delivered 69,096 days of resident care, more days of patient care than Greenwich Hospital which operates approximately 175 beds. 88% of our admissions arrive from Greenwich Hospital and 87% of our admissions are for short-term care at the time of their admission. 85% of our short-term admissions return to the Greenwich community after an average length of stay ("ALOS") of 22 days. Today, the ALOS of a Long-Term resident is 2.3 years. 40% of our beds are dedicated to the care of residents affected by various stages of dementia and Alzheimer's. The average age of a TNW resident is currently 85; our oldest resident is 105. The average age of a short-term admission dropped from 84 in FY 07 to 78 in the first six months of FY 08, indicative of our increased emphasis on short-term rehabilitation and the success of recently negotiated contracts with private insurance carriers. Now our report to you.

1. Quality Assurance. We measure the quality of our clinical services at TNW by comparing Witherell's scores to State and Federal scores compiled by Medicare for 34 monitored outcomes. These include the use of physical restraints, the presence of pressure sores, behavior and emotional patterns, accidents, pain management, infection control, nutrition, physical function and other measurable clinical outcomes. Our scores are significantly better than both State and Federal results in 24 of the 34 monitored categories. In the areas in which we do not equal or exceed State and/or Federal levels we have in place action plans intended to better understand and improve TNW's scores. Designated Board members (Dr. Scarpa, Chris Thurlow and Thomas Saccardi) participate with Senior Staff and our Medical Director (Dr. Franklin Loria), in TNW's quarterly

Quality Assurance Meetings which are aimed at elevating clinical and operating standards at TNW.

2. Recreational and Dining Services. We again celebrated with our residents, their families and friends our Annual Picnic in June, a spirited Oktoberfest luncheon and a Halloween party in October 2007, a Thanksgiving Feast in November, two Christmas Dinners (each accommodating one-half our residents, their families and friends) in December 2007 and two New Year's Eve parties. Bill's Backyard BBQs were a regular event in our Rose Garden throughout the summer. Volunteers served a special Christmas dinner to the nursing shifts on Christmas Eve, Christmas night and on Christmas Day. Turkeys were distributed to all employees on our front lawn next to a grill of roasting chestnuts on Christmas Day, courtesy of TNW's NADO Fund and Family Council. The Board penned a personal note of thanks to each of the 275 permanent and part-time employees at year-end. A growing sense of community ownership of TNW is reflected in the more than 150 volunteers who contributed 4,530 hours of their time to help at TNW during the six months ended December 31, 2007, a revitalized effort led by our new Volunteer Coordinator, Sally Van Leeuwen. These Volunteers, as well as civic and school groups, lead our residents in daily activities involving chapel services, art, gardening, music, conversation, games, poetry and pet therapy, as well as working in our gift and beauty shops. A puppet show, courtesy of Sempra Trading, entertained our residents in December 2007. Our recreational activities are led by our indefatigable Mary Bruce, who is largely responsible for the non-stop activity which fills the day for our residents. Satellite kitchen equipment has been ordered to create the Person Centered Dining approved unanimously by the RTM in October 2007, and its installation will be completed this Spring.

3. Resident Volume. With our increased emphasis on short-term rehabilitation services our total admissions increased 77% from 160 in FY 06 to 283 in FY 07. Our short-term admissions during this period increased 80% from 137 to 246. For the first 6 months of FY 08 our total admissions were 134 compared to 120 in the comparable period of FY 07. Short-term admissions during these 6-month periods increased 22% from 105 to 128. These increases are important as the Medicare reimbursement rates associated with our short-term rehabilitation activity are generally more profitable than other payor reimbursement levels. The ALOS of a short-term resident has decreased from 39 days to 22 days (43%) in the last 18 months, demonstrating our increasing ability to successfully rehabilitate and return our patients to the community more quickly, as well as permitting us to increase our more profitable admissions.

4. Financial Performance. Nathaniel Witherell's revenues for FY 07 increased to \$19.524 Million from \$18.355 Million for FY 06, an increase of 6.3%. At the same time direct expenses which we control increased from \$15.103 Million to \$15,529 Million, an increase of 2.8%. When Town of Greenwich allocated costs (costs we cannot control such as fringe benefits, insurance, Information Technology, Legal, Human Resources and Finance Department charges) are considered, TNW realized an operating loss of \$1,163,096 for FY 07. For the first six months of FY 08, TNW's revenues were

\$10,298,460, and total expenses (including the Town of Greenwich allocated expenses) were \$10,477,357 producing an operating loss of \$178,897, a substantial improvement over comparable six-month operating results in FY 07.

5. Long Range Business Plan. We monitor carefully the Long Range Business Plan ("LRBP") developed by the Board in 2006. That Plan was the basis for our request for the initial \$7.3 Million of bonding authority for Project Renew Witherell approved by the RTM in May 2007 and the remaining \$29,583,000 included in the draft of First Selectman's Capital Budget for FY 09. The LRBP demonstrates that TNW has the capability of operating with a positive cash flow after repaying the debt incurred by the Town to finance Project Renew. Midway through the first year of the 30-year Plan (by design coinciding with the assumed maturity of the Town indebtedness), we estimate that, net of employee benefits and a reasonable assumption for Town support services, we are generating positive cash flow in excess of the LRBP. We continue to explore opportunities for increased revenues, such as instituting respite and hospice programs, as well as containing costs in ways which do not adversely affect the quality of services TNW delivers.

6. Staffing. As our focus on "right sizing" the facility operations of TNW has sharpened and we seek increased Staff efficiencies, we reduced our Town authorized full time positions from 173 in FY 06 to 168 in FY 07 to 158 in FY 08. At the same time the total number of annual, part-time and temporary employee payroll hours has declined from 114,182 in FY 06 to 112,171 in FY 07 and is estimated at 103,353 in FY 08. We believe we have accomplished this without diminution in the quality of care at TNW.

7. Occupancy. An important assumption and target in the Board's LRBP is a 96% occupancy level at TNW. The average occupancy level of the 240 nursing homes currently operating in Connecticut is 93.3% (85.6% for the United States generally). For FY 07 our census or occupancy level was 93.7%. Our census has been as high as 99% (200 beds occupied) on December 11, 2007, and for the first six months of FY 08 was 95.2%. The census target of 96% puts enormous pressure on our Admissions Staff (led by Susan Welsh, the Town's Employee of the Year in 2006) and their performance in this regard is extraordinary. As the data in paragraph 8 indicates, the slight shortfall in our census target has been more than made up by the increased private pay and Medicare components of our census.

8. Payor Mix. The three revenue streams which we manage for TNW's financial performance are (i) our private pay revenues (which include a small component of commercial insurance payments), (ii) our Medicare reimbursements and (iii) our Title 19 payments from the State under the Medicaid system. Currently our estimated daily cost of care is \$296.12 per resident. Our Medicaid per diem reimbursement rate is currently \$241.28. Depending on accommodations, our private pay rates range from \$322 to \$397. Our average Medicare reimbursement rate is currently \$426.87. For the six months ended December 31, 2007, our private pay residents represented 26.2% of our census, up from 22.0% for FY 07 and 22.4% for FY 06. For the six months ended December 31, 2007, our Medicare residents represented 11.8% of our census, down from 14.0% for FY

07 and up from 10.5% for FY 06. Our Medicare days of care increased 30% from 7,370 to 9,648 from FY 06 to FY 07 and were 4,169 for the six months ended December 31, 2007. Finally, for the six months ended December 31, 2007, our Medicaid residents were 62% of our census, down from 64% for FY 07 and 67.4% for FY 06. It is obvious that our private pay and Medicare reimbursement revenues subsidize the cost of caring for our Medicaid residents. The challenge to our Board and Senior Staff is to assure a resident mix which accommodates our Town's neediest elderly at a reasonable cost to the Town of Greenwich.

9. Fund Raising. The Board has organized The Friends of Nathaniel Witherell, Inc. (the "Friends") and secured a 501(c)(3) ruling from the Internal Revenue Service permitting tax-deductible charitable contributions to be made for the benefit of Nathaniel Witherell, and particularly our rebuilding efforts. In June 2007, the old Nathaniel Witherell Auxiliary was merged with the Friends in order to eliminate the confusion of duplicative fund raising efforts. On November 2, 2007, the Friends hosted a successful inaugural fundraising event, called "Witherell Goes Outback", involving the sale of Australian Aboriginal art and fine wines by a local vendor. The event was generously underwritten by David Ogilvy & Associates. Later in November the Friends launched its first Annual Appeal. As of January 25, 2008, the Friends had received contributions from 524 individuals, foundations and corporations aggregating some \$98,000. The net proceeds will be applied to our efforts to take our dementia care to a higher level of service. Future fundraising events to support Project Renew Witherell are in the planning stages.

10. Project Renew Witherell. The 16 members of the Town of Greenwich Building Committee appointed by the RTM on June 11, 2007 and charged by Town Charter with the supervision of Project Renew Witherell have met 14 times and routinely meet bi-weekly. The Committee has caused a book of project specifications, prior engineering studies and the \$36.883 Million budget to be mailed to 32 architectural firms which have expressed an interest in participating. Twenty-two architects and engineers representing 15 firms attended an Architects' Pre-Bid Conference held on January 9, 2008 at Nathaniel Witherell. Final submissions of interest are due on January 30, 2008. The Town Building Committee continues to work with the Town's Law Department and Purchasing Department to develop a form of contract template and RFP to hire a Construction Manager which would hire and supervise the various trades involved in the Project, as well as guaranteeing the maximum cost of the Project.

An issue has arisen at the B.E.T. level as to whether the Town's best interests are also served by hiring an Owner's Representative to oversee the performance of the Construction Manager and the Architect. The Town Building Committee includes members with extensive construction and development experience (selected for this reason) who believe that an Owner's Representative is an unnecessary and expensive layer of oversight, and is largely driven by the Town's lack of familiarity with the role of a Construction Manager. A very substantial majority of the Building Committee believes that a carefully crafted contract with the Construction Manager - - a relationship not previously used by the Town in municipal improvement projects - - affords adequate

protection of the Town's interests at substantially lower cost than an Owner's Representative. We do not minimize the risks of rehabilitating an old existing building while keeping the facility in operation 24/7 during the construction period. However, the Committee has required in the RFP for Architectural services the full-time presence of an Architect on site to answer any coordination questions and validate any claims for change orders. We have every confidence that this experienced Town Building Committee will get the Project done on time within budget without the necessity (and additional cost) of an Owner's Representative.

We thank you for the opportunity to serve the Town of Greenwich and for your support. We will continue to update you on our efforts.

Respectfully submitted,

David Ormsby, Chairman
Chris Thurlow, Vice-Chairman
David Ayers
Lloyd Bankson, III
Patricia Burns
Paul Toretta
Thomas Saccardi
Frank Scarpa, MD
William Kowalewski, Executive Director