



## BUDGET NARRATIVE – SIX YEAR PLAN

### LID LIFT AND LONG-TERM CARE PLANNING

Created for the Board of Commissioners

September 22, 2021 Board Meeting

Superintendent Nathan Butler

#### **INTRODUCTION**

At the end of 2017 the Life Care Center of the San Juan Islands closed its doors, displacing many of our neighbors, friends, and family. The community has been seeking a solution to the loss of this facility and its services to some of our community's most vulnerable residents ever since.

On August 28<sup>th</sup>, San Juan County Public Hospital District No. 1 announced its intent to acquire the Village at the Harbor for the purpose of providing and expanding long term care services. To proceed with this acquisition, the hospital district will require additional funding derived from a voter approved levy lid lift. The District has placed a levy lid lift measure on the November General Election ballot.

If approved, this measure would increase the hospital district's levy from \$0.34 per \$1,000 in assessed value to \$0.70 and would provide the funding necessary to proceed with the acquisition of the Village at the Harbor. If the measure is not approved, the hospital district will be unable to proceed with the acquisition at this time.

The hospital district is a special purpose local government funded by property taxes (like a library district or a fire district) that is dedicated to ensuring healthcare services for residents. Our District has two property tax levies. Its main levy primarily subsidizes Peace Island Medical Center, and the funding measure before the public expands this levy. PeaceHealth is a separate, not-for-profit hospital that could not afford to function here without the subsidy. The District's other levy supports San Juan Island EMS, which provides basic and advanced life support, and is unaffected by this project.

If approved by the voters, funds from this levy increase will:

- Immediately subsidize 4 to 5 Medicaid beds
- Fund the expansion of more Medicaid bed capacity
- Support wages and benefits to retain staff and/or recruit additional staff
- Create a first-of-its kind home-based program to help seniors age in place

*For planning purposes only*

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- Pay the debt service on a bond to acquire the Village at the Harbor.

Implementation would be in two phases: purchase of the Village at the Harbor, use of unused Village at the Harbor capacity for Medicaid beds (4-5), investment in employees through wages and benefits, and a modest subsidy increase to support some other healthcare services. The second phase of the project would include expansion of the facility to provide more Medicaid beds. An optional third phase, with a wish list of items like memory care and adult day care, would only be possible with private donations.

The annual cost increase to taxpayers for this lid lift, if passed, will be as follows:

Property Value	Total Annual Increase
\$300,000	\$108
\$500,000	\$180
\$800,000	\$288

**THE APPROACH TAKEN TO THE BUDGET**

This document is intended to guide people through the proposed six-year budget released in tandem with this summary. It is not intended to stand alone. This section lays out some assumptions that underpin the budget.

This six-year budget is intended to show the process of how the project will take shape. For instance, it presumes construction begins in 2023, though it could easily begin in 2022, but if it was included in 2022 it would make it harder to see the other things that are happening in 2022. In the same way, the entire expansion cost is included under one BARS code, though in actuality it is likely to be in multiple BARS codes (the BARS code system is a State of Washington system for tracking line items on budgets in government finance). This is to allow a clear picture of operating costs, and how those change.

Government accounting does not work like corporate accounting. The budget is designed for Expenditures to equal Revenues, where Expenditures include ending cash, and Revenues include beginning cash. Therefore, operating expenses are shown separately, and revenue vs expenditures shown at the end of the expenditures spreadsheet.

The hospital district has a parallel initiative to combine EMS with the Fire District on the ballot for the November 2021 election. Currently it is administered by the hospital district. We did not want to assume either way, so this budget presumes EMS is still a part of the hospital district. If EMS is not a part of the District, some impacts will be: (a) EMS cash would stay with the hospital district and would be at least \$600,000 (b) the Superintendent’s wages would no longer be split with EMS (c) there would be either annual revenue representing payments from San Juan Island Fire and Rescue for purchased assets or a lump sum representing additional cash, and (d) the EMS building would be vacant in 2023, and owned

\$ 15,914	by the District – maintenance would need to be paid by the hospital district, but it could be repurposed or sold, and (e) we would not need the Spring Street Square offices (a lease, about \$20,000 / year).
\$ 50,000	
\$ 21,218	
\$ 30,000	

The numbered BARS codes are not final, and new codes are listed in red.

Extensive notes in the budget document itself (a small red triangle in the top right of a cell) give substantial information and represent many pages of explanations. The document must be

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opened in excel to view these notes. All that is necessary is to hover over the note, or right click and then “view note.”

### **BACKGROUND: THE VILLAGE**

The Village at the Harbor is an assisted living facility in Friday Harbor. It has 36 rooms: 5 A-units (small), 18 B-Units (mid-size), and 13 C-Units (1 bedroom deluxe). Occupancy varies, but it typically has 3-5 open rooms. Room charges include room and board, and care is paid for separately, based on a 5-tier system.

The facility has about twenty full-time staff, and 10 part-time staff. Care staff for residents includes 5-6 resident assistants, 4 med techs, and 1 part-time nurse RN. The kitchen has a chef, and 3 kitchen workers. There is a custodial staff of 1, and part-time maintenance staff. Typically, there is a part-time activities director, a part-time care coordinator, and part-time office staff. However, the administrative structure varies based on staffing. No employees receive benefits.

The Village at the Harbor does not own the land, but does have a long-term land lease constituting of a 50-year lease, renewable for an additional 50 years. It has the right of first refusal, meaning that if at the end of that time the property is sold, the Village has the right to buy it first. The District will inherit these rights as part of the sales agreement, and the sales agreement is contingent on that.

The Village at the Harbor is not a Skilled Nursing Facility (SNF). It also has significantly lower overhead than a SNF, as it does not have to have many of the more technical and expensive staffing requirements of a SNF. Therefore, it does not have the operating loss of the old Life Care building in Friday Harbor. However, it can take Medicaid residents, but to do so would generate significant losses without creating a separate part of the facility dedicated to Medicaid residents (see below).

The Village at the Harbor does run at a small profit, especially pre-depreciation, and is a self-sustaining business. In 2020, it generated revenues of \$1.77 million, and expenses of \$1.65 million (before depreciation costs and stimulus income). In 2019 it broke even at \$1.58 million before depreciation costs. In 2018 it generated \$1.76 million in revenue, and \$1.56 million in expenses before depreciation costs. It will be key to ensure that we do not undermine the private pay model at the Village, but build on it.

What follows is a description of how the hospital district’s acquisition will impact this business and fit into the District’s goals of supporting long-term care needs in our community.

### **2022: YEAR ONE**

In 2022, the District begins to collect an additional approximately \$1.6 million with the \$0.70 in assessed value lid lift. The year 2022 is intended as a ‘baseline’ year, representing as much as possible the combination of the District and the Village at the Harbor before expansion, although technically the acquisition does not take place until the end of February 2022.

In 2022, the District will begin collecting patient fees (for care), and boarding fees. Boarder Fees (A-Unit) will no longer generate revenue, as these five rooms (to the extent they are available) will ideally be assigned to Medicaid residents. Once the Medicaid expansion is complete, these will return to private pay. The Village at the Harbor typically has 4 – 6 rooms available, and the intention is to use this capacity for Medicaid residents.

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The District will need a \$5 million bond, for 20 years, which is estimated to cost the District \$325,000 per year. This is about 1/5 of the revenue raised by the lid lift.

An initial hire of three home care workers will begin the District's home care effort in 2022. Though several programs are good options, the simplest is the COPES program, which pays \$35 an hour from the state, though it will not be suitable for all clients.

In 2022, we will also give benefits to full-time employees and their families and increase wages by about 10%.

A simple administrative structure, with two mid-level managers (directors) and two office staff under a Superintendent, will support the expansion of the system across its multiple business lines: its existing hospital district obligations (PIMC subsidy, governing Board, public relations, finances, etc.), management of the Village at the Harbor, public records, bookkeeping, expansion of the Village, building of a home care agency, and more. If EMS remains under the hospital district, a third director, Assistant Chief, or full Chief will be needed, but will be paid for out of the EMS budget.

There will be significant professional services expenses in preparation for expansion, as well as legal and accounting. However, the bulk of the expansion costs that are funded via a bond are covered under a single BARS code for clarity and simplicity in evaluating the plan, and is covered in 2023.

Lastly, the District will increase its subsidy to Mount Baker Planned Parenthood by \$45,000, and provide support to healthcare needs for the LGBTQ community by \$10,000. This represents about 5% of the lid lift amount but will have a meaningful impact.

Several improvements will be made to the Village right away: replacement for aging furniture (\$70,000 or so) and new laundry machines (\$10,000). Addressing this deferred maintenance will immediately benefit residents.

Each year, money is being set aside for capital improvement in the budget. However, this is not a capital-intensive business outside of the building (e.g. no fire engines, ambulances, expensive medical equipment). \$40,000 a year should be sufficient, but a comprehensive capital improvement plan will need developed.

IT infrastructure will be improved, by bringing the hospital district's IT contractor, NW Technologies, to update and improve system architecture and services.

### **2023: YEAR TWO**

This year, Village at the Harbor expansion begins, and will last three years (an estimate). The simplest approach is simply to build up, though all options will be considered. The cost for construction in the industry is usually considered between \$100,000 and \$150,000 per room. We estimate \$2.5 million, for 10-15 rooms. Each room can hold two Medicaid residents.

Medicaid residents, by law, must be provided a certain amount of square footage per patient. The Village currently doesn't have any rooms that can be split and still allow sufficient room except its deluxe apartments, but their design does not lend themselves to splitting the space. However, by splitting rooms, Medicaid residents do not represent as much of a financial challenge. Also, we believe

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we can get improved rates based on past experience and the current long-term care environment statewide.

This second bond to fund expansion can be financed with an approximately \$165,000 annual expenditure, bringing total debt service up to about \$500,000 per year, or about 1/3 of the total revenue raised by the lid lift. These bonds are for 20 years.

We will also add another two home care workers in 2023, bringing the number up to five employees. Each employee is essentially interchangeable with the resident assistants, and they will be rotated as appropriate.

The District also plans to hire an Nurse LPN at full-time, to supervise care staff and manage scheduling.

A separate nurse, an RN, will work at halftime as the Resident Care Coordinator. This historically has been filled by a lower-certification worker. This RN will be used at half-time and will be responsible for residents' health. Their job will be annual and pre-admission assessments, nurse delegation, and to serve as a training officer for the District's training programs. The certification of RN will allow them to also teach outside the facility and offer a wider range of courses. Ideally, the EMS training room could be used for training, a possibility regardless of integration.

Two more deferred maintenance issues will be addressed in 2023: new carpets (\$80,000) and the nurse-call system (\$40,000). This should fully address all deferred maintenance issues.

Salaries increase by 2.5% in 2023 per the budget. Other expenditures increase by varying amounts, from 2.5% (most wages), to 3% most other items, to 4% and 5% (insurance and building costs). Detailed formulas and notes highlight these expenditures in the budget.

### **2024: YEAR THREE**

This is the second year of expansion. Hopefully it will finish next year.

As in 2023, Salaries increase by 2.5% in 2023 per the budget. Other expenditures increase by varying amounts, from 2.5% (most wages), to 3% most other items, to 4% and 5% (insurance and building costs). Detailed formulas and notes highlight these expenditures in the budget.

In 2024 there will be the first of its rate increases for the Village at the Harbor. Typically this is 4% every two years, and around 10-15% on average increases for care. Under the hospital district, we project these same increases every three years, rather than every two. The next rate increase will be 2027.

The significant investment in the Village's capital needs (carpet, furniture, laundry services, nurse-call system) are just some of the ways that current residents will benefit, as well as the expansion of care staff (LPN, RN, etc.). However, private pay residents will need to continue to pay, or the business doesn't work.

### **2025: YEAR FOUR**

This is the last year of the expansion, and it should be complete by the end of the year!

This year the District adds two more home care workers, bringing the total up to seven employees. This is as far as we plan to expand in the first six years. By this time, we should have a thriving program with experienced staff.

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Increases in expenses mirror the percentages of 2024. Transfers to reserve funds continue. Otherwise, this isn't a year with a lot of change.

### **2026: YEAR FIVE**

This year the expansion is open! This will mean 10 – 15 rooms, with 20 - 30 Medicaid residents. All resident costs will increase accordingly (e.g. cable, phones, electricity). Revenue will also be generated.

Several other changes will occur at this time, increasing the number of full-time staff by 8 FTEs, and bringing the number of employees to 39:

- The nursing budget will be able to support a full-time RN and a full-time LPN
- The activities coordinator will go full-time
- Two new fulltime med techs
- Two new fulltime resident assistants
- Two new kitchen staff

It is entirely possible that at this point the District may benefit from economies of scale, and we may find that we need fewer additional staff than expected. This is part of how long-term care facilities generally make money, by stretching staff across more residents, reducing costs relative to income. The Village at the Harbor has always been too small to take advantage of staff downtime by giving them more residents.

However, it's also possible that this population will be higher need and have less support than other residents. Therefore, we have budgeted conservatively that we will need substantially more help as outlined in the budget and above.

### **2027: YEAR SIX**

Year six has the second cost increase, using the same percentages as three years earlier. It is otherwise not a year of change. Instead, it is included to see how the budget looks at the end of the project, without many new changes.

Throughout this time, we have not included any increases to Medicaid reimbursement (including COPES), or potential negotiation of more favorable rates. We wanted to create the most challenging but reasonable budget that we could.

### **LOOKING FORWARD**

The District is running a consistent surplus through all of this, which is essentially our contingency fund, resting on the assumption that all of this will cost more than we expect, even when budgeting very conservatively. However, there are many new projects we can undertake if a surplus of materializes on the projected scale of this budget (or just pay off the land or a bond).

However, long-term care has atrophied over a number of years, and it will take a number of years to rebuild. This six-year plan is a critical step towards that goal. Looking forward to when bond and lease expenses can be retired, perhaps dementia care, or adult daycare, or other services will be possible. We must take a methodical and sustainable approach, not taking on too much at a time, to ensure we learn the business and make good decisions with the resources we have.