COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Health System

Date: June 13, 2012
Board Meeting Date: June 19, 2012
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Jean S. Fraser, Chief, Health System
Susan Ehrlich, M.D., Chief Executive Officer, San Mateo Medical Center

Subject: Burlingame Long Term Care Facility

RECOMMENDATION:

A) Adopt a Resolution authorizing the:

1. President to execute an Operations Management Agreement with Brius, LLC and its affiliated designee for operation of the Burlingame Long Term Care skilled nursing facility for the term of July 15, 2012 through September 30, 2015; and
2. Chief of the Health System or designee to execute amendments to the Operations Management Agreement which modify the County's maximum fiscal obligation by no more than $25,000 (in aggregate), and/or modify the contract term and/or services so long as the modified term or services is/are within the current or revised fiscal provisions; and
3. Chief of the Health System or designee to execute a lease with Eretz Trousdale Properties, LLC for the term of July 15, 2012 through September 30, 2015, for the Burlingame Long Term Care skilled nursing facility with a maximum fiscal obligation of $1,904,420, with a rebate of $750,000 with 3% simple interest after 24 months; and
4. Chief of the Health System or designee to execute amendments to the lease which modify the County's maximum fiscal obligation by no more than $25,000 (in aggregate), and/or modify the lease term and/or services so long as the modified term or services is/are within the current or revised fiscal provisions; and

B) Introduction of an ordinance amending the Master Salary Ordinance and waiver of reading the ordinance in its entirety

BACKGROUND:
In 2003 your Board entered into an agreement with California Trousdale, LLC and 1100 Trousdale, LLC (principally owned by Mr. Vincent Muzzi) to lease the Burlingame Long Term Care (BLTC) facility for a term of five years. The lease contained two options to extend the term, each for five years. In 2008, the County exercised the first option for an additional five year term. In February of this year, your Board accepted the recommendation of the Health System not to renew the lease. The lease for BLTC will expire on June 30, 2013.

Since that decision, the Health System has been working to find placements for the 230 residents and 200 staff members affected by the decision. As of the date of writing this memo, 163 residents remain at BLTC. Unfortunately, it was impossible to find positions for the vast majority of staff members at Burlingame, and thus we have begun to prepare for layoffs.

DISCUSSION:
Once the decision was made not to renew the BLTC lease, nursing home operators interested in operating the facility contacted Mr. Muzzi. Once it became clear that Mr. Muzzi was interested in continuing BLTC as an ongoing nursing facility, the Health System began negotiations with those parties that were acceptable to the owner.

The Health System did not issue a Request for Proposals. Because the building is owned by Mr. Muzzi, we did not have the power to authorize anyone else to occupy the building. Accordingly, we had to limit discussions to those operators that were acceptable to Mr. Muzzi.

All operators who contacted the Health System made it clear that it was not financially feasible for them to take over BLTC at the rates paid for freestanding nursing facilities with the existing patients. The cost of renovating the facility and operating with exclusively Medi-Cal patients was too high given the rates paid by Medi-Cal to freestanding nursing facilities.

Brius, LLC, a company that operates many nursing homes, suggested that they could manage BLTC for us for a period while it prepared to transition to operating as a freestanding nursing facility. Brius and AFSCME, the union representing the vast majority of the BLTC staff members, entered into negotiations. AFSCME has ratified an agreement with Brius contingent on Brius entering into an agreement with the County.

Accordingly, the Health System is proposing to allow Brius to manage BLTC on behalf of the San Mateo Medical Center (SMMC) for three and a quarter years. During this period, Brius will manage BLTC under our supervision and on our license.

Brius' compensation for managing BLTC will be whatever profit (or loss) it can make on BLTC operations. Should the State rescind the October 2011 rate cut for distinct part-nursing facilities, Brius and the Health System would share in the increase equally. Should the State or federal government reduce the reimbursement rate, Brius takes on the full financial risk of any such reduction.

However, to assist with the renovation costs, the Health System will pay to Brius the rent it would have paid for BLTC to Mr. Muzzi under the existing lease – a total of $1.9 million. However, Brius will rebate to us $750,000 after 24 months with 3% simple interest.

In addition, we will allow Brius to collect all of the monies owed for Burlingame operations prior to the transfer date. We estimate the value of these accounts receivable to be approximately $2,745,000. However, Brius must return the total amount collected plus 3% simple interest at the end of 24 months.

Finally, we will provide the food service to BLTC residents for 30 days after the management transfer date at our cost, which we estimate to be $75,000. We also will leave the equipment, furnishings, and supplies currently at BLTC in place at no charge to Brius. We estimate their value to be in the range of $50,000.

This agreement is contingent on Mr. Muzzi completing the sale of BLTC to Brius. Brius has an affiliated company, Eretz Trousdale Properties, LLC, (Eretz) that will acquire the property. Once that sale is complete, we will enter into an agreement to rent BLTC from Eretz for the term of the management agreement with Brius. Accordingly, the resolution authorizes the Chief of the Health System to enter into the lease with Eretz once the sale of BLTC is complete.

To upgrade the building, Brius will invest a minimum of $3.5 million in renovations. Brius will apply for a permit for the renovations by December 31, 2012.

To address our safety concerns in the meantime, Brius will house on the first floor BLTC residents who cannot walk to improve the ability to evacuate residents in case of a fire or major earthquake. Brius has accepted responsibility for ensuring the safety of the residents.

The transition date for turning over management of BLTC to Brius is targeted for July 15, 2012, transitioning to operating on its own nursing home license as a freestanding facility independent of the Health System on October 1, 2015. While Brius operates on our license, it will accept all patients from SMMC who need skilled nursing care.

Because the beds will remain open at BLTC and accepting of patients being discharged from SMMC, we no longer have a need to open any additional nursing beds at SMMC. SMMC will continue to operate its existing skilled nursing unit (Unit 1A) of 32 beds, focusing on patients who need short term, intensive support and therapy to enable them to return home. However, as a result of this agreement, SMMC will not open the additional nursing unit (Unit 1B) as originally planned, nor will we renovate the ground floor to accommodate nursing patients. Accordingly, 27 BLTC positions that we had expected to transfer to SMMC for the reopening of Unit 1B will be deleted. An amendment to the Master Salary Ordinance deleting those positions is included in this package.

If your Board approves this agreement, all BLTC employees will be laid off from County employment or transferred to other County positions as of the transition date, which is targeted for July 15, 2012. Brius will offer employment to a minimum of two-thirds of the employees on the BLTC payroll as of July 14, 2012. If this agreement is approved, we will facilitate meetings between Brius and existing staff members. Whether any individual employee chooses to accept Brius' offer is up to that individual employee.

There are risks to entering into this agreement, the primary one being the risk that Brius will not manage BLTC to the required quality standards, putting our nursing and hospital licenses at risk. To understand the magnitude of this risk, we investigated the quality of care provided by Brius at its other facilities. We checked on the status of each of the facilities Brius indicated it owned or managed.

All of the 45 facilities operated by Brius are in good standing with the state and federal governments. In fact, Brius is so highly regarded by the State that Brius is on the list of firms called in to take over problem nursing homes and to turn them around. The average rating by federal regulators for Brius facilities (out of a possible score of 5, which is awarded to only the top 20% of nursing facilities) was 2.4 overall, 2.9 for nursing staffing, and 2.8 for quality of care. By comparison, BLTC's star rating is 1 star overall, 2 for nursing staffing, and 3 stars for quality of care.

We visited two facilities operated by Brius in the Bay Area; we were pleased with the cleanliness and attractiveness of the facilities, as well as by the competence displayed by the administrators of those facilities. Staff members who were present when Brius took over the facilities reported the transition was very smooth. The Ombudsman has checked with her counterparts in other counties who have reported no issues with Brius facilities.

We also met with the Brius management team who impressed us with the depth of their experience in nursing home operations and finances. Finally, to ensure we have oversight and control of the quality of care provided by Brius at BLTC, under the agreement Brius's leadership is overseen by the SMMC leadership team and will report regularly to the SMMC Hospital Board.

In the Health System's judgment, the benefits of this agreement outweigh the risks. If your Board approves this agreement, BLTC will be managed by a nursing home operator with deep experience in nursing care. The building will get a renovation that it sorely needs. More than 230 nursing home beds will remain available in the County, and approximately 150 employees who were going to lose their jobs will be offered continued employment at BLTC. The remaining 163 residents can stay at BLTC.

<u>FISCAL IMPACT</u>:
The term of the agreement is just over three and a quarter years, July 15, 2012 through September 30, 2015. The Health System's maximum fiscal obligation to Eretz Trousdale Properties is $1,904,420, with a $750,000 rebate with 3% simple interest after 24 months.

The Health System will allow Brius to collect the accounts receivable for BLTC as of the transfer date (estimated at $2,745,000), with Brius obligated to return that amount to us in 24 months with 3% simple interest. SMMC will provide the food services to BLTC for 30 days after the transfer date with no compensation, at an estimated cost of $75,000.

Finally, we also will leave the equipment, furnishings, and supplies currently at BLTC in place at no charge to Brius. We estimate their value to be in the range of $50,000.

In addition, the Health System will have significant expenses for severance and other costs of eliminating the BLTC positions, including the cost of severance for the additional 27 positions. We estimate the total costs of the severance to be in the range of $6 - $7 million, dependent on how many BLTC staff members choose to exercise their bumping rights to other County positions. Funds to cover these expenses are included in the SMMC FY 2012-13 Recommended Budget.

In addition, SMMC will have to forego approximately $6,750,000 in revenue it would have received during FY 2013-14, FY 2014-15, and FY 2015-16. This is revenue we would have received from the federal funds available to disproportionate share hospitals once the BLTC nursing beds were removed from our hospital license. These losses would be offset by any funds obtained through the revenue-sharing provision in the agreement if the State rescinds, in total or in part, the distinct part-nursing facility rate reduction.

Finally, there will be costs to overseeing Brius and managing the more complicated billing and financial statements, which we will not be able to quantify until we have some experience but which we believe will be under $250,000 per year.

Overall, this agreement will result in a lower cost than the cost of closing BLTC. Though we cannot at this point quantify them exactly, we estimate the savings to be in the range of $1-$3 million.