

Bartlett Regional Hospital

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Memorandum

DATE: May 4, 2023
TO: Assembly Finance Committee
FROM: Sam Muse, BRH CFO
RE: Wildflower Court Acquisition

SUMMARY:

Bartlett Regional Hospital (BRH) and Wildflower Court (WFC) have entered into an agreement to transition the ownership of Wildflower Court's skilled nursing facility to Bartlett. The BRH acquisition of WFC is strategic and will expand the scope, quality, and continuity of healthcare services for our residents and patients in a sustainable manner. Additionally, the WFC facility includes over 43k sq. ft. of medical and administrative space, much of which could be optimized through organizational and administrative efficiency gains available to BRH post-merger.

BACKGROUND:

Initial Discussions

The WFC Board of Directors determined that future sustainability of the nursing home required transitioning operations to a more robust healthcare provider. Under this premise, WFC submitted a Request for Information to both BRH and Southeast Alaska Health Consortium (SEARHC) on November 10th. BRH prepared the RFI response and transmitted it to the WFC Interim Administrator on December 2nd. BRH was informed on December 6th that the WFC Board voted unanimously to move forward with having BRH assume operations. WFC and BRH issued a joint news release announcing the merger on December 8th.

Financial State

Due to the Pandemic and ensuing labor shortages, WFC has been operating at an average occupancy of 47 residents out of the total 61 beds available. For the recent fiscal year ending 12/31/2022, WFC's revenues dipped to \$9M, or a loss of \$2M from previous pre-COVID averages. This significant drop in revenues, combined with a nearly 15% increase in operating expenditure, has WFC operating in a position where they expect to lose roughly \$1.7M on an annual basis.

Again, staffing shortages have been at the heart of both the revenue declines as well as the increased costs. An inability to find, recruit, and retain staff has led to the closure of a wing of the facility. Currently, WFC utilizes 10 travelers (RNs/CNAs) to provide care to the residents that they have. These travelers come at a great cost to the facility, much greater than employed individuals.



That said, there is a significant demand in the community for these skilled nursing services, and with the trend of an aging population, this demand is expected to grow. According to the Department of Labor and Workforce Development, Juneau's population age 75+ is expected to grow by 37% by 2025 and another 36% by 2030. Bartlett is certain that, under our stewardship, Wildflower Court can be filled again. By addressing staffing needs and making other administrative adjustments, Bartlett expects to be able to open and fill at least 8 of the 14 vacant beds, which is the anticipated break-even point for the facility.

To aid in reopening after the transition, WFC will gain access to Bartlett's ability to both recruit new staff and utilize existing staff to form efficiencies. Moving forward, Wildflower Court will be able to utilize Bartlett's administrative, dietary, materials management, 24/7 clinical, and security personnel, amongst others. Bartlett is active in "growing our own" staff, including RNs and CNAs, which will be vital to reopening Wildflower Court to more residents. Bartlett's pay structure and benefits are also more competitive in the market and will aid in outside recruitment.

In conjunction with increasing the number of residents, there is also an opportunity in amount that WFC is reimbursed per resident. Currently, the WFC Medicaid reimbursement rates are some of the lowest in Alaska for freestanding nursing facilities, at 68% of the State average. Through recent conversations with the State of Alaska, Bartlett believes there is a path toward reviewing and increasing those rates. Achieving the State average for nursing home rates alone will significantly boost WFC's revenues. WFC is scheduled to "rebase," or adjust rates, beginning 1/1/2024.

Path Forward

On March 31, 2023, BRH entered into a transition agreement with WFC. As part of this agreement, Bartlett gained administrative duties at Wildflower Court, taking over the daily operation and management of the facility. This transition agreement has afforded CBJ and BRH additional time to perform legal and financial due diligence and has allowed BRH to gain a more comprehensive understanding of the WFC organizational, operational, and administrative processes, challenges, and opportunities.

While overseeing operations, BRH and WFC have also worked toward identifying the most appropriate legal processes to finalize the acquisition and transition of the operations. Because of Alaska laws governing mergers, acquisitions, and consolidation, the process of changing ownership will require that WFC dispose of its assets and then dissolve. Upon disposal, the assets used to operate the facility, including the physical plant, equipment, furniture, fixtures, inventory and supplies, medical records, supply and vendor contracts, cash and A/R, resident cash accounts (held in trust), etc., would transfer to BRH.

Meanwhile, the Assembly would appropriate funds that would be used to extinguish any non-transferable liability of WFC, such as bonds, paid time off, and the retirement plan. As of 5/3/2023 the estimated amount of the non-transferrable liabilities is \$1.62M:

- Projected PTO Liability - \$450,000
- Projected 401(k) Liability - \$170,000
- Projected Revenue Bonds Balance -\$1,000,000 (The CBJ CFO is currently working with the bond issuer to determine a final payoff amount as of July 1st, 2023.)

Finally, the Assembly would appropriate expenditure authority to operate the facility for 12 months. Bartlett anticipates that most operating expenditures of the facility will be covered by the revenues generated from operations. However, there is an expectation that a ramp up in staffing and achieving efficiencies will require several months. Bartlett expects to utilize \$900,000 of its own fund balance to help fund operations in that first year.

- 12-Months Operating Expenditures - \$10,500,000
- 12-Months Operating Revenues - \$9,600,000

In total, to fund the initial operating deficit and to extinguish the liabilities, BRH would use **\$2.52M in fund balance** to complete the transfer of ownership.

RECOMMENDATION:

Bartlett recommends that the Assembly move forward with an amendment to Bartlett's FY2024 budget to enable the Hospital to complete the acquisition of the Wildflower Court's skilled nursing facility.