



Institutional  
Property  
Advisors

A Division of Marcus & Millichap



**Operations and Options Analysis**

## **Morris View Healthcare Center**

540 West Hanover Avenue  
Morris Township, NJ 07960

## Table of Contents

**INTRODUCTION & MARKET ANALYSIS**

**FUTURE REIMBURSEMENT OVERVIEW**

**OWNERSHIP ALTERNATIVES**

**FINANCIAL OVERVIEW**

**CASE STUDIES**

**CONCLUSION**



### Exclusive Advisor:



A Division of Marcus & Millichap

#### Joshua T. Jandris

Senior Associate  
CHICAGO O'HARE  
Direct: (773) 867-1482  
Mobile: (312) 399-9797  
jjandris@ipausa.com  
License: IL 475.147847

#### Mark L. Myers

Executive Director  
CHICAGO O'HARE  
Direct: (773) 867-1470  
Mobile: (773) 383-6821  
mmyers@ipausa.com  
License: IL 471.015228

#### Charles O. Hilding

Associate Director  
CHICAGO O'HARE  
Direct: (773) 867-1471  
Mobile: (630) 337-1987  
childing@ipausa.com  
License: IL 475.125333

## INTRODUCTION & MARKET ANALYSIS



**IPA** Institutional  
Property  
Advisors

A Division of Marcus & Millichap

**Introduction**

The Institutional Property Advisors of Marcus & Millichap (“IPA”) are pleased to present this Operations & Options Analysis for Morris View Healthcare Center, a Skilled Nursing facility owned and operated by the County of Morris in Morris Township, New Jersey.

**Property Highlights**

- 283-bed Skilled Nursing facility located in Morris Township, NJ
- Phase I of the facility was completed in 1973, with Phase II being completed in 1993
- Morris County is located 35 miles west of New York City, and is the sixth-wealthiest county in the country

**Operations & Options Analysis**

The Institutional Property Advisors have examined the future reimbursement outlook in the state of New Jersey and analyzed what we believe are the three options the County may consider pursuing, advantages and disadvantages to each scenario, as well as a detailed five-year financial projection for each scenario. The three scenarios (provided in more detail below) are:

1. Continuation of Operations: ‘As Is’/Status Quo (County retains ownership of building and beds/license)
2. Reconfiguration of Facility’s Current Operations (County retains ownership of building and beds/license)
3. Lease of Facility: County retains ownership of the building but sells the beds/license
4. Sale of Facility: County sells real estate and beds/license

The first analysis, ‘**Status Quo**,’ captures the October 2015 YTD performance of the facility, as well as a five-year financial projection for the future performance of the facility. Due to New Jersey’s anticipated Medicaid rate cut, IPA projects a precipitous decline in the facility’s performance in the coming years.

The second analysis, ‘**Reconfiguration of Operations**,’ captures October 2015 YTD performance and projects a five-year financial performance assuming a potential outsourcing of certain expense categories. IPA recognizes the efforts made by the

**PROPERTY SUMMARY**

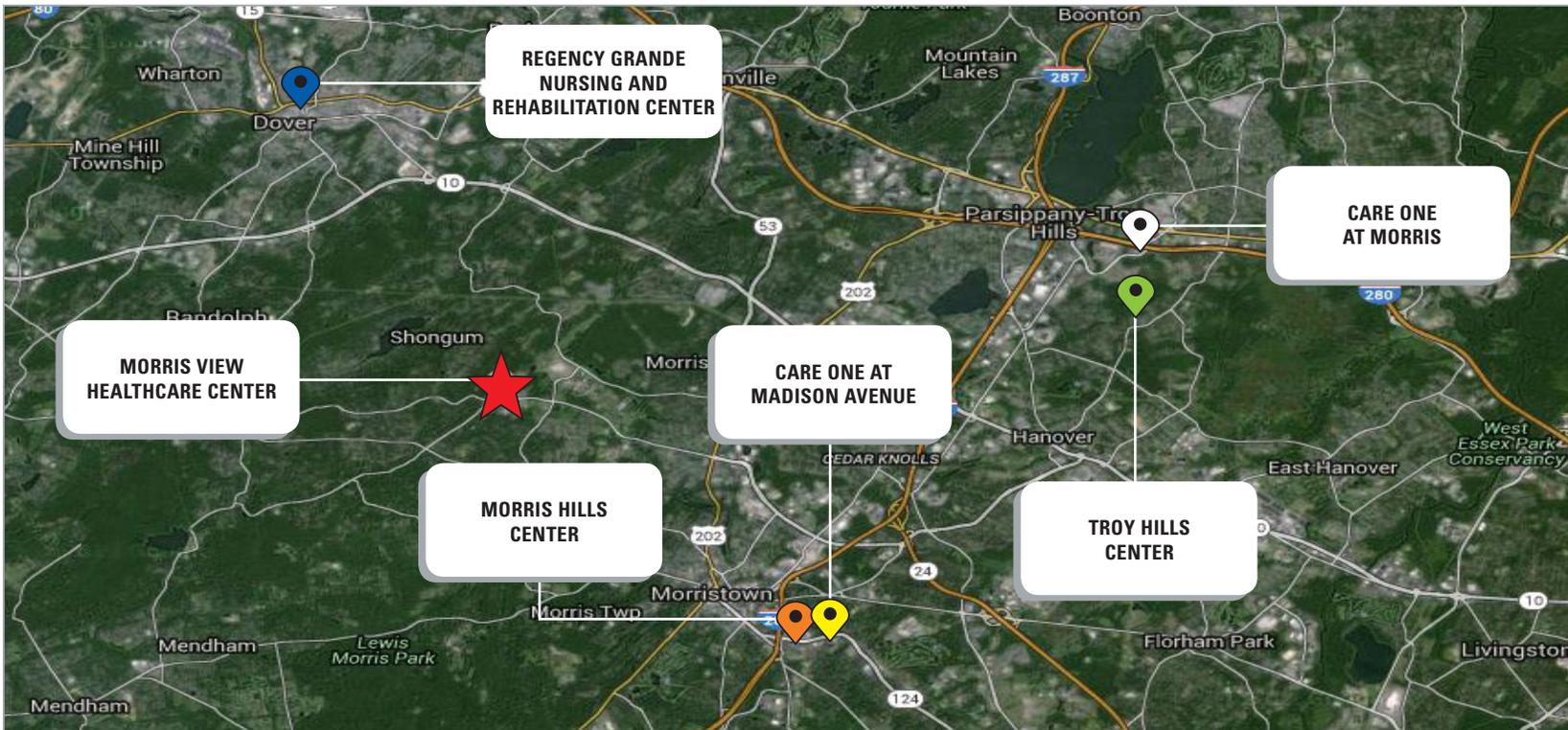
Year Built	Phase I: 1973 / Phase II: 1993
Type of Care	Skilled Nursing
Number of Beds	283
Number of Buildings	One
Number of Stories	Four
Parking	Approximately 285 Spaces
Building Sq. Ft.	273,872 Sq. Ft.
HVAC	Heating-Central, Air Conditioning
Fire Protection	Fire Alarm-Automatic Sprinkler System
Elevator	Yes
Other	State-of-art Generator Capable of Powering Campus

county in recent years, including hiring consultants and outsourcing expenses such as dietary, building services, and laundry & housekeeping. Because of this, it is hard to envision any scenario in which the county is able to reduce expenses further to the point of becoming a cash-flowing, or even net-neutral, facility.

The third and final analysis, ‘**Lease/Sale**,’ assumes the privatization of the facility’s operations. In the lease scenario, the County would still own the real estate, while an outright sale would result in the County no longer owning the real estate. The five-year financial projection in this scenario was built using past revenue performance, coupled with anticipated rate cuts, while increasing quality mix towards market levels gradually over the five year period. An analysis was also completed on the FY 2013 performance of the six closest Skilled Nursing facilities, with Morris View’s expense projections being reduced towards the levels achieved at the facilities in the market.

A final cost/benefit analysis, followed by IPA’s professional recommendation, are provided in conclusion of the analysis. The cost/benefit analysis examines the delta between the five-year performance of the four provided scenarios, showing the true financial implications of each situation.

## Rent Comparables



	NAME	ADDRESS	YEAR BUILT	DISTANCE (MI)	TOTAL BEDS	OCCUPANCY	PRIVATE RATE	MEDICAID RATE
★	Morris View Healthcare Center	540 West Hanover Avenue Morris Plains, NJ 07960	1973	0.0	283	89%	\$340	\$232
📍	Morris Hills Center	77 Madison Avenue Morristown, NJ 07960	1969	5.5	287	78%	\$325	\$205
📍	Care One at Madison Avenue	151 Madison Avenue Morristown, NJ 07960	1982	5.9	178	75%	\$450	\$216
📍	Regency Grande Nursing and Rehabilitation Center	65 North Sussex Street Dover, NJ 07801	1970	7.0	155	95%	\$396	\$198
📍	Troy Hills Center	200 Reynolds Avenue Parsippany, NJ 07054	1979	8.8	130	92%	\$323	\$216
📍	Care One at Morris	100 Mazdabrook Road Parsippany, NJ 07054	2001	9.2	118	92%	\$360	\$209

### Demographic Analysis – Total Population

POPULATION BY AGE (2014) - 1, 3, 5 MILE RADIUS			
	1 MILE	3 MILE	5 MILE
<b>TOTAL POPULATION</b>	5,564	45,607	145,478
AGE 0 - 4	5.4%	5.7%	5.6%
AGE 5 - 14	15.5%	14.1%	12.8%
AGE 15 - 19	6.9%	6.4%	6.1%
AGE 20 - 24	3.2%	4.7%	5.1%
AGE 25 - 34	6.2%	11.5%	13.2%
AGE 35 - 44	13.7%	14.7%	14.6%
AGE 45 - 54	18.1%	16.6%	16.3%
AGE 55 - 64	13.3%	13.1%	12.9%
AGE 65 - 74	8.2%	7.7%	7.5%
AGE 75 - 84	5.7%	3.7%	4.0%
AGE 85 +	3.9%	1.7%	2.0%
<b>MEDIAN AGE</b>	44.5	40.7	40.4

HOUSEHOLD INCOME COMPARISON (2014) - 1, 3, 5 MILE RADIUS			
	1 MILE	3 MILE	5 MILE
<b>AVERAGE HOUSEHOLD INCOME</b>	\$186,729	\$160,041	\$137,867
<b>MEDIAN HOUSEHOLD INCOME</b>	\$139,924	\$116,951	\$97,301
\$ 0 - \$9,999	4.7%	2.5%	2.5%
\$ 10,000 - \$19,999	5.8%	4.6%	4.9%
\$ 20,000 - \$29,999	2.1%	4.0%	5.2%
\$ 30,000 - \$39,999	1.8%	4.1%	5.6%
\$ 40,000 - \$49,999	2.4%	4.7%	6.0%
\$ 50,000 - \$59,999	2.7%	4.6%	5.6%
\$ 60,000 - \$74,999	4.0%	6.9%	9.1%
\$ 75,000 - \$99,999	10.0%	11.0%	12.3%
\$100,000 - \$124,999	9.6%	11.1%	11.9%
\$125,000 - \$149,999	11.4%	10.7%	9.1%
\$150,000 +	45.5%	35.7%	27.7%
<b>PER CAPITA INCOME</b>	\$55,665	\$56,938	\$50,572

### Demographic Analysis – Mature Market

HOUSEHOLD INCOME BY AGE 45-64 (2014) - 1, 3, 5 MILE RADIUS			
	1 MILE	3 MILE	5 MILE
<b>2014 HOUSEHOLDS AGE 45 TO 64</b>	799	7,291	23,291
<b>2014 % HOUSEHOLDS AGE 45 TO 64</b>	49.28%	45.29%	43.91%
LESS THAN \$9,999	3	116	456
\$10,000 TO \$19,999	5	143	583
\$20,000 TO \$29,999	9	160	652
\$30,000 TO \$39,999	5	197	904
\$40,000 TO \$49,999	10	264	1,214
\$50,000 TO \$74,999	36	646	2,779
\$75,000 TO \$99,999	46	515	2,299
\$100,000 TO \$149,999	208	1,689	5,658
\$150,000 TO \$199,999	164	1,197	3,412
\$200,000 OR MORE	313	2,363	5,333
<b>MEDIAN INCOME 55-64</b>	\$175,580	\$137,885	\$116,466
<b>MEDIAN INCOME 65-74</b>	\$112,858	\$96,986	\$88,700

POPULATION BY AGE 45-65+ (2014) - 1, 3, 5 MILE RADIUS			
	1 MILE	3 MILE	5 MILE
<b>TOTAL POPULATION</b>	5,564	45,607	145,478
AGE 45 - 49	9.4%	8.5%	8.3%
AGE 50 - 54	8.7%	8.2%	8.0%
AGE 55 - 59	7.3%	7.1%	7.1%
AGE 60 - 64	6.0%	6.0%	5.8%
AGE 65 - 69	4.8%	4.7%	4.6%
AGE 70 - 74	3.3%	3.0%	2.9%
AGE 75 - 79	3.0%	2.1%	2.2%
AGE 80 - 84	2.8%	1.6%	1.8%
AGE 85 PLUS	3.9%	1.7%	2.0%
AGE 55 PLUS	31.1%	26.2%	26.4%
AGE 65 PLUS	17.8%	13.1%	13.5%
<b>MEDIAN AGE</b>	44.5	40.7	40.4

FUTURE REIMBURSEMENT OUTLOOK



**IPA** Institutional  
Property  
Advisors

A Division of Marcus & Millichap

## Medicaid Managed Care

### What is Medicaid Managed Care?

Many states are changing their long term care Medicaid programs by replacing their HCBS Waivers with Medicaid Managed Care Organizations (MCO). For the elderly, this means they work with a single administering organization for all of their health and personal care needs. It also means the elimination of the enrollment caps and wait lists for those wishing to receive care and services outside of nursing homes.

#### Program Description

Medicaid Managed Long Term Services and Supports or MLTSS is an assistance program for low income, New Jersey seniors in which participants receive all their medical and non-medical care services from one state-authorized organization. This can include assistance as diverse as personal care, assisted living, home modifications and/or assistive technology.

In 2014, in an effort to improve the quality of care and to better control costs, the New Jersey Department of Health absorbed the Global Options (GO) for Long Term Supports Waiver into the new managed care program, MLTSS. All existing beneficiaries were transferred to the managed care system. In addition all new qualified applicants are enrolled in this program.

This switch has positives and negatives for New Jersey seniors. On a positive note, participants are no longer subject to enrollment caps and/or waiting lists for community and home based services as they were under the old waivers system. By reducing the number of programs and service providers, managed care simplifies services for long term care participants. However, some outside observers cite concerns about diminished consumer choice when it comes to service providers and care givers under managed care.

#### FamilyCare vs. MLTSS vs. Comprehensive Medicaid Waiver

NJ FamilyCare is the name of the state Medicaid program. MLTSS is a program specifically for seniors within NJ Medicaid. The Comprehensive Medicaid Waiver is an administrative name from the federal government under which these changes are authorized.

Two exceptions to mandatory enrollment exist for seniors in the new MLTSS program. In seven New Jersey counties, the Program of All-inclusive Care for the Elderly (PACE / LIFE)

represents an alternative for residents who are at least 55 years old, require the level of care typically provided in nursing homes, and are eligible for either Medicare or Medicaid and live within specific zip codes. The NJ counties with PACE services are Mercer, Burlington, Camden, Hudson, Cumberland, Gloucester and Salem counties.

The second exception is for nursing home residents who are already on regular Medicaid. These individuals will continue to receive their benefits outside of the managed Medicaid system.

### Effects of Managed Long Term Care

In July of 2014, the State of New Jersey introduced Managed Medicaid, at which time all skilled nursing facilities had their most recent rates frozen at their last case mix (with some small changes to the rates based on provider tax adjustment).

In July of 2016, the rate freeze will expire, leaving each skilled nursing facility with the chance to negotiate with each insurance provider. The insurance providers will also be able to choose with whom they wish to do business.

This will be known as Managed Long Term Care, or MLTC. MLTC will essentially be Medicaid that is managed by private insurance companies. Rather than 100% of the State and Federal Medicaid funds being redistributed to seniors care facilities, a percentage of the funds will be kept by the insurance companies as a cost of business. This could result in a decrease in the amount of funds received by senior care facilities.

According to an IPA client, a healthcare services group located in the state of New Jersey, the MLTC process has started with poor results. One of the insurance providers approached a large skilled nursing facility operator and offered them \$200 per day when their current average rate was \$225.

The move to Managed Care also results in the end of New Jersey's Peer Grouping supplemental revenue reimbursement. Residents who were enrolled in the nursing home prior to the abolishment of the program have been grandfathered in and will continue to draw the supplemental payments for as long as they remain in the facility.

\*Information from <https://www.payingforseniorcare.com/medicaid-waivers/nj-mltss.html>

**OWNERSHIP OPTIONS**



**IPA** Institutional  
Property  
Advisors

A Division of Marcus & Millichap

## Status Quo/Reconfiguration of Operations

- √ Re-finance – Bond Issuance
  - √ Put additional Debt on the property
  - √ Provide infusion of leveraged capital
- √ Consult Labor Attorney
- √ Review Collective Bargaining Agreement (where applicable)
  - √ Reduce Costs associated with Employee Payroll & Benefits
- √ Hire Third Party Consultant
  - Implement lean processes to result in waste reduction:
    - Implement technological improvements to drive process automation
    - Reduce Nursing Hours per Resident Day
    - Get PPD levels to market averages
    - Improve Staff to Resident ratio
    - Reduce Labor and Fringe Benefit Costs
    - Improve Payor Mix
    - Increase marketing/promotion efforts to raise census to capacity
- √ Outsource ancillary services to third party groups
  - Timeline: Present - 12 months
- √ Strategy has already been implemented by Morris County

### Advantages

- The continued ownership of the asset and provided care to the community.
- The promotion of harmony in the community through continuing the historic mission to offer long-term-care services.
- The increased morale of employees through job security.
- The mitigation of need for certification or licensing adjustments.
- The potential for long-term profit generation for the county.
- The theoretical reduction of employee related expenses through contract renegotiation.

### Disadvantages

- The county retains responsibility for all losses related to the facility.
- The impact felt by the taxpayer, driven by tax increases to further subsidize and fund operations.
- The current budget crisis could siphon state and federal budget dollars away from the facility.
- The increase in benefit levels and pension dollars for county employees directly correlates to escalating operating expenses.
- The costs associated with hiring third party consultants and implementing reforms.
- The bureaucratic impact of complex and expensive labor negotiations with the union.
- The lack of insulation from unknown financial realities related to current long-term care overhaul.
- The realization of county rating agency concern associated with the ownership of a potentially distressed entity.
- The time required to identify needed operations reconfiguration can prove costly.
- There is no guarantee that implemented process improvements will be successful.

## Lease

- County Officials establish that a Third Party Tenant is in the best interest of the County and the Nursing Home
- County retains complete ownership of the real estate
- The County would receive a monthly lease payment from the Tenant
- Profit and losses after the lease payment would be due to the Tenant
- County would sell the bed licenses, including going concern. County would act solely as landlord with little to no control over the operations
- No resident shall be displaced and an advisory oversight committee shall be established, consisting of resident family members and county government officials
- Potential lease payment of \$1.5 million per year in our financial modeling
- Timeline: 6 - 8 months

### Advantages

- The continued ownership of the asset and provided care to the community.
- The new operator may be more effective implementing improvements than a third party consultant. The third party management's income is tied directly to the county home's financial performance, increasing their incentive to lean processes throughout the facility.
- The potential for new management to retain current employees and complete existing contracts in place.
- The conversion of an annually tax-supported operation, into a profit center for the county through the reception of income taxes.
- The county begins to receive real estate tax revenues from the new owner.
- The transfer of hundreds of employees from the public sector to the private sector would reduce county payroll liability and future pension obligations.
- The presumable increase in flexibility in a private operator's ability to respond to changing service, administrative/management requirements and needs in comparison to constraints driven by Civil Service, governmental bureaucracy and union/contractual agreements.
- The potential for a private owner to provide greater resources to the facility through purchases of new equipment, facility upgrades, and additional services or levels of care.

### Disadvantages

- The county would forfeit ability to exercise future control over the home.
- The loss of a county asset and potential future profit generator.
- Uncertainty about the future of the county employees at the nursing home.
- Potential short term disruption of the continuity of care.
- There is no guarantee that new management practices will improve the financial performance of the facility.
- The current budget crisis could siphon state and federal budget dollars away from the facility.
- The risk that the Tenant is unsuccessful at improving the facility operation, thereby leaving the County in a worse financial position than it was at the beginning of the lease and reinheriting the facility.

## Facility Sale and Privatization

- County Officials would establish that a complete sale and privatization of the facility is in the best interest of the County and the Nursing Home itself
- County would decide to sell the property on its own or through the use of a licensed real estate broker
- Through the sale, Operations and associated real estate are sold in one transaction, as well as parking lots and common driveways. Real Estate Attorney consultation would be necessary.
- County would have to negotiate long term leases of Head Start, homeless shelter, adult day care, veterans clinic, etc. for nominal amounts
- No resident shall be displaced and an advisory oversight committee shall be established, consisting of resident family members and county government officials
- Timeline: 6-8 months

### Condominium and Subdivision

- Facility Real Property ("FRP") is part of a larger County-owned and operated campus environment, requiring certain easement and shared services
- Significant length of time required to obtain a condominium structure and subdivision for the FRP
- IPA recommends that the FRP be sold with a land lease in place, and with the Option Right for the Tenant for the FRP to collapse the Lease into fee simple ownership of the FRP, for \$10, at such time as the Purchaser obtains the condominium and subdivision for the FRP
- Seller and Purchaser shall each execute a Reciprocal Easement Agreement ("REA") containing provisions for certain easements and rights and obligations of the parties
- The cost and expense of the REA shall solely be borne by the Purchaser and shall not be a condition to close

### Advantages

- The county receives a one-time large sum of funds from the sale of the facility.
- The sale would allow for a pre-determined marketing time-line for completion of the process
- The county would apply net proceeds from the sale to the highest and best use (outstanding debt obligations).
- The transfer of hundreds of employees from the public sector to the private sector would reduce county payroll liability and future pension obligations.
- The conversion of an annually tax-supported operation, into a profit center for the county through the reception of income taxes.
- The county begins to receive real estate tax revenues from the new owner.
- The burden of an established operating loss falls from the taxpayer to the new buyer.
- The mitigation of bond rating risk to the county associated with the ownership of a financially distressed entity.
- The insulation from the unknown financial realities related to the current overhaul of long-term care and overall health care systems.
- The presumable increase in flexibility in a private operator's ability to respond to changing service, administrative/management requirements and needs in comparison to constraints driven by Civil Service, governmental bureaucracy and union/contractual agreements.
- The potential for a private owner to provide greater resources to the facility through purchases of new equipment, facility upgrades, and additional services or levels of care.

### Disadvantages

- The county would forfeit ability to exercise future control over the home.
- The loss of a county asset and potential future profit generator.
- Uncertainty about the future of the county employees at the nursing home.
- Potential disruption of the continuity of care.

## FINANCIAL OVERVIEW



**IPA** Institutional  
Property  
Advisors

A Division of Marcus & Millichap

MORRIS COUNTY: STATUS QUO 5 YEAR PROJECTION												
REVENUE	OCT 2015 YTD ANLZD	PPD	2016 PROJECTION	PPD	2017 PROJECTION	PPD	2018 PROJECTION	PPD	2019 PROJECTION	PPD	2020 PROJECTION	PPD
MEDICAID*	\$17,144,348	\$232	\$14,426,049	\$195	\$14,426,049	\$195	\$14,426,049	\$195	\$14,426,049	\$195	\$14,426,049	\$195
MEDICARE*	\$3,779,102	\$574	\$3,779,102	\$574	\$3,779,102	\$574	\$3,779,102	\$574	\$3,779,102	\$574	\$3,779,102	\$574
PRIVATE	\$3,493,170	\$340	\$3,563,033	\$347	\$3,634,294	\$354	\$3,706,980	\$361	\$3,781,120	\$368	\$3,856,742	\$375
EVERCARE	\$327,050	\$431	\$327,050	\$431	\$327,050	\$431	\$327,050	\$431	\$327,050	\$431	\$327,050	\$431
HOSPICE	\$834,329	\$206	\$834,329	\$206	\$834,329	\$206	\$834,329	\$206	\$834,329	\$206	\$834,329	\$206
INSURANCE	\$378,544	\$524	\$386,115	\$534	\$393,837	\$545	\$401,714	\$556	\$409,748	\$567	\$417,943	\$578
ANCILLARY	\$639,840	\$7	\$639,840	\$7	\$639,840	\$7	\$639,840	\$7	\$639,840	\$7	\$639,840	\$7
OTHER REVENUE	\$104,115	\$1	\$106,197	\$1	\$108,321	\$1	\$110,488	\$1	\$112,697	\$1	\$114,951	\$1
<b>TOTAL REVENUE</b>	<b>\$26,700,498</b>	<b>\$277</b>	<b>\$24,061,716</b>	<b>\$250</b>	<b>\$24,142,822</b>	<b>\$250</b>	<b>\$24,225,552</b>	<b>\$250</b>	<b>\$24,309,935</b>	<b>\$252</b>	<b>\$24,396,006</b>	<b>\$253</b>
<b>EXPENSE</b>												
ACTIVITIES & SOCIAL SERVICES	\$578,468	\$6	\$590,037	\$6	\$601,838	\$6	\$613,875	\$6	\$626,152	\$6	\$638,675	\$7
BENEFITS & PAYROLL TAXES	\$4,136,399	\$43	\$4,301,855	\$45	\$4,473,929	\$46	\$4,652,886	\$48	\$4,839,002	\$50	\$5,032,562	\$52
DIETARY	\$3,621,980	\$38	\$3,694,420	\$38	\$3,768,308	\$39	\$3,843,674	\$40	\$3,920,548	\$41	\$3,998,959	\$41
GENERAL & ADMINISTRATIVE	\$1,426,291	\$15	\$1,454,817	\$15	\$1,483,913	\$15	\$1,513,591	\$16	\$1,543,863	\$16	\$1,574,740	\$16
LAUNDRY & HOUSEKEEPING	\$1,412,214	\$15	\$1,440,459	\$15	\$1,469,268	\$15	\$1,498,653	\$16	\$1,528,626	\$16	\$1,559,199	\$16
NURSING	\$12,074,235	\$125	\$12,315,719	\$128	\$12,562,034	\$130	\$12,813,274	\$133	\$13,069,540	\$136	\$13,330,931	\$138
PLANT OPS & MAINTENANCE	\$2,794,549	\$29	\$2,850,440	\$30	\$2,907,449	\$30	\$2,965,598	\$31	\$3,024,910	\$31	\$3,085,408	\$32
PROPERTY TAX	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
PROVIDER TAX	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
THERAPY & ANCILLARY	\$2,244,520	\$23	\$2,289,410	\$24	\$2,335,198	\$24	\$2,381,902	\$25	\$2,429,540	\$25	\$2,478,131	\$26
UTILITIES	\$1,348,945	\$14	\$1,375,924	\$14	\$1,403,442	\$15	\$1,431,511	\$15	\$1,460,141	\$15	\$1,489,344	\$15
MANAGEMENT FEE	\$932,322	\$10	\$950,969	\$10	\$969,988	\$10	\$989,388	\$10	\$1,009,175	\$10	\$1,029,359	\$11
<b>TOTAL EXPENSE</b>	<b>\$30,569,923</b>	<b>\$317</b>	<b>\$31,264,050</b>	<b>\$324</b>	<b>\$31,975,368</b>	<b>\$332</b>	<b>\$32,704,354</b>	<b>\$339</b>	<b>\$33,451,498</b>	<b>\$347</b>	<b>\$34,217,308</b>	<b>\$355</b>
<b>EBITDAR</b>	<b>-\$3,869,425</b>	<b>-\$40</b>	<b>-\$7,202,334</b>	<b>-\$75</b>	<b>-\$7,832,545</b>	<b>-\$81</b>	<b>-\$8,478,802</b>	<b>-\$88</b>	<b>-\$9,141,563</b>	<b>-\$95</b>	<b>-\$9,821,302</b>	<b>-\$102</b>
<b>MARGIN</b>	<b>-14.49%</b>		<b>-29.93%</b>		<b>-32.44%</b>		<b>-35.00%</b>		<b>-37.60%</b>		<b>-40.26%</b>	

MORRIS COUNTY: STATUS QUO 5 YEAR CENSUS PROJECTION						
CARE TYPE	OCT 2015 YTD ANLZD	2016 PROJECTION	2017 PROJECTION	2018 PROJECTION	2019 PROJECTION	2020 PROJECTION
MEDICAID	203	203	203	203	203	203
MEDICARE	18	18	18	18	18	18
PRIVATE	28	28	28	28	28	28
EVERCARE	2	2	2	2	2	2
HOSPICE	11	11	11	11	11	11
INSURANCE	2	2	2	2	2	2
OCCUPIED BEDS	264	264	264	264	264	264
AVAILABLE BEDS	283	283	283	283	283	283
OCCUPANCY	93%	93%	93%	93%	93%	93%
QUALITY MIX	23%	23%	23%	23%	23%	23%
MEDICARE MIX	7%	7%	7%	7%	7%	7%

**Status Quo Operations Commentary (Financials are based on accrual accounting)**

**Oct 2015 YTD Anlzd:** Financials were provided by management and are presented in EBITDAR format.

**Projections**

**Revenue:** Occupancy has been kept static to trailing totals. Medicaid reimbursement rates have been lowered to \$195 in anticipation of the New Jersey rate reductions. Medicare reimbursement has been kept static to Oct 2015 YTD Anlzd rates. Private rates have been increased by 2% per year. Evercare reimbursement has been set to \$431, in accordance with Morris County's Evercare contracts. Hospice rates have been kept static to trailing totals. Ancillary has been kept static, and Other Revenue has been increased by 2% per year.

**Expense:** Benefits and payroll taxes have been increased at a rate of 4% per year. All other expenses have been increased at 2% per year.

\*Medicaid and Medicare rates are based on assumptions and are subject to change upon New

MORRIS COUNTY: RECONFIGURATED OPERATIONS 5 YEAR PROJECTION												
REVENUE	OCT 2015 YTD ANLZD	PPD	2016 PROJECTION	PPD	2017 PROJECTION	PPD	2018 PROJECTION	PPD	2019 PROJECTION	PPD	2020 PROJECTION	PPD
MEDICAID*	\$17,144,348	\$232	\$14,426,049	\$195	\$14,426,049	\$195	\$14,426,049	\$195	\$14,426,049	\$195	\$14,426,049	\$195
MEDICARE*	\$3,779,102	\$574	\$3,779,102	\$574	\$3,779,102	\$574	\$3,779,102	\$574	\$3,779,102	\$574	\$3,779,102	\$574
PRIVATE	\$3,493,170	\$340	\$3,563,033	\$347	\$3,634,294	\$354	\$3,706,980	\$361	\$3,781,120	\$368	\$3,856,742	\$375
EVERCARE	\$327,050	\$431	\$327,050	\$431	\$327,050	\$431	\$327,050	\$431	\$327,050	\$431	\$327,050	\$431
HOSPICE	\$834,329	\$206	\$834,329	\$206	\$834,329	\$206	\$834,329	\$206	\$834,329	\$206	\$834,329	\$206
INSURANCE	\$378,544	\$524	\$386,115	\$534	\$393,837	\$545	\$401,714	\$556	\$409,748	\$567	\$417,943	\$578
ANCILLARY	\$639,840	\$7	\$639,840	\$7	\$639,840	\$7	\$639,840	\$7	\$639,840	\$7	\$639,840	\$7
OTHER REVENUE	\$104,115	\$1	\$106,197	\$1	\$108,321	\$1	\$110,488	\$1	\$112,697	\$1	\$114,951	\$1
<b>TOTAL REVENUE</b>	<b>\$26,700,498</b>	<b>\$277</b>	<b>\$24,061,716</b>	<b>\$250</b>	<b>\$24,142,822</b>	<b>\$250</b>	<b>\$24,225,552</b>	<b>\$250</b>	<b>\$24,309,935</b>	<b>\$252</b>	<b>\$24,396,006</b>	<b>\$253</b>
<b>EXPENSE</b>												
ACTIVITIES & SOCIAL SERVICES	\$578,468	\$6	\$481,848	\$5	\$491,485	\$5	\$501,315	\$5	\$511,341	\$5	\$521,568	\$5
BENEFITS & PAYROLL TAXES	\$4,136,399	\$43	\$4,301,855	\$45	\$4,473,929	\$46	\$4,652,886	\$48	\$4,839,002	\$50	\$5,032,562	\$52
DIETARY	\$3,621,980	\$38	\$3,324,751	\$35	\$3,391,246	\$35	\$3,459,071	\$36	\$3,528,253	\$37	\$3,598,818	\$37
GENERAL & ADMINISTRATIVE	\$1,426,291	\$15	\$1,454,817	\$15	\$1,483,913	\$15	\$1,513,591	\$16	\$1,543,863	\$16	\$1,574,740	\$16
LAUNDRY & HOUSEKEEPING	\$1,412,214	\$15	\$1,156,435	\$12	\$1,179,564	\$12	\$1,203,155	\$12	\$1,227,218	\$13	\$1,251,763	\$13
NURSING	\$12,074,235	\$125	\$12,315,719	\$128	\$12,562,034	\$130	\$12,813,274	\$133	\$13,069,540	\$136	\$13,330,931	\$138
PLANT OPS & MAINTENANCE	\$2,794,549	\$29	\$2,409,240	\$25	\$1,927,392	\$20	\$1,965,940	\$20	\$2,005,259	\$21	\$2,045,364	\$21
PROPERTY TAX	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
PROVIDER TAX	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
THERAPY & ANCILLARY	\$2,244,520	\$23	\$2,289,410	\$24	\$2,335,198	\$24	\$2,381,902	\$25	\$2,429,540	\$25	\$2,478,131	\$26
UTILITIES	\$1,348,945	\$14	\$1,375,924	\$14	\$1,403,442	\$15	\$1,431,511	\$15	\$1,460,141	\$15	\$1,489,344	\$15
MANAGEMENT FEE	\$932,322	\$10	\$955,630	\$10	\$979,521	\$10	\$1,004,009	\$10	\$1,029,109	\$11	\$1,054,837	\$11
<b>TOTAL EXPENSE</b>	<b>\$30,569,923</b>	<b>\$317</b>	<b>\$30,065,630</b>	<b>\$312</b>	<b>\$30,227,725</b>	<b>\$314</b>	<b>\$30,926,656</b>	<b>\$321</b>	<b>\$31,643,267</b>	<b>\$328</b>	<b>\$32,378,057</b>	<b>\$336</b>
<b>EBITDAR</b>	<b>-\$3,869,425</b>	<b>-\$40</b>	<b>-\$6,003,914</b>	<b>-\$62</b>	<b>-\$6,084,903</b>	<b>-\$63</b>	<b>-\$6,701,104</b>	<b>-\$70</b>	<b>-\$7,333,331</b>	<b>-\$76</b>	<b>-\$7,982,051</b>	<b>-\$83</b>
<b>MARGIN</b>	<b>-14.49%</b>		<b>-24.95%</b>		<b>-25.20%</b>		<b>-27.66%</b>		<b>-30.17%</b>		<b>-32.72%</b>	

MORRIS COUNTY: RECONFIGURATED OPERATIONS 5 YEAR CENSUS PROJECTION						
CARE TYPE	OCT 2015 YTD ANLZD	2016 PROJECTION	2017 PROJECTION	2018 PROJECTION	2019 PROJECTION	2020 PROJECTION
MEDICAID	203	203	203	203	203	203
MEDICARE	18	18	18	18	18	18
PRIVATE	28	28	28	28	28	28
EVERCARE	2	2	2	2	2	2
HOSPICE	11	11	11	11	11	11
INSURANCE	2	2	2	2	2	2
OCCUPIED BEDS	264	264	264	264	264	264
AVAILABLE BEDS	283	283	283	283	283	283
OCCUPANCY	93%	93%	93%	93%	93%	93%
QUALITY MIX	23%	23%	23%	23%	23%	23%
MEDICARE MIX	7%	7%	7%	7%	7%	7%

**Reconfiguration of Operations Commentary (Financials are based on accrual accounting)**

**Oct 2015 YTD Anlzd:** Financials were provided by management and are presented in EBITDAR format. Financials are based on an accrual basis.

**Projections**

**Revenue:** Occupancy has been kept static to trailing totals. Medicaid reimbursement rates have been lowered to \$195 in anticipation of the New Jersey rate reductions. Medicare reimbursement has been kept static to Oct 2015 YTD Anlzd rates. Private rates have been increased by 2% per year. Evercare reimbursement has been set to \$431, in accordance with Morris County's Evercare contracts. Hospice rates have been kept static to trailing totals. Ancillary has been kept static, and Other Revenue has been increased by 2% per year.

**Expense:** Activities & Social Services and Dietary PPDs have been lowered in 2016, towards the average PPDs of 6 similarly sized nursing facilities in the area, after which they have been increased 2% per year. Benefits and payroll taxes have been increased at a rate of 4% per year. Plant Ops & Maintenance has been cut in both 2016 and 2017, towards the average PPDs in the market, after which it increases 2% per year.

\*Medicaid and Medicare rates are based on assumptions and are subject to change upon New Jersey guidelines.

INTRODUCTION & MARKET ANALYSIS

FUTURE REIMBURSEMENT OVERVIEW

OWNERSHIP ALTERNATIVES

FINANCIAL OVERVIEW

CASE STUDIES

CONCLUSION

MORRIS COUNTY: PRIVATE OPERATIONS 5 YEAR PROJECTION												
REVENUE	OCT 2015 YTD ANLZD	PPD	2017 PROJECTION	PPD	2018 PROJECTION	PPD	2019 PROJECTION	PPD	2020 PROJECTION	PPD	2021 PROJECTION	PPD
MEDICAID*	\$17,144,348	\$232	\$13,618,150	\$205	\$13,169,200	\$205	\$12,795,075	\$205	\$12,420,950	\$205	\$12,046,825	\$205
MEDICARE*	\$3,779,102	\$574	\$7,117,493	\$574	\$8,373,521	\$574	\$9,210,873	\$574	\$9,838,887	\$574	\$10,466,901	\$574
PRIVATE	\$3,493,170	\$340	\$3,797,460	\$347	\$3,873,409	\$354	\$4,082,573	\$361	\$4,432,884	\$368	\$4,658,559	\$375
EVERCARE	\$327,050	\$431	\$327,050	\$431	\$327,050	\$431	\$327,050	\$431	\$327,050	\$431	\$327,050	\$431
HOSPICE	\$834,329	\$206	\$978,709	\$206	\$978,709	\$206	\$978,709	\$206	\$978,709	\$206	\$1,053,994	\$206
INSURANCE	\$378,544	\$524	\$584,945	\$534	\$596,644	\$545	\$608,577	\$556	\$620,748	\$567	\$633,163	\$578
ANCILLARY	\$639,840	\$7	\$639,967	\$7	\$639,967	\$7	\$639,967	\$7	\$639,967	\$7	\$639,967	\$7
OTHER REVENUE	\$104,115	\$1	\$106,219	\$1	\$108,343	\$1	\$110,510	\$1	\$112,720	\$1	\$114,974	\$1
<b>TOTAL REVENUE</b>	<b>\$26,700,498</b>	<b>\$277</b>	<b>\$27,169,992</b>	<b>\$282</b>	<b>\$28,066,843</b>	<b>\$282</b>	<b>\$28,753,334</b>	<b>\$282</b>	<b>\$29,371,916</b>	<b>\$305</b>	<b>\$29,941,433</b>	<b>\$311</b>
<b>EXPENSE</b>												
ACTIVITIES & SOCIAL SERVICES	\$578,468	\$6	\$283,879	\$3	\$289,556	\$3	\$295,347	\$3	\$301,254	\$3	\$307,279	\$3
BENEFITS & PAYROLL TAXES	\$4,136,399	\$43	\$2,988,053	\$31	\$3,047,814	\$32	\$3,108,771	\$32	\$3,170,946	\$33	\$3,234,365	\$34
DIETARY	\$3,621,980	\$38	\$1,708,454	\$18	\$1,742,623	\$18	\$1,777,476	\$18	\$1,813,025	\$19	\$1,849,286	\$19
GENERAL & ADMINISTRATIVE	\$1,426,291	\$15	\$1,447,974	\$15	\$1,476,933	\$15	\$1,506,472	\$16	\$1,536,601	\$16	\$1,567,333	\$16
LAUNDRY & HOUSEKEEPING	\$1,412,214	\$15	\$847,867	\$9	\$864,825	\$9	\$882,121	\$9	\$899,764	\$9	\$917,759	\$10
NURSING	\$12,074,235	\$125	\$9,019,096	\$94	\$9,199,478	\$95	\$9,383,467	\$97	\$9,571,137	\$99	\$9,762,560	\$101
PLANT OPS & MAINTENANCE	\$2,794,549	\$29	\$1,115,280	\$12	\$1,137,586	\$12	\$1,160,337	\$12	\$1,183,544	\$12	\$1,207,215	\$13
PROPERTY TAX	\$0	\$0	\$543,400	\$6	\$561,337	\$6	\$575,067	\$6	\$587,438	\$6	\$598,829	\$6
PROVIDER TAX*	\$0	\$0	\$1,148,955	\$12	\$1,148,955	\$12	\$1,148,955	\$12	\$1,148,955	\$12	\$1,148,955	\$12
THERAPY & ANCILLARY	\$2,244,520	\$23	\$2,891,664	\$30	\$2,949,498	\$31	\$3,008,488	\$31	\$3,068,657	\$32	\$3,130,031	\$32
UTILITIES	\$1,348,945	\$14	\$1,369,452	\$14	\$1,396,841	\$14	\$1,424,778	\$15	\$1,453,274	\$15	\$1,482,339	\$15
MANAGEMENT FEE	\$1,335,025	\$14	\$1,358,500	\$14	\$1,403,342	\$15	\$1,437,667	\$15	\$1,468,596	\$15	\$1,497,072	\$16
<b>TOTAL EXPENSE</b>	<b>\$30,972,626</b>	<b>\$321</b>	<b>\$24,722,574</b>	<b>\$256</b>	<b>\$25,218,788</b>	<b>\$262</b>	<b>\$25,708,945</b>	<b>\$267</b>	<b>\$26,203,191</b>	<b>\$272</b>	<b>\$26,703,022</b>	<b>\$277</b>
<b>EBITDAR</b>	<b>-\$4,272,128</b>	<b>-\$44</b>	<b>\$2,447,418</b>	<b>\$25</b>	<b>\$2,848,055</b>	<b>\$30</b>	<b>\$3,044,388</b>	<b>\$32</b>	<b>\$3,168,724</b>	<b>\$33</b>	<b>\$3,238,412</b>	<b>\$34</b>
<b>MARGIN</b>	<b>-16.00%</b>		<b>9.01%</b>		<b>10.15%</b>		<b>10.59%</b>		<b>10.79%</b>		<b>10.82%</b>	

MORRIS COUNTY: PRIVATE OPERATIONS 5 YEAR CENSUS PROJECTION						
CARE TYPE	OCT 2015 YTD ANLZD	2016 PROJECTION	2017 PROJECTION	2018 PROJECTION	2019 PROJECTION	2020 PROJECTION
MEDICAID	203	182	176	171	166	161
MEDICARE	18	34	40	44	47	50
PRIVATE	28	30	30	31	33	34
EVERCARE	2	2	2	2	2	2
HOSPICE	11	13	13	13	13	14
INSURANCE	2	3	3	3	3	3
OCCUPIED BEDS	264	264	264	264	264	264
AVAILABLE BEDS	283	283	283	283	283	283
OCCUPANCY	93%	93%	93%	93%	93%	93%
QUALITY MIX	23%	31%	33%	35%	37%	39%
MEDICARE MIX	7%	13%	15%	17%	18%	19%

Sale/Lease of Operations Commentary

**Oct 2015 YTD Anlzd:** Financials were provided by management and are presented in EBITDAR format.  
 \*\*Please note the 1st year of projections begin in 2017, as IPA envisions 2016 performing similarly to 2016 projections if operations remain unchanged. Industry standard management fee equal to 5% of total revenue.

**Projections**  
**Occupancy:** Medicaid percentages have been gradually decreased over time towards 60%, in line with the Medicaid percentages of the market. Medicare percentage has been gradually increased towards 20%, the market's Medicare occupancy percentage.

**Revenue:** Medicaid reimbursement rates have been lowered to \$205 in anticipation of the New Jersey rate reductions. Medicare reimbursement has been kept static to Oct 2015 YTD Anlzd rates. Private rates have been increased by 2% per year. Evercare reimbursement has been set to \$431, in accordance with Morris County's Evercare contracts. Hospice rates have been kept static to trailing totals. Ancillary has been kept static, and Other Revenue has been increased by 2% per year.

**Expense:** Activities & Social Services, Dietary, Nursing, and Plant Ops & Maintenance PPDs have been lowered in 2016, towards the average PPDs of 6 similarly sized nursing facilities in the area, after which they have been increased 2% per year. Therapy & Ancillary PPD has been raised to \$30 to account for the increase in Medicare patients, after which is has been raised at 2% per year. Property Taxes have been set to 2% of revenue each year, and Provider Tax has been set in accordance with New Jersey state guidelines. An industry-standard management fee equal to 5% of total revenue has been applied.

\*Medicaid and Medicare rates and Provider Tax are based on assumptions and are subject to change upon New Jersey guidelines.

INTRODUCTION & MARKET ANALYSIS  
 FUTURE REIMBURSEMENT OVERVIEW  
 OWNERSHIP ALTERNATIVES  
 FINANCIAL OVERVIEW  
 CASE STUDIES  
 CONCLUSION

	MORRIS HILLS		CARE ONE AT MADISON		TROY HILLS CENTER		CARE ONE AT MORRIS		HOLLY MANOR CENTER		REGENCY GRANDE		CONSOLIDATED	
REVENUE	FY 2013	PPD												
MEDICAID	\$12,194,435	\$205	\$4,845,722	\$216	\$6,423,830	\$216	\$3,854,903	\$209	\$4,784,457	\$214	\$7,236,833	\$198	\$39,340,180	\$208
MEDICARE	\$7,969,332	\$519	\$6,661,649	\$545	\$3,715,130	\$565	\$5,969,578	\$529	\$4,839,619	\$535	\$4,271,969	\$560	\$33,427,277	\$538
OTHER R&B	\$2,577,758	\$470	\$5,348,568	\$409	\$3,383,526	\$425	\$2,854,172	\$375	\$4,181,539	\$432	\$3,798,388	\$349	\$22,143,951	\$405
OTHER REVENUE	\$32,391	\$0	\$69,562	\$1	\$26,638	\$1	\$69,307	\$2	\$63,704	\$2	\$10,261	\$0	\$271,863	\$1
<b>TOTAL REVENUE</b>	<b>\$22,773,916</b>	<b>\$283</b>	<b>\$16,925,501</b>	<b>\$355</b>	<b>\$13,549,124</b>	<b>\$306</b>	<b>\$12,747,959</b>	<b>\$342</b>	<b>\$13,869,320</b>	<b>\$337</b>	<b>\$15,317,451</b>	<b>\$278</b>	<b>\$95,183,271</b>	<b>\$311</b>
<b>EXPENSE</b>														
ACTIVITIES & SOCIAL SERVICES	\$221,024	\$3	\$97,030	\$2	\$165,093	\$4	\$129,579	\$3	\$158,400	\$4	\$129,579	\$2	\$900,705	\$3
BENEFITS & PAYROLL TAXES	\$2,802,510	\$35	\$1,957,668	\$41	\$1,479,263	\$33	\$1,010,470	\$27	\$1,223,498	\$30	\$1,010,470	\$18	\$9,483,879	\$31
DIETARY	\$1,400,109	\$17	\$1,036,956	\$22	\$763,564	\$17	\$758,637	\$20	\$702,771	\$17	\$758,637	\$14	\$5,420,674	\$18
GENERAL & ADMINISTRATIVE	\$3,091,027	\$38	\$2,484,071	\$52	\$1,505,311	\$34	\$2,380,475	\$64	\$1,614,238	\$39	\$2,252,000	\$41	\$13,327,122	\$44
LAUNDRY & HOUSEKEEPING	\$624,080	\$8	\$504,448	\$11	\$451,337	\$10	\$327,999	\$9	\$454,295	\$11	\$327,999	\$6	\$2,690,158	\$9
NURSING	\$7,886,916	\$98	\$5,285,831	\$111	\$4,329,839	\$98	\$3,514,586	\$94	\$4,084,505	\$99	\$3,514,586	\$64	\$28,616,263	\$94
PLANT OPS & MAINTENANCE	\$713,146	\$9	\$731,905	\$15	\$503,820	\$11	\$546,777	\$15	\$496,194	\$12	\$546,777	\$10	\$3,538,619	\$12
PROPERTY TAX	\$360,584	\$4	\$324,120	\$7	\$131,287	\$3	\$312,823	\$8	\$312,823	\$8	\$312,823	\$6	\$1,754,460	\$6
PROVIDER TAX	\$964,416	\$12	\$572,802	\$12	\$530,852	\$12	\$447,894	\$12	\$447,894	\$11	\$447,894	\$8	\$3,411,750	\$11
THERAPY & ANCILLARY	\$3,775,598	\$47	\$3,264,975	\$68	\$1,698,264	\$38	\$2,398,853	\$64	\$1,971,280	\$48	\$2,398,853	\$44	\$15,507,823	\$51
MANAGEMENT FEE	\$1,138,696	\$14	\$846,275	\$18	\$677,456	\$15	\$637,398	\$17	\$693,466	\$17	\$765,873	\$14	\$4,759,163.55	\$16
<b>TOTAL EXPENSE</b>	<b>\$22,978,106</b>	<b>\$286</b>	<b>\$17,106,081</b>	<b>\$358</b>	<b>\$12,236,086</b>	<b>\$277</b>	<b>\$12,465,491</b>	<b>\$334</b>	<b>\$12,159,364</b>	<b>\$296</b>	<b>\$12,465,491</b>	<b>\$226</b>	<b>\$89,410,617</b>	<b>\$292</b>
EBITDAR	-\$204,190	-\$3	-\$180,580	-\$4	\$1,313,038	\$30	\$282,468	\$8	\$1,709,956	\$42	\$2,851,960	\$52	\$5,772,654	\$19
MARGIN	-0.90%		-1.07%		9.69%		2.22%		12.33%		18.62%		6.06%	

	MORRIS COUNTY COMPS: OPERATIONAL METRICS						
	MORRIS HILLS	CARE ONE AT MADISON	TROY HILLS CENTER	CARE ONE AT MORRIS	HOLLY MANOR CENTER	REGENCY GRANDE	CONSOLIDATED
TOTAL BEDS	287	178	130	118	124	155	992
BED DAYS AVAILABLE	104,755	64,970	47,450	43,070	45,260	56,575	362,080
OCCUPANCY RATE	76.72%	73.47%	93.23%	86.66%	90.87%	97.28%	84.46%
MEDICARE %	19.11%	25.62%	14.87%	30.25%	21.98%	13.87%	20.32%
MEDICAID %	74.07%	46.97%	67.15%	49.36%	54.47%	66.36%	61.80%
OTHER %	6.82%	27.41%	17.98%	20.39%	23.55%	19.77%	17.88%
MEDICAID RATE	\$204.85	\$216.13	\$216.25	\$209.24	\$213.57	\$198.15	\$208.15
MEDICARE RATE	\$518.89	\$544.73	\$564.77	\$528.72	\$535.36	\$559.63	\$538.02

MORRIS COUNTY VS LOCAL COMPETITORS: PPD ANALYSIS			
	LOCAL COMPS	MORRIS COUNTY	PERCENTAGE DIFFERENCE
<b>REVENUE</b>			
MEDICAID	\$208	\$232	10%
MEDICARE	\$538	\$574	6%
OTHER R&B	\$405	\$329	-23%
OTHER REVENUE	\$1	\$1	18%
<b>TOTAL REVENUE</b>	<b>\$311</b>	<b>\$276</b>	<b>-13%</b>
<b>EXPENSE</b>			
ACTIVITIES & SOCIAL SERVICES	\$3	\$6	51%
BENEFITS & PAYROLL TAXES	\$31	\$43	28%
DIETARY	\$18	\$38	53%
GENERAL & ADMINISTRATIVE	\$44	\$29	-51%
LAUNDRY & HOUSEKEEPING	\$9	\$15	40%
NURSING	\$94	\$125	25%
PLANT OPS & MAINTENANCE	\$12	\$29	60%
PROPERTY TAX	\$6	\$0	--
PROVIDER TAX	\$11	\$0	--
THERAPY & ANCILLARY	\$51	\$23	-118%
MANAGEMENT FEE	\$16	\$10	-61%
<b>TOTAL EXPENSE</b>	<b>\$292</b>	<b>\$317</b>	<b>8%</b>
<b>EBITDAR</b>	<b>\$19</b>	<b>-\$41</b>	<b>146%</b>
<b>MARGIN</b>	<b>6.06%</b>	<b>-14.98%</b>	

Commentary

Revenue: An analysis of the six closest Skilled Nursing competitors was completed in an effort to compare Morris County's operations against the market. Due to Morris County's low Medicare mix, average revenue PPD for the county was more than 12% lower than its competitors.

Expense: Morris County's expense PPDs were, for the most part, much higher than the market's. Dietary, Laundry & Housekeeping, and Plant Ops & Maintenance have already been outsourced, but with these PPDs a collective 53% higher than the market, it appears as is there is still room for improvement. Nursing expenses are 25% higher than the rest of the market, leaving room for a private operator to come in and slash expenses. Activities have yet to be outsourced, and with a 51% higher PPD than the rest of the market, it is a candidate for cutbacks.

NEW JERSEY CASE STUDIES



**IPA** Institutional  
Property  
Advisors

A Division of Marcus & Millichap

**Monmouth County (309 beds)**

- About 81% occupancy at time of sale
- (\$8,992,235) of negative operational cash flow
- Expedited and customized the sales process, to achieve 2015 year-end close required
- Conducted three separate auctions, allowing interested parties to bid on the assets individually or as a portfolio

**Scenario**

County of Monmouth Care Centers consists of two skilled nursing facilities: the 174-bed John L. Montgomery Care Center, and the 135-bed Geraldine L. Thompson Care Center. Combined, the facilities were losing almost \$9 million on revenues of \$16.78 million.

**Outcome**

On October 20th, 2015, the property was brought to auction, with a minimum bid of \$7,250,000 for each property individually, or \$14,500,000 for the portfolio. Seven bidders put in initial offers, with much of the bidding competition from two companies. The highest and final bid selected was \$32,400,000, 123% above the minimum bid price. The transaction closed on December 31, 2015 for \$32,400,000, representing a pro forma cap rate of 6.79% and \$104,854 per bed.

“This was proof there are health care corporations out there who are very much interested in doing a great job for the patients,” said a Monmouth County Freeholder. “I am very confident that the patients will be well cared for.”

The new owners would have to operate both centers as nursing homes for at least 10 years, according to conditions of the sale that freeholders approved in August. Those conditions also include protections for existing nursing home residents as well as provisions to reserve a certain number of beds for Monmouth County residents and Medicaid patients.

The new owners will also be required to give all nursing home employees an interview for a potential job after the sale.

\*Cervenka, Susanne. “Combined Bids Top \$32M for Monmouth Nursing Homes.” Asbury Park Press. Gannett, 20 Oct. 2015. Web.

**Warren County (180 beds)**

- About 73% occupancy at time of sale
- (\$4,404,310) of negative operational cash flow
- Expedited and customized the sales process, to meet County’s requirement for an Auction process
- Established two bidding alternatives, satisfying two distinct objectives: ongoing liability and value maximization

**Scenario**

The Warren Haven Nursing Home is a 180-bed, 96-unit nursing home in Warren County, NJ. The facility was losing money, \$4.4 million on revenues of \$11.13 million in 2014 alone, because of high labor costs and low occupancy. Built in 1952 with an addition in the 1980s, it has just 12 private rooms and 84 semi-private. At the time of sale, Medicare census was 1.5%.

Warren County requested an Operations and Options Analysis to be performed by Marcus & Millichap before ultimately deciding to sell and privatize the facility.

**Outcome**

On April 23rd, 2015, the property was brought to auction for a second time (due to a change in Medicare ratings after the first auction), with a minimum bid of \$11,000,000. After a very competitive auction process, the final bid selected was \$15,600,000, 73% above the minimum bid price. The transaction closed in early September, 2015 for \$15,600,000, representing a pro forma cap rate of 11.54% and \$86,667 per bed.

Terms of the sale dictate that the facility will remain a nursing home for at least ten years. Approximately 75% of the employees chose to stay with the new operator.

By changing wages and benefits, as well as improving Medicare census, the facility is expected to bring in about \$1.75 million in pro forma EBITDA on \$14.2 million of revenues. The county will get a net gain of roughly \$11 million, ending the facility’s reliance on county reserves.

\*Novak, Steve. “Warren County Freeholders Figuring How to Make Most of Nursing Home Sale.” Lehigh Valley Live. PennLive LLC, 18 Sept. 2015. Web.

**Camden County, NJ (450 beds)**

- About 94% occupancy at time of sale
- (\$4,602,363) of negative operational cash flow
- Expedited and customized the sales process, to meet County’s requirement for an Auction process
- Established two bidding alternatives, satisfying two distinct objectives: ongoing liability and value maximization

**Scenario**

Camden County’s Health Services Center “CCHSC” was losing approximately \$7MM per year after debt service. The CCHSC campus also had a behavioral health component, the Behavioral Health Services Center “BHSC”. We customized our process to account for the campus’ BHSC’s cost based reimbursement which was unique to only counties, and the substantial obligations the county was staring down post-closing.

Camden County requested an Operations and Options Analysis to be performed by Marcus & Millichap before ultimately deciding to sell and privatize the facility.

**Outcome**

Through our marketing efforts, leveraging the relationships we had created working with buyers of other complicated assets in the Northeast, we received over 40 formal inquiries and held 10 tours at the campus. Based on a current and pro forma financial analysis, we anticipated the property trading for \$23-\$30 Million.

On May 8, 2013 the CCHSC Campus was auctioned off. There were two auctions: the first auction was for the whole campus with the anticipation being that the county would start a closure plan of the BHSC immediately following the transaction’s closing, the second auction was for the whole campus, but the county would lease back the BHSC for a predetermined amount for a time period that was dependent on the continued indigent reimbursement the State paid the county. After vetting all seven bidders’ financial statements and their ability to successfully and lawfully run a Nursing Home in New Jersey, the auction was held. Auction scenario one’s bidding began at \$20 Million and yielded a price of \$29 Million, and auction scenario two’s bidding started at \$24 Million and yielded a price of \$37.1 Million. Immediately following the auctions, the winning bidder signed a binding asset purchase agreement and within 72 hours wired a non-refundable earnest money deposit of 10% of the purchase price. The transaction was scheduled to close 11/25/2013. The county was happy with the price and terms of the transaction and the commitment from the buyer.

**Sussex County, NJ (102 beds)**

- About 95% occupancy at time of sale
- \$9,300 of operational cash flow
- Expedited and customized the sales process, to meet County’s requirement for an Auction process
- Established two bidding alternatives, one that included a requirement that the Buyer extend an opportunity to all full-time County Employees of the Sussex County Nursing Home to interview with the successful bidder for employment at the facility, and the other alternative not including this requirement.

**Scenario**

Sussex County Homestead is a 102-bed skilled nursing facility. Despite having made a strong attempt to mitigate exposure to costs by “right-sizing” staff and increasing therapies at the facility; onerous salaries and pension obligations as well as reductions in reimbursement rates caused the County to make the decision to privatize the nursing home. In addition to the facility’s dated and functionally obsolescent and unattractive physical plant, the facility had serious environmental issues, including several underground storage tanks and considerable amounts of asbestos in the facility.

Sussex County requested an Operations and Options Analysis to be performed by Marcus & Millichap before ultimately deciding to sell and privatize the facility

**Outcome**

We brought the opportunity to our national pool of owners and investors of senior housing. We received 35+ formal inquires and 14 official tours. This effort resulted in 7 Bidders attending the Auction, with three finalists competing fiercely in the bidding process. The winning bid was \$7.85 Million, substantially higher than the Minimum Bid of \$6 million.

Our Sales process satisfied the County’s requirements to hold an Auction to effectuate the sale of County real property. The final price was aggressively high, given the fact that the Minimum Bid was \$6 million. The Buyer retained the original Administrator of the Nursing Home, and nearly all of the staff. The County was able to dispose of an older nursing home and Administrative Offices, both of which are reported to contain significant amounts of Asbestos Containing Material (ACM). Despite the serious issues leading up to the closing, including a mandated \$500K deposit from the buyer to the lender, the buyer followed through with the closing because they had \$780K at risk in the form of non-refundable earnest money.

**Burlington County, NJ (200 beds)**

- About 96% occupancy at time of sale
- (\$886,000) of negative operational cash flow
- Expedited and customized the sales process, to meet County’s requirement for an Auction process.
- Established two bidding alternatives, one that included the Buyer accepting the union contract and the other rejecting it.

**Scenario**

Buttonwood Hospital is a 170-bed skilled nursing facility with a corresponding 30-bed psychiatric unit. The County identified a need to explore other options for the future of the facility driven by the negative operating cash flow. After exploring the various options, they decided that privatization and divestiture of all assets related to the skilled nursing and psychiatric care facility was in the best interest of the County.

**Outcome**

We brought the opportunity to our national pool of owners and investors of senior housing. We received 55+ formal inquiries, which resulted in two finalists who appeared at the Auction. The auction was held under two options. Under the first option, the buyer would inherit the union contracts; under the second, they would not. The Winning Bidder paid \$15 Million under option 2, rejecting the current union contract, with plans to renegotiate a new contract, likely with a new union.

Our sales process satisfied the County’s requirements to hold an Auction to effectuate the sale of County real property. The final price was aggressively high, given the fact that the State indicated that it will eliminate the reimbursement for the psychiatric section of the facility effective January 1, 2013. This will require that the Buyer locate an alternative reimbursement source for the portion of the facility that was generating approximately \$5.3 Million of the \$19.9 Million of Total Revenue. Holding up the Minimum Purchase Price was quite an accomplishment on the part of our firm, given the loss of about 20% of the Revenue following the Sale.

**Cumberland County, NJ (196 beds)**

- About 94% occupancy at time of sale
- \$800,000 of operational cash flow
- Expedited and customized the sales process, to meet County’s requirement for an Auction process
- Established two bidding alternatives, one that included the Buyer accepting the union contract and the other rejecting it.

**Scenario**

Located bidders who were willing to consider taking the union contract.

Cumberland County requested an Operations and Options Analysis to be performed by Marcus & Millichap before ultimately deciding to sell and privatize the facility

**Outcome**

We brought the opportunity to our national pool of owners and investors of senior housing. We received 55+ formal inquiries, which resulted in 3 interested bidders, with two finalists who competed under both purchase scenarios. The Winning Bidder paid \$14 Million under Option A, accepting the union contract.

Our sales process satisfied the County’s requirements to hold an Auction to effectuate the sale of County real property, and it resulted in a politically favorable outcome, since the Buyer agreed to accept the union contract. The price was quite aggressively high, given the acceptance of the union contract, which contains onerous employees benefits and health insurance costs.

**Salem County, NJ (116 beds)**

- About 74% occupancy at time of sale
- (\$2,900,000) of negative operational cash flow
- Expedited and customized the sales process, to meet close within 90 days of process commencing.
- Conducted 3 Rounds of competitive bidding to increase price and terms, vet the buyer pool, negotiate Purchase Agreement and produce the most qualified buyer

**Scenario**

Salem County’s Improvement Authority was losing \$2.9 Million a year from its nursing home, which was 74% occupied leading to our involvement with the Improvement Authority. The Authority engaged our firm at the end of February 2011 to assist in the privatization of the facility. We customized our process to expedite the sale, since the Authority was losing about \$8,000/day.

**Outcome**

We brought the opportunity to our national pool of owners and investors of senior housing. We received 39 formal inquiries, which resulted in 6 offers from qualified buyers. Through three rounds of bidding, we drove the price of the facility from \$6 Million to \$7.5 Million. Additionally, we closed on the sale on June 1, 2011, just 90 days from commencement of our process. The process that resulted in the timely closing saved the Authority hundreds of thousands of dollars, in addition to the fact that the Authority expected to obtain a price closer to \$5 Million, prior to our involvement.

**Beaver County, PA (605 beds)**

- About 86% Occupancy at time of sale
- (\$5,750,000) of negative operational cash flow
- Expedited and customized the sales process

**Scenario**

Beaver County’s Friendship Ridge was losing \$5.75 Million a year due to outdated and onerous Collective Bargaining Agreements and a recent cut to Medicare A & B reimbursements. After several rounds of negotiations with the facility’s unions resulting in an inability to bridge the gap between running a \$16K per day operating loss and a break even operation, the Board of County Commissioners hired the CORE Advisory Group of Marcus & Millichap to solicit purchase proposals for the 605 bed nursing home. Anticipating a fourth quarter of 2013 closing the county took out a tax anticipation bond to finance operational shortfalls through the end of the year. While marketing the facility, the Board of Commissioners approved a CBA extension through 2/28/2014, well past the proposed closing date.

**Outcome**

After marketing the property for approximately 2 months, we received 65 formal inquiries, held nine tours and received 5 purchase proposals all in excess of the \$25 Million minimum bid. After thoroughly reviewing all five offers, the county selected two parties to interview and traveled to Philadelphia to tour a sampling of each bidder’s portfolio. After further review and careful consideration of each party’s proposal, the interviews and the tours, the Board of Commissioners selected Comprehensive HealthCare Management Services, a consortium of owners and operators from New York and New Jersey with over 50 years of experience in long term care. Following Asset Purchase Agreement negotiations that took several weeks, the Board of Commissioners, its advisors and the buyer agreed on a deal structure that would defease the short term bond debt that was due by year end, but still prolong the ultimate closing date until the CBA extension was no longer valid or assumable by the buyer. Friendship Ridge closed on 2/28/2014 for \$33.5 Million, 50% above the minimum bid price of \$25 Million.

## CONCLUSION



**IPA** Institutional  
Property  
Advisors

A Division of Marcus & Millichap

**Conclusion**

The Freeholders and appointed officials of Morris County have been excellent stewards of Morris View Healthcare Center. The data and the outcomes revealed in this analysis exhibit the county’s decision makers’ commitment to making this a viable operation for years to come. Unfortunately, long term care owners and operators do not control their own destiny. The rising cost of health care and long term care, compounded with an aging population, an increase in acuity and co-morbidities and downward pressure on reimbursements both Medicare and Medicaid has created paradox for private and non for profit operators.

Morris County has utilized nearly every imaginable strategy to increase revenue, reduce expenses and stem their losses. In recent years an emphasis has been put on catering to Medicare and Managed Medicare Care patients by creating and marketing a post-acute wing, occupancy has stayed strong, and with the introduction of mandatory EMR systems (Electronic Medical Records), Case Mix Indices have increased resulting in potentially higher Medicaid rates. Countless expense management measures have been put in place as well: the county and the Collective Bargaining units have sacrificed much to reduce labor and fringe benefit costs, all ancillary services have been outsourced to model the market more closely and to reduce the number of county employees, further reducing union labor and fringe benefit costs. Lastly, the county has also refinanced their bonds in an effort to provide capital infusions and capitalize on lower rates and lower debt service. Taking all of that into account, Morris View has an operating loss of approximately \$4,000,000 to \$5,000,000 depending on which accounting method you employee, accrual or cash. While these losses may seem manageable for the County and its residents, they are scheduled to grow precipitously and almost double in just five years, generating projected losses over that five year period in excess of \$41,000,000.

In July of 2016, Medicaid Managed Long Term Services and Supports (“MLTSS”) will be fully implemented. The roll out of MLTSS remains largely a question mark, which has added an additional layer of complexity for New Jersey providers. Looking to other states that already made the transition, it is evident that single asset or small regional providers have been hurt the most. Besides deep cuts to Medicaid, including the loss of peer grouping for New Jersey counties, occupancies have suffered due to the Managed Care Organizations and Preferred Provider Networks. The providers that typically are part of the MCO’s and PPN’s are ones that have economies of scale, diversification of services, the ability to treat co-morbidities, and excellent star ratings and survey histories. If, in the near future, there is a complete shift to full Managed Medicare, like Medicaid this summer, there will be considerably more losses than what is shown in the two scenarios of continued county ownership.

If the County of Morris and its tax payers are amenable to funding the operating deficits of Morris View for many years to come, the only reason to entertain a privatization of operations or both the operations and real estate is to maintain control over Morris View’s destiny. If performance continues down the path of the Status Quo or the Reconfiguration of Operations scenarios, but further cuts are realized in MLTSS or Medicare/Managed Medicare the county may be faced with a situation much graver, in which the facility remaining open is no longer feasible. While the occupancy remains stable and the facility has an excellent reputation, the county should consider its options as it relates to a privatization of the operations or privatization of both the operations and the real estate.

MORRIS COUNTY OOA COST/BENEFIT ANALYSIS: 5 YEAR PROJECTION				
	STATUS QUO	RECONFIGURATION	LEASE OF OPERATIONS	OUTRIGHT SALE
FACILITY PERFORMANCE	-\$41,132,819	-\$32,761,576	\$0	\$0
FACILITY SALE	\$0	\$0	\$7,500,000	\$28,300,000
REAL ESTATE TAXES	\$0	\$0	\$2,866,070	\$2,866,070
<b>TOTALS</b>	<b>-\$41,132,819</b>	<b>-\$32,761,576</b>	<b>\$10,366,070</b>	<b>\$31,166,070</b>



**Exclusive Advisor:**



A Division of Marcus & Millichap

**Joshua T. Jandris**

Senior Associate  
CHICAGO O'HARE  
Direct: (773) 867-1482  
Mobile: (312) 399-9797  
jjandris@ipausa.com  
License: IL 475.147847

**Mark L. Myers**

Executive Director  
CHICAGO O'HARE  
Direct: (773) 867-1470  
Mobile: (773) 383-6821  
mmyers@ipausa.com  
License: IL 471.015228

**Charles O. Hilding**

Associate Director  
CHICAGO O'HARE  
Direct: (773) 867-1471  
Mobile: (630) 337-1987  
childing@ipausa.com  
License: IL 475.125333

[www.ipausa.com](http://www.ipausa.com)