

HEALTH CARE ADVISORY BOARD

Meeting Summary
December 8, 2014

MEMBERS PRESENT

Marlene Blum, Chairman
Bill Finerfrock, Vice Chairman
Rose Chu, Vice Chairman
Dave West
Ann Zuvekas
Dr. Tim Yarboro
Ellyn Crawford
Rosanne Rodillosso
Dr. Michael Trahos, DO
Francine Jupiter

STAFF

Sherryn Craig

GUESTS

Sara V. Mariska, Associate, Walsh, Colucci, Lubeley & Walsh P.C.
Edward Burnett, Chief Financial Officer, Sunrise Development, Inc.
Juliann Navarrete, Registered Nurse, Registered Assisted Living Nurse, Director of
Clinical Education, Sunrise Development, Inc.
Marlae Schnare, Senior Legislative Aide, Office of Supervisor Pat Herrity
Richard Magenheimer, Chief Financial Officer, Inova Health System
Mark Runyon, Senior Vice President, Finance, Inova Health System
Karen Berube, Assistant Vice President, Population Health Management, Inova Health
System
Jennifer Siciliano, Vice President, Government Relations, Inova Health System
Michael Forehand, Director, Advocacy and Community Outreach, Inova Health System
Gloria Addo-Ayensu, MD, MPH, Health Department
Rosalyn Foroobar, Health Department
Arsenio DeGuzman, Health Department

Call to Order

The meeting was called to order by Marlene Blum at 7:31 p.m.

November Meeting Summary

The November 10, 2014 minutes were approved as submitted.

Public Hearing on Sunrise Development, Inc.'s Special Exception (SE) application (RZ 2014-SP-015/SE-2014-SP-060) to develop the Sunrise of Silas Burke House

Sara Mariska, Edward Burnett, and Juliann Navarrete, presented a Special Exception application for Sunrise Development, Inc. to develop a new assisted living facility (ALF), the Sunrise of Silas Burke House. The property is located in the Springfield magisterial

district, but borders the Braddock district as well. The site includes the historic Silas Burke House, built in 1824, and has almost five acres of land. Ms. Mariska said that the Board of Supervisors (BOS) would hear an out of turn plan amendment on Thursday, December 11 that would allow Sunrise to develop the property while ensuring the preservation of the historic home.

In addition to the plan amendment, Sunrise is seeking a SE to develop a three-story, 35,000 square foot ALF with up to 82 units. Half of the units will be dedicated to traditional living, the other half to memory care, subject to market demand. Sunrise is aware of the community's concern in developing a historic property, and the proposal includes integrating the Silas Burke House as one of the facility's amenities. An outdoor memory garden is also planned to enhance the site.

Paul and Terry Clausen founded Sunrise in 1981, and the company is headquartered in McLean, Virginia. Sunrise has over 300 communities nationwide, cares for 30,000 residents, and employs 30,000 employees. Sunrise remains the largest provider of memory care in the country, and according to Mr. Burnett, is regarded favorably within the industry.

In 2008, the company struggled financially. According to Mr. Burnett, these challenges were related to the financial markets, not Sunrise operations. Sunrise maintained 80% occupancy among its communities during that time. The company weathered the recession without having to reorganize its cash holdings, but it is no longer a publicly traded company. Sunrise is now owned by two multibillion dollar companies – an Ohio-based REIT and a Canadian pension fund.

According to Ms. Navarrete, there is no typical Sunrise resident. Some people come to Sunrise looking to downsize while others are seeking care for chronic disease processes. Sunrise provides an individualized, centralized approach to care. According to Ms. Navarrete, there is no "cookie cutter" staffing model.

At intake, each resident is assessed to ensure that Sunrise can meet their needs. Individualized care plans are created and residents are evaluated using a social perspective (e.g., married, children, education, hobbies/interests) and what kinds of assistance are required (e.g., mobility, toileting, bathing). The care plans are continuously updated. A team of care managers support each resident and work with their families to monitor subtle changes in health status. There are day and evening shift care managers.

Sunrise uses a structured approach to programming. Activities coordinators are on-site in each building. Their focus is to enrich the minds, bodies, and spirits of Sunrise residents. Activities include journaling, current events talks, book clubs, aerobics, art club, literature, music, and poetry. Life enrichment managers focus on individual residents and provide one-on-one care based on the resident's interests.

With the presentation concluded, the HCAB began the question and answer portion of the public hearing process.

Representatives for Sunrise were not able to speak to occupancy levels among other ALFs in the area, but stated that based on an internal market analysis, the average penetration rate for the Washington, DC Metropolitan Statistical Area (MSA) is 9.3% and for Burke, Virginia, using a three mile radius, less than 1% and a five mile radius, about 5%. Nationwide, among 99 MSAs, the average penetration rates is 17.6% with an average occupancy of 90%. Mr. Burnett stated that these numbers suggest the Burke community is an underbuilt market. While Sunrise does not have occupancy data on other ALFs, the company's average is 93.6%.

Marlene Blum informed Sunrise that the public hearing notice on the SE application was sent to 12 ALFs in a 5-7 mile radius from the proposed Sunrise-Silas Burke location. Three of those 12 are owned by Sunrise. Mr. Burnett acknowledged there were other ALFs serving the Burke community, but felt a three mile, rather than the HCAB's five mile radius, was a better catchment area. Mr. Burnett referenced the high occupancy levels of the Heatherwood facility, located within 3 miles of the Silas Burke property, and cited its lack of memory care as a major gap in the primary market.

Sunrise residents are encouraged to use their own doctors and therapists. Residents contract with providers, and Sunrise assists with the process as appropriate. Services are then provided on site. Sunrise will recommend a specialist/provider only if asked, but would never prevent a resident from choosing his/her own physician.

With respect to the development condition that provides that 4% of a facility's beds be dedicated to low income residents, Sunrise representatives stated that they were not prepared to offer below market rate units as there will be significant and ongoing costs to preserve the property's historic home. Mr. Burnett said that there are a number of things that Sunrise can do to reduce residents' costs, such as sharing rooms. Mr. Burnett was not able to speak to whether other Sunrise facilities are still operating under the 4% development condition.

Mr. Burnett said that Sunrise does have an empty facility located in Lorton, but that the site is under contract and Sunrise does not operate any other buildings like it.

Mr. Burnett stated that Sunrise has a close, established relationship with Inova Health System. Sunrise operates five Inova-owned ALFs. Mr. Burnett will follow up on securing a Medicare NPI number for its facilities to ensure outside physicians can come on site and seek reimbursement for care.

Charges are based on residents' care levels. There are five levels of care ranging from base, where residents can care for themselves, to enhanced, where substantial

assistance is required. There are three levels of medication administration. Residents' care and medication levels are constantly changing.

While the state requires ALFs to assess residents once a year, Sunrise assesses residents monthly. Sunrise staff are focused on maximizing residents' independence. They are vigilant about what services are charged. Many residents come into assisted living after surgery and once they pass the acute care phase, their care levels and medication assistance are adjusted downward.

There are no caps on services. While individual's length of stay (LOS) varies, the average LOS is 18 months. Because LOS is short term, most residents do not experience annual rate fluctuations.

Sunrise's staffing philosophy departs from a fixed staffing model typically used by hospitals. There are no fixed ratios of staff-to-residents. Sunrise uses a variable staffing model, which is adjusted daily according to resident care and medication levels. Levels of care link to units of time, meaning an assisted living plus level of care requires a certain amount of time per resident per day. The hours are added up and used to develop the daily, weekly, and monthly staffing schedule. As residents' acuity levels increase or decrease, so too does the staffing.

Sunrise cares for many frail residents with a variety of health conditions and co-morbidities. Ms. Navarrete said that on average, more people are delaying entry into assisted living, which means when they do seek care, they are sicker and farther along in their chronic disease processes. People who would have been in a skilled nursing facility ten years ago are now in assisted living. Acuity levels are higher today than they were in the past. Regulatory guidelines govern the types of residents ALFs can accept, and Sunrise will not move a resident in with a prohibited condition.

Registered Nurses (RNs) serve as health care coordinators in all of Sunrise's buildings. RN availability varies by building, but nurses are typically onsite during the days and weekends. In buildings with high acuity residents, nurses are on staff well into the evening. RNs are on call 24 hours a day, 7 days a week. Licensed Practical Nurses (LPNs) are also part of residents' team of care managers. Sunrise does not have enough nurses on staff to provide wound care. Residents are also encouraged to use home health benefits to access occupational, speech, and physical therapy services. Sunrise works with residents and their families to access hospice benefits as well.

Ms. Navarrete stated that Sunrise makes interior and exterior provisions for the safety and security of residents with Alzheimer's and other forms of dementia. Given the fluid nature of the disease process, Sunrise works to ease residents into a memory care transition. Sunrise communities include safe, secured, locked neighborhoods. With respect to the Silas-Burke property, memory care will be located on the ground floor, and residents will have a dedicated outdoor space that is fenced and locked.

Sunrise's Terrace Club Day Program is a six-day-a-week program for residents with early-to-moderate phases of dementia. Care is customized to the resident, and staff provide one-on-one care, especially during outdoor outings. According to Mr. Burnett, Sunrise is considered the leader in memory care services. However, based on the Virginia Department of Social Services (DSS) inspections history, Sunrise recently had a case where a resident went missing during a program outing.

Sunrise has also had issues with medication administration. Ms. Navarrete agreed that medication administration represents the highest risk service that Sunrise provides. According to Ms. Navarrete, the state allows for registered and unregistered medication aides. Unlicensed aides are required to complete 68 hours of training before they are allowed to dispense medication. Training includes 40 hours didactic, 20 hours skill, and 8 hours of insulin administration culminating in a state exam. RNs provide oversight and observe medication aides on a quarterly basis; newer aides are observed on a monthly basis. All medication aides are required to attend 20 hours of continuing education, provided by Sunrise and customized to the needs of the community.

Sunrise is moving toward automated medication administration, which is common in skilled nursing facilities, as a way to resolve medication errors. Sunrise is also piloting other pharmacy models. The ability to provide smaller quantities of medications will help Sunrise improve on medication storage.

Staff turnover varies by community, but on average it is about 30% across the board. Sunrise uses a rigorous, six-month onboarding program that is provided in three phases. Phase 1 is Getting Started and uses classroom and online courses to provide a global view of caring for residents. Phase 2 pairs an employee with a job coach/mentor and uses a more specialized curriculum tied to the employee's position. The third phase is a practicum where employees apply their skills and demonstrate what they have learned.

Sunrise is preparing to launch Sunrise Strong, a process improvement initiative for 2015, which will focus on staff retention and turnover.

Certified Nursing Assistants (CNAs) are not required in ALFs. The state has a program that provides for direct care trained staff. Sunrise conducts direct care training at least once a month. All staff are compensated for their training.

Staff who wish to transfer from another community do have priority in the hiring process. However, representatives could not estimate the number of new personnel versus those who transfer.

In response to HCAB members' strong concern about Sunrise not agreeing to provide 4% of its beds to low income residents, Sunrise agreed to the development condition.

During further discussion, HCASB members expressed concern that the information provided about staffing was not adequate. It was noted that other SE applicants have provided detailed information, in writing, about their staffing models and training/education requirements.

Ms. Navarrete repeated that there are different levels of staffing for different levels of patients. However, during an eight-hour shift, there are typically 25-30 employees on staff. As required by the state, a licensed administrator is on site every day. RNs fill in for one another, but in the event one is not available, a LPN can provide coverage. Direct care staff are Certified Nursing Assistants are Direct Trained. Communities with memory care residents employ a memory care coordinator. Buildings with higher care levels would have a staffing ratio of one employee to five residents. Buildings with a mix of base and select care level residents would have a staff-to-resident ratio of 1:8.

HCAB members felt that Sunrise had not provided sufficient detail in writing about the 4% development condition, staffing ratios, safety and security issues, including the facility's physical layout and medication administration. Mr. Finerfrock withdrew his motion. The HCAB decided to defer its decision on SE application# SE-2014-SP-060 until January 12. Sunrise representatives agreed to provide additional written information in advance of the next meeting.

Inova Health System FY 2015 Fiscal Plan

Richard Magenheimer, Mark Runyon, Karen Berube, Jennifer Siciliano, and Michael Forehand presented Inova's FY 2015 Budget.

Inova ended the year in a better position than was originally forecasted. Inova's 2014 operating performance improved with \$202.5 million in projected income (24% or almost \$39.7 million over FY 2014 plan) and a higher operating margin of 7.6% (versus 6.1% FY 2014 plan). The impact of lower patient demand was offset by lower Information Technology (IT) expenditures and ongoing cost restructuring efforts.

Observation cases increased by 10% in 2014 while inpatient admissions declined 2%. Average Length of Stay remains stable at 4.6 days; every one-tenth (0.1) increase in day cost represents \$5 million in excess cost. With fewer patients staying overnight, volumes have migrated from inpatient to outpatient care, although Inova did report that many patients are delaying elective procedures until later in the year, after deductibles and cost-sharing requirements have been satisfied. Inova also reported an 11% increase in cash reserves from \$2.7 billion in FY 2013 to \$3 billion in FY 2014. Current debt is \$1.6 billion.

Inova has budgeted \$614 million in FY 2015, a 48% increase over FY 2014, in capital expenditures, the largest in the system's history. Recapitalization and infrastructure projects represent 315% of Inova's FY 2015 operating income. The Inova Fairfax

Campus Improvement Project (IFH CIP), budgeted at \$850 million, is expected to come in \$100 million, or 12%, below target due to lower than expected construction costs. The old patient tower is currently under renovation, and the new South tower is open. The Women's and Children's Hospital is currently under construction, and \$187 million has been budgeted for its completion. The Green Garage will open ahead of the Women's and Children's Hospital. The Lorton Surgery Center is also open, and despite disappointing volumes, patient volume has increased. The \$45 million Mount Vernon Hospital tower project is nearing completion with 40 private beds and shelled space for another 20. Inova is also expanding IMVH's Emergency Department with 35 new treatment bays at a cost of \$25 million. Inova Fair Oaks is upgrading its radiology-oncology services with \$40 million in improvements. The hospital has also outgrown its existing operating rooms, so a 25,000 foot, \$36 million surgery expansion project is planned with six new ORs. Inova continues to look at the Exxon Mobil campus, but is exploring alternative sites as well. Lastly, construction is underway for the \$20.5 million Ashburn HealthPlex, which will provide ER, imaging, urgent care, laboratory, and ancillary services; medical office space will be available on the second floor.

While the capital-intensive Epic installation was completed last year, Inova reported that there remains high demand for IT infrastructure and enhancements. In 2015, Inova will install an updated version of its Epic software at a cost of \$25 million. The upgrade will require enhanced workstations, servers and wireless technology. Inova's urgent care centers have Epic installed, but physician-owned surgery centers are responsible for the software purchase. Inova will work to help users incorporate PDFs into their programs.

Inova also benchmarked its charges across other Northern Virginia and Metropolitan-DC acute care hospitals. Based on 2013 Virginia Average Regional Case Mix Adjusted Gross Charges, Inova had the lowest charges of any regional grouping in the State of Virginia; charges were 16% lower than Inova's Northern Virginia Competitor average. Comparing 2013 Inova Fairfax Hospital Medicare Case Mix Adjusted Gross Charges to other metropolitan hospitals (e.g., Medstar Washington Hospital Center, Georgetown University Hospital, George Washington University Hospital, etc.), IFH had the lowest charges, which were 54% of the comparable DC hospital average.

Despite Inova's FY 2014 performance, Inova representatives cautioned that its operating environment in 2015 will grow more challenging with additional Medicare payment cuts, greater market competition (e.g. StoneSprings Hospital Center in Southern Loudoun County and Novant's Haymarket facility), and International Classification of Disease tenth revision (ICD-10) billing/payment requirements. Inova expects generally flat patient volumes at its acute care facilities. FY 2015 inpatient admissions are expected to increase 0.4% while ED visits are projected to decrease 1%. Combined, these factors are forecasted to lower Inova's operating margin from 7.6% in FY 2014 to 6.8% in FY 2015.

Inova's Medicare net revenue reflects over \$17 million in Affordable Care Act (ACA), sequestration and Recovery Audit Contractor (RAC) reductions in 2015. Medicaid payments are expected to be flat in 2015, and Inova anticipates the unreimbursed cost of treating Medicaid patients will continue to grow. With respect to Inova's FY 2015 managed care contracts, the hospital is working to negotiate adequate and reasonable compensation for the services it provides.

Inova has made considerable progress in streamlining its cost structure over the last several years to facilitate significant capital reinvestment requirements, strategic priorities, and structural changes in payment systems. However, the FY 2015 budget includes an 8.1% increase in total operating expenses.

In summary, Inova's flat volumes, a 7.2% increase in net revenue, and an 8.1% increase in total operating expenses translates into a \$195 million, or 3.7% decrease, in income from operations over prior year and a projected operating margin of 6.8% in FY 2015.

Inova is forecasting its FY 2015 community health benefits spending, which excludes bad debt, to increase from \$198.4 million to \$208.8 million. Inova's FY 2015 community health programs represent 7.3% of the system's projected revenue. Inova is also adjusting its self-pay discount from 46% to 50% of gross charges, effective January 1, 2015. The \$60 million loss of income for physician services reflects the entire system, including Loudoun Hospital. Charity/indigent care numbers are down over prior year, but bad debt continues to increase. Inova has not seen a spike in insurance exchange business.

In FY 2015, Inova will implement a 2.5% retail rate increase. Inova cited its recapitalization and infrastructure needs, including ICD-10 IT remediation, continued and deepening operating losses on Medicare and Medicaid business, and unreimbursed costs for providing care for indigent and bad debt patients, as factors necessitating a planned rate increase.

Based on HCAB discussion it was felt that the community does not benefit enough from Inova's efficiencies and economies of scale and system-wide, Inova has higher operating margins than its peers nationwide. Mr. Runyon explained that the Moody's statistics do not account for recapitalization, which makes Inova's margins appear high. These margins will peel off in successive years as interest and depreciation take a larger share of operating income. Moreover, Mr. Runyon felt that the community will benefit from the capital investments and new services that Inova is bringing online.

Tim Yarboro moved that the HCAB send a memo informing the BOS that per the lease agreements, representatives from Inova provided information on the FY 2015 budget. Ellyn Crawford seconded the motion.

Rose Chu suggested that Inova's benchmarking data be included in the memo as well as the increase in self-pay discount.

Bill Finerfrock moved an amendment that the proposed rate increase was not warranted, given Inova's significant profitability and large reserve fund. Dr. Trahos, DO seconded the amendment.

During discussion, some members felt that facility enhancements justified the increase.

The amendment passed 7-3. The main motion passed unanimously.

Other Business

Caesarian Births

Mr. Finerfrock shared a recent *Consumer Reports* story that showed Inova Fairfax had the seventh highest rate of C-sections for low-risk births nationwide. Ms. Blum will see if she can find the full report.

There being no further business, the meeting adjourned at 9:52 pm