

2009 ASSISTED LIVING SUMMIT



CALA is pleased to present this summary of its recent *Assisted Living Summit: Expanding Options*. CALA convened the Summit bringing together experts in a variety of fields to begin to explore some of the programs and options that can help lower-income consumers access Assisted Living. This Summit represents the first step in what CALA expects to be an ongoing effort.



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EXPANDING OPTIONS



California Assisted Living

CALA

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Background

Assisted Living communities in California are licensed Residential Care Facilities for the Elderly (RCFEs) and provide 24-hour care and supervision to seniors who need assistance with activities of daily living, but do not require 24-hour skilled nursing care. Assisted Living is a popular care option due to the high quality of care and customer service provided in a flexible, home-like setting. While the licensure category includes communities licensed for six or fewer residents (often referred to as “board and care”), for purposes of this discussion, we focus on the larger Assisted Living communities.

When examining the cost of Assisted Living, it is important to consider the cost of other care options. According to a recent MetLife study, the average cost of Assisted Living in California was \$3,845/month or \$46,140/year, while care in a skilled nursing facility was \$7,470/month or \$90,885/year. Other care options (excluding housing related costs such as mortgage/rent, property taxes, utilities, maintenance, transportation, etc.), include adult day care at an average of \$74/day; home health care at \$22/hour, and home care at \$20/hour. Put in this context, Assisted Living offers an affordable option. Many of these other care options, however, receive government financing which covers much of the costs for lower-income consumers. So while other options might be more costly, often the payments are being made by someone other than the consumer.

Assisted Living communities in California offer a wide range of pricing, including those that accept SSI/SSP (\$961), to high-end communities that offer a high level of care and amenities and may charge \$5,000 a month. This range of pricing offers consumers a variety of choices.

Today’s economic realities, however, present challenges for consumers who may have difficulty affording the type of arrangement they prefer, despite the range of pricing available. The economic crisis has left some seniors unable to sell their home or facing losses in their retirement plans, while others find themselves supporting adult children who have been impacted by layoffs. In addition, many adult children who in the past would have contributed to the payment of their parents’ care now find themselves unable to do so. Assisted Living providers have also been impacted by the economic crisis and increasingly inadequate SSI/SSP rates.

Despite the economic environment, the need for Assisted Living continues to grow. There is currently “delayed demand” for Assisted Living, due to the current economic environment that has impacted some seniors’ savings and investment portfolios and the ability to sell their home. This delayed demand will eventually lead to a relatively strong Assisted Living recovery. Construction of new facilities is currently at an all time low and there are significant barriers to entry in terms of cost and approvals. Another indicator of need and growth directly takes into account the demographic trends. According to the U.S. Bureau of the Census, the following is the percentage of seniors by age cohort who need assistance with three or more activities of daily living:

- Age 75 to 79 20%
- Age 80 to 84 31%
- Age 85+ 50%

As the population ages, the actual numbers of people requiring Assisted Living services will grow. There is no question that the demand for Assisted Living at all pricing levels will grow significantly in future years as well.





Market Rate Assisted Living

To lay the groundwork, the Summit opened with a discussion of the costs involved in developing an Assisted Living community and the ongoing costs involved in delivering needed services.

The monthly fees charged for Assisted Living must cover two major cost elements:

1. Financing payments that cover the costs of development.
2. Service costs of ongoing operations.

Both of these cost elements have limited elasticity. The costs remain relatively high and inflexible for Assisted Living communities developed for either full market rate or lower-income consumer groups.

Development Costs

The costs involved with developing a new Assisted Living community or converting an existing building are significant. From acquisition of land to construction hard costs, developing a 100-unit community can easily run in the \$20 million-plus range, even in a relatively affordable geographic area. Ironically, in major urban areas, where the need for lower cost Assisted Living is greatest, providers face the greatest development costs (land, building code requirements, etc.). Finding ways to lower development costs enables providers to offer lower prices to consumers.

Service Costs

Assisted Living is much more than simply housing -- it is a labor intensive 24-hour-a-day service. Labor costs account for the biggest share of ongoing expenses -- over 50% by some estimates (The State of Seniors Housing 2008, ASHA), followed by costs of food/supplies, utilities, taxes and insurance, just to name a few. Ongoing maintenance can also be a significant cost depending upon the age of the building. In addition, changing regulatory requirements themselves impact the cost of delivering services.

Assisted Living service costs are significant. A study conducted by Moore Diversified Services, Inc., a nationally recognized senior living consulting firm, found that the service component accounted for 81% of the total operating costs, while the real estate component accounted for only 19%.

Market Rate Trends

Today's economy is leading some consumers to make different choices in order to obtain Assisted Living services in the community of their choice. Some providers are seeing more consumers opt for shared units (private or semi-private bedrooms with shared living area, bathroom and kitchenette) as a way to reduce costs. A provider who regularly offers shared units noted that shared rooms or smaller units can be attractive to consumers when paired with a strong and sophisticated activity program that draws residents out to the common areas for socialization and activities. In these situations, the resident's unit is more like a bedroom, and the common areas of the community (library, living room, activity room, garden, etc.) are where the resident lives and socializes during the day. This choice enables consumers to receive needed care in an attractive, residential setting of their choosing.

The question remains... Given what we know about the costs of developing and operating Assisted Living, how can these costs be reduced in order to offer a lower price to consumers without negatively impacting quality or innovation?

Tax-Exempt Bonds

Tax-exempt bonds assist in acquiring land and constructing new Assisted Living communities, and assist in purchasing and rehabilitating existing communities. Tax-exempt bonds lower the interest rate paid, which in turn requires and enables the provider to set aside a specific percentage of units for low and very low income residents. To obtain tax-exempt bond financing, Assisted Living providers compete in a process administered by the California Debt Limit Allocation Committee (CDLAC). CDLAC awards points for certain features it deems desirable (proximity to shopping, transportation, etc.). This type of financing enables the provider to offer units well below market rate.

While many low and very low income seniors are able to access Assisted Living due to tax-exempt bond financing, it is not the complete and final answer. Service costs are still an issue. While the overall monthly fee is lower for qualified residents, the cost of services can make it hard for very low income residents, despite the reduced rate on their living unit. In some cases, providers have challenges finding qualified residents who can afford to cover the costs of their service needs. In other cases, private pay residents may end up indirectly subsidizing the care needs for very low income residents.

Despite that concern, tax-exempt bonds continue to be an attractive option for some providers and are currently in use and sought after by Assisted Living developers throughout the country.

Tax Credits

Tax credits represent a dollar-for-dollar reduction in tax liability for investors as distinguished by a percentage tax deduction. These types of programs help to finance the construction and rehabilitation of low income rental housing.

Using tax credits for Assisted Living in California poses challenges relative to conforming to IRS rules and state licensing rules. Under IRS rules, services provided must be optional, while State licensing regulations require that basic services be provided. Making tax credits work is complicated. Tax credits are used for this purpose in other states however, and warrant additional examination to understand the factors that make this a workable option.

Medicaid in California

Medicaid is a government program that provides health coverage to eligible low-income individuals and families. While California's Medicaid program, Medi-Cal, covers care in a skilled nursing facility, it has only just begun to explore covering care provided in Assisted Living.

The Assisted Living Waiver Pilot Program (ALWPP) enables a small number of eligible beneficiaries in Sacramento, San Joaquin and Los Angeles Counties to access services in an Assisted Living community or in publicly subsidized senior housing. Medi-Cal will pay \$52-\$82 per day for nursing home eligible individuals to receive needed care in Assisted Living. SSI/SSP is used to pay for room and board.

California has received approval from the Centers for Medicaid and Medicare for an extension and authority to gradually expand the program. However, the Department of Finance has not approved the expenditures and the expansion. So currently, the program remains capped at 1000 enrollees in those three counties. Even if the program were to grow, challenges and concerns remain. The reimbursement rate is considered low, given the cost of providing the high level of care to nursing home eligible beneficiaries. The program also restricts the use of shared units (even with private bedrooms), despite the fact that they are more affordable. There are also concerns that pressure from the State to move long-term

nursing home residents into Assisted Living, while paying significantly reduced reimbursement could create quality of care problems if reimbursement is inadequate. Partnering with the government in a program like this is also a concern for care providers. The State's budget crisis frequently results in dramatically delayed and reduced payments and makes working with the government exceedingly difficult.

Despite these issues, Assisted Living providers remain optimistic that this program can evolve to fill a growing need. The program's extension and expansion is expected to open doors to more seniors in need of care.

Other Medicaid Programs

Almost every state has a Medicaid waiver program for Assisted Living or has made these services part of their state plan. Illinois had the luxury of designing its program from scratch while designing a separate licensure category to meet its needs, unlike California's experience of designing a program within an already well-defined licensure category.

Since 1999, Illinois' Medicaid program has covered services provided in certified Supportive Living Facilities (SLFs). SLFs are residential settings that provide or coordinate flexible personal care services, supervision and assistance, activities, and health-related services with a physical environment designed to minimize the need for residents to move in order to accommodate changing needs and preferences. The certification versus licensure helps avoid challenges relating to IRS and HUD rules.

The program serves seniors and persons with disabilities, regardless of income, who would otherwise be served in institutional settings, such as nursing homes. The program reimburses at Medicaid rates for services that are 60% of nursing home rates, so there are built-in savings to the state. Food stamps are also available to eligible beneficiaries.

There is high satisfaction from residents and their families for the quality of life and services offered by SLFs. The Supportive Living Program has federal authority to serve up to 11,500 persons per year with Medicaid funding. There are presently 108 operating sites with over 8300 apartments located throughout Illinois in urban, suburban and rural settings. Another 39 sites with over 3500 apartments are under development and should be operational over the next two to three years.

Summary

The Assisted Living Summit: Expanding Options represents the first step in an ongoing dialogue on how to expand access to Assisted Living to lower income consumers. The most obvious next step is for the State to consider innovative ways to strengthen and expand the Assisted Living Waiver Pilot Project, thereby enabling more low-income Californians to directly access Assisted Living. CALA will continue to work with the Department of Health Care Services on the ALWPP program and will continue to explore information regarding tax exempt bonds and tax credit financing. Other models, such as partnerships with local governments, PACE (Programs for All-Inclusive Care for the Elderly), long-term care insurance, and others, should also be examined.



Summit Speakers

Granger Cobb

Granger Cobb has served as President and Co-Chief Executive Officer and as director of Emeritus Senior Living since joining the company in September 2007, effective with the merger of Summerville Senior Living, Inc. Granger has 23 years of senior management experience in the senior residential and skilled nursing industries, as well as Assisted Living. Prior to joining Emeritus, he served as President, Chief Executive Officer, and a director of Summerville. Granger joined Summerville in 1998 with its acquisition of Cobbco, Inc., a California-based Assisted Living company, which he founded in 1989. Granger is active in several industry associations and has served on the boards of the Assisted Living Federation of America (ALFA), the National Investment Center for the Seniors Housing & Care Industry (NIC), and the political action committees for ALFA and the California Assisted Living Association (CALA).

Mark Helmar

Mark has enjoyed a 37 year career with the Department of Health Care Services and the Health and Human Services Agency. As Chief of the Long-Term Care Division, Mark manages several programs that provide Medi-Cal services to frail elderly and disabled persons to improve their quality of life and keep them safe and healthy in their communities. To further California's Olmstead Mission to provide services in the least restrictive environments, his division focuses on streamlining program requirements and expanding the number of persons served by Programs of All-Inclusive Care for the Elderly, the Assisted Living Waiver Pilot Project, the Senior Care Action Network, the Nursing Facility/Acute Hospital Waiver and the California Partnership for Long-Term Care.

Paula Hertel

Paula has 20 years experience in Assisted Living operations and marketing. She currently is Chief Operating Officer for AgeSong, Inc., a management and development company that manages both for-profit and nonprofit Assisted Living communities. Prior to joining AgeSong, Paula was Vice President of Operations and Marketing for Elder Care Alliance, a nonprofit that managed and developed multi-level and stand-alone Assisted Living communities throughout California. She participated in all phases of feasibility, development and operations. Paula began her Assisted Living career at ARV and worked for 11 years in various capacities including Vice President of Operations and Strategic Planning, Marketing and Licensing Compliance. She is a board member of CALA and currently serves as co-chair for its Education Committee. She holds an undergraduate degree in Psychology and a Masters in Social Work.

James Kroger

James Kroger is a partner in the San Francisco office of Novogradac & Company LLP. James has extensive experience in consulting for affordable housing projects with financing from low-income housing tax credits and tax-exempt bonds. He conducts workshops regarding tax credit applications, tax-exempt bond applications and tax credit property compliance; and he has created a training program to help property managers become certified in IRS Section 42 tax credit property compliance. James is the technical editor of the monthly Property Compliance Report newsletter, which is published to help property managers and owners with IRS Section 42 tax credit property compliance. He is often a speaker at the Housing Credit Conference hosted by the National Council of State Housing Agencies. He received his bachelor's degree in legal studies from the University of California at Berkeley and his master's from the University of California at Davis. James is licensed as a certified public accountant in California.

Joe Lin

Joe Lin, Chief Financial Officer and Partner for Oakmont Senior Living, is responsible for the finance and accounting for each legal entity under the Oakmont name. Total financings since 1998 have exceeded \$1.1 billion. He provides direct supervision of the daily accounting and finance functions, assists in the procurement of debt and equity financing, and ensures compliance with debt and equity covenants. Prior to co-founding Oakmont, Joe was CFO of a previously affiliated company, Aegis Assisted Living. Prior to Aegis, Joe was Vice President of Finance for Sunrise Senior Living, Inc. He was involved in procuring debt, in the private and public offerings, and served in the investor relations role for Sunrise. Prior to Sunrise, Joe had over 12 years experience in real estate accounting and financing and over 5 years experience with an international accounting firm. He is a graduate of Wake Forest University with an accounting degree, and is a certified public accountant.

Wayne Smallwood

Wayne Smallwood is Executive Director of the Affordable Assisted Living Coalition in Illinois. The Coalition represents Supportive Living Facilities, the affordable, Medicaid-waiver model of Assisted Living in Illinois that operates under a program administered by the Illinois Department of Healthcare and Family Services (HFS). Before leading AALC, Wayne worked for 33 years for the HFS. He retired from state service in 2004 as Chief of the Bureau of Long Term Care. While at HFS, he was responsible for helping to develop and implement the Supportive Living Program in 1996, where it was started as a budget initiative to serve those who would otherwise go to a nursing home. Prior to the development of the SLF model, Assisted Living was unavailable in Illinois to those who need Medicaid assistance.

Special Thanks

CALA extends a special thank you to Jim Moore, Moore Diversified Services, for moderating the *2009 Assisted Living Summit: Expanding Options*.

Jim Moore

Jim is President and founder of Moore Diversified Services, Inc. For the past 35 years, his company has served thousands of national and international Assisted Living and senior housing clients, providing market feasibility studies, detailed financial pro forma analysis, strategic planning, operations analysis and investment advisory services. Jim has over 40 years of experience in Assisted Living and senior housing and is the industry's leading independent living and Assisted Living author. Jim holds a Bachelor of Science degree in Industrial Technology from Northeastern University and an MBA in Marketing and Finance from Texas Christian University.



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