

Expanding Access To Assisted Living in Massachusetts:  
Five Models of Greater Affordability

by

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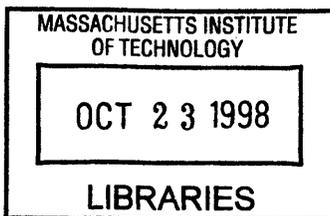
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NOTCH



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## ABSTRACT

Opportunity for further expansion of the assisted living industry in Massachusetts rests on the ability of project sponsors to create facilities which are affordable to moderate-income elders—those earning between \$11,000 and \$24,000 annually. This study investigates five approaches to developing assisted living facilities which may reduce resident fees and expand access to this important seniors housing type for this population.

Case studies representing each approach are discussed, and the success of each case is assessed on the basis of its successful delivery of the assisted living concept, as well as its success in reaching the moderate-income population. Comparison of the cases shows that sponsors focussed on creating affordable units may combine state and local economic development and low-income housing subsidies with a compatible service plan, and expand the horizon of affordability.

Also, education and support for locally-based mission driven sponsors is a key initiative for state and local governments and industry leaders.

Thesis Supervisor: Langley Keyes  
Title: Professor of City and Regional Planning

## Acknowledgements

The owners, managers and consultants who participated in the development of the case study projects provided the backbone of the paper. I am grateful for their willingness to talk freely about their projects, and their generous contribution of materials and their time, despite mid-summer funding deadlines, frantic construction schedules, as well as imminent vacation plans. Whatever is found to be useful in this study is mostly owing to their candor. Any shortcomings of the case studies are strictly the responsibility of the author

Thanks also go to Andy Bader, at Clarion Consulting, and Naren Dhamodharan, at the Executive Office of Elder Affairs, for providing a footing from which to think about the meaning of "affordability" in the context of assisted living.

The MassALFA Affordability Task Force, Urban Areas Subcommittee was a constant source of support and encouragement, as well as early morning nourishment, and I am lucky to have been included in their important work of educating the industry and disseminating information. For introducing me to the committee, and for guiding this work all along, I have Russ Tanner, of Haydu & Lind, to thank.

My advisor Langley Keyes was a fountain of cheer throughout this study, and I am indebted to him, and to all the others at the Center for Real Estate who helped to make this such an exciting, challenging and enriching year.

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# 1

## INTRODUCTION

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The assisted living industry is young, but maturing quickly. Expanding competition for market share, increasing government regulation, and more dynamic flow of information across the industry are creating greater efficiencies in pricing, supply, and operations among all long-term care alternatives. As the assisted living industry matures, the greatest challenge facing providers, both for-profit and not-for-profit, is learning how to extend the services and housing amenities of assisted living to lower income groups. This study was undertaken with the premise that recent projects which have been able to offer lower than average resident fees may teach us something about how the industry may continue to expand, and serve a broader population.

On the spectrum of living arrangements for seniors, assisted living occupies the area somewhere between independent congregate housing and skilled nursing facilities, in terms of level of care. Victor Regnier, a leading proponent of design innovations in assisted living, offers the following definition:<sup>1</sup>

Assisted living is a long term care alternative that involves the delivery of professionally managed personal and health care services in a group setting that is residential in character and appearance. It has the capacity to meet unscheduled needs for assistance and does so in ways that optimize the physical and psychological independence of residents.

Services typically include assistance with activities of daily living, communal dining, 24-hour security and emergency call, medication management, and social or recreational activities.

The number of assisted living facilities in Massachusetts has increased more than ten-fold during the past five years. What has caused this meteoric growth? Partly it has been due to a clearer understanding of the concerns and needs of the frail elderly and their families. The overbuilding of seniors congregate housing in the mid-1980s, and subsequent financial losses incurred by developers, lenders, and ultimately the public through Resolution Trust Corporation bailout, painfully illustrated the fact that seniors do not relocate because of better housing opportunities.

They move because of a need for services. Most elders own their own homes, and wish to remain in them as long as possible. When a basic need arises however, assisted living excels traditional homes for the elderly in providing a tolerable transition from homeowner status to dependency, in a cost-effective manner. As a successful means of buoying the happiness of a growing sector of the population, continued expansion of this market should be encouraged.

Assisted living residences are expensive. The median income for Massachusetts seniors over the age of 75 is \$20,500. The average annual fee for assisted living is \$33,600, however. Even assuming 25 percent of a resident's fee is paid for out of assets, the average senior cannot afford the average fee. Approximately 17% of the assisted living inventory in Massachusetts is set aside for seniors earning less than approximately \$11,000 per year, through government subsidy programs. Moderate income seniors-- those earning between \$11,000 and roughly \$24,000 annually-- comprise a third of the population, and yet may have little access to assisted living.

LOW	\$11,000	MODERATE	\$24,000	HIGH
40% of population Government subsidies available		35% of population Payment method = ?		25% of population Private pay

The challenge which the assisted living industry faces today is serving the moderate group, which can neither qualify for government subsidies, nor afford to pay current market-rate fees. Five approaches to developing assisted living have been identified which may address this problem:

- Approach No. 1: Massachusetts Housing Finance Agency (MHFA) financing, plus "4 percent" Low Income Housing Tax Credits (20% low-income).
- Approach No. 2: MHFA financing plus "4 percent" Low Income Housing Tax Credits, and other subsidies (50% low-income).
- Approach No. 3: Use of "9 percent" Low Income Housing Tax Credits plus low debt, plus other funds.
- Approach No. 4: Low cost construction, but no subsidies.
- Approach No. 5: Federally subsidized Section 202 housing with community-based services brought in.

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<sup>1</sup>Regnier, Victor. "Critical Issues in Assisted Living." Los Angeles: USC Press: 1996. P.6.

Each approach is an integral and permanent part of the project's ability to accommodate low and moderate income individuals. Developing the site and building is only one stage in providing assisted living, however, and delivery of services has an equal, if not greater, impact on the project's overall affordability. Through case studies, each approach is explored, and an attempt made to isolate the chief factors contributing to the success of each project in delivering affordable assisted living to the moderate income population.

Chapter 2 presents a brief overview of Massachusetts' assisted living industry, and explores the issue of affordability in greater detail. Chapter 3 reviews the method of case selection, and basis for assessment. Chapters 4 through 8 present the five approaches sequentially, and their respective cases. In Chapter 9, these approaches are discussed comparatively. The degree to which the cases serve moderate-income elderly, while still providing a residential setting and a full array of services is the basis for comparison between them. It may be possible to house low-income elderly in a comfortable fashion without services, and conversely it may be possible to provide these services in "warehouses" at very low cost. In combining both the housing and services components of assisted living, and keeping rents at a minimum, however, one must critically evaluate which services and housing amenities are basic to the proper functioning of the facility.

This study is intended for a broad audience which shares an interest in assisted living as a sensible approach to raising the quality of life for certain frail elderly, and which is interested in seeing this approach reach a wider market. Developers, consultants, and sponsors engaged in building and operating assisted living facilities may find this study useful, as well as policy makers whose objective is to optimally align legislative tools with the actual needs of the elderly and resources of the state. The scope of the study has been limited to the assisted living industry in Massachusetts, because funding mechanisms and regulatory policies differ modestly between states. The research has been conducted in collaboration with the Massachusetts Chapter of the Assisted Living Federation of America. MassALFA's Affordability Task Force is charged with the role of educating the industry on techniques for making assisted living more affordable.

### *2.1 Current Conditions of Assisted Living in Massachusetts*

The Executive Office of Elder Affairs of Massachusetts (EOEA) began regulating the assisted living industry in January of 1996, commencing a certification process for facilities which collect payments in exchange for room and board, assistance with activities of daily living, and self administered medication management, either through physical support or supervision.<sup>2</sup> The concept of assisted living has been nurtured over the course of a decade, however, by elder organizations, senior care providers, gerontologists, legislators, real estate professionals, and myriad others. Assisted living professionals tend to share a common sense of purpose, that what they are doing is essentially good. For while assisted living is a regulated, often profitable business, it is also perceived as an innovation which has the power to positively impact the lives of people who have become culturally excluded and isolated. That this population is the fastest growing segment of the nation as a whole only intensifies the atmosphere of purposeful optimism which characterizes the industry.

Assisted living is one category of seniors housing in a field of five which includes independent living, congregate housing, skilled nursing facilities and continuing care retirement communities. Together, the five service the seniors population, which is variously defined as individuals over the age of 60, 65 or 75, but is generally taken to be those adults no longer in the workforce, and who have distinct day-to-day needs due to advanced age.

*Independent living* is a housing alternative which offers a quiet, age-exclusive environment with basic building services such as 24 hour security and maintenance. In theory these residences differ from an apartment complex only in their age limitations and certain design features.

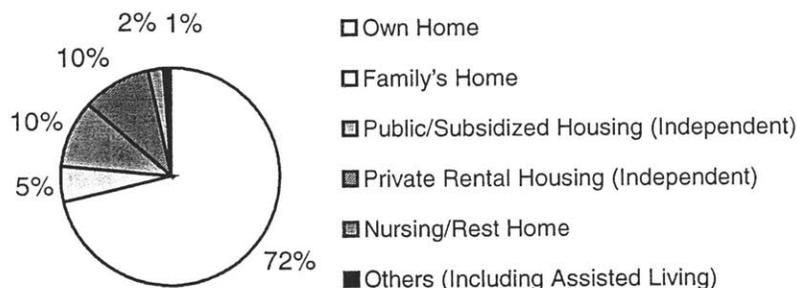
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<sup>2</sup> Chapter 19D of the Massachusetts General Laws, "An Act Establishing Assisted Living Residences."

*Congregate housing* differs from independent living in that residents share common spaces such as a dining area, living room, kitchen and bathrooms, and limited services are provided such as housekeeping, transportation and recreational activities. Many assisted living residences are operated in conjunction with an “independent living” facility (often just a separate section of the same building), which may be more accurately thought of as congregating housing. Resident costs for congregating housing vary from place to place, but are on the order of \$1200-\$1800 per month for a one bedroom unit in the Northeast.

*Skilled nursing facilities* provide licensed skilled nursing care and rehabilitative services. The typical long-term resident is at least 80 years old and is mentally disoriented, uses ambulation aids, and needs assistance with activities of daily living, including bathing, dressing, transferring, toileting, and eating. Nursing homes often operate in association with hospitals, offering sub-acute care, and recovery for surgery patients. They typically house from 75 to 150 residents, with double occupancy rooms the most common configuration. In Massachusetts resident costs average between \$4,500-\$5,500 per month.<sup>3</sup>

**1993 Massachusetts Living Arrangements, Age 60+**  
 source: Executive Office of Elder Affairs



*Continuing care retirement communities* offer all the housing alternatives mentioned above, including assisted living. An initial entrance fee is often charged, ranging from \$50,000 to \$150,000 or more, which may be partly refundable upon departure or death. In exchange, residents

<sup>3</sup> Gibler, Karen and Lumpkin, James. “Retirement Housing and Long-Term Health Care”. in Anikeeff and Mueller, eds. *Seniors Housing*. Dordrecht: Kluwer Academic Publishers, 1998.

receive a limited guarantee of a continuum of care as they age, without having to relocate from the community.

Seniors housing as a whole is an \$86 billion industry— greater than the entire REIT market capitalization; despite this, the vast majority of older Americans own their own home. During the early to mid-1980's, seniors housing stock, and congregate housing in particular, became severely overbuilt. Longer than anticipated lease-up periods, and the resulting financial failure of these facilities, taught investors and regulators a hard lesson: seniors housing is fundamentally needs-based.

While living in a traditional single family home can be difficult for elders who live alone and need assistance with activities of daily living, it is clear from the demographic data that elders resist relocating. A shift from homeownership to rental housing is difficult at any stage of life. Nationwide, twice as many people shift from rental housing to homeownership as the reverse. The competence in a familiar environment, family orientation and memories, and status gained from homeownership are simply hard to give up.<sup>4</sup> For elders, whose loss of homeownership status is ostensibly permanent, the psychological barrier is even greater. Instead, an elder may suffer social isolation, risk serious injury, and incur tremendous home health care costs, in order to postpone relocating.

Assisted living includes a substantial care component, but also important, and often downplayed, is the housing component, which is intended to be intimate and home-like. The chief innovation of assisted living is its potential to mitigate the shock and discouragement of losing the privileges of homeownership while still providing a safe and secure environment. The general philosophy which assisted living residences share in common is that the physical and cognitive deterioration associated with aging should not interfere with an individual's ability to exercise control over his/her personal care, and living environment. Thus while still a need-based alternative, assisted

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<sup>4</sup> O'Bryant, Shirley. "The Value of Home to Older Persons." Research on Aging No. 4, 1982. pp 349-363. A study of 320 homeowners over the age of 60 determined that these were the chief subjective attitudes contributing to a strong correlation between homeownership and housing satisfaction.

living is an expanding market, as more home-bound elders and their families reach a comfort level with the facilities earlier in the aging process.

How that comfort level is reached, and what amenities influence that decision is partly a factor of personal tastes and consumption habits. There are certain standards which all assisted living facilities adhere to, however. Rooms are mostly single occupancy, with lockable doors. Room furnishings are supplied by the resident. A small kitchenette is usually included, with a range, oven, and refrigerator. Common areas are carpeted, and walls are covered in warm hues and soft-lit. Capacity of the facility is usually limited to 80 residents or fewer.<sup>5</sup>

	National	Northeast	Massachusetts
Total No. Units	58	73	44
Bldg Size	47,250 sf	78,000 sf	32,000 sf
% Common Area	--	--	56%
Unit Size (Studio)	306 sf	284 sf	--
Unit Size (1BR)	481 sf	444 sf	--
Unit Size (2BR)	683 sf	670 sf	--
Unit Size (Shared)	321 sf	311 sf	--

*Average Facility Statistics<sup>6</sup>*

The average resident in assisted living is 83 years old, female, and single. For the purposes of this study, Massachusetts seniors age 75 and up have been chosen as the pool of potential candidates for assisted living. In 1990 they comprised 5.9 percent of the total population of the state, and it is estimated they will comprise 8 percent of the population in thirty years. The anticipated expansion of the seniors population has been well documented, and does not need extensive treatment here; this growth is due primarily to the aging of the baby-boomer generation, but also to longer life expectancies, as well as a recent trend of frail seniors returning from Sun-belt communities to be nearer their children in the Northeast.<sup>7</sup> In addition to population growth among frail elderly, some

<sup>5</sup> For a discussion of resident preferences in assisted living see Alitz, Catherine. "Analysis of Tenant Preferences for Various AL Services and Amenities..." MA Thesis, MIT Department of Urban Studies and Planning, 1997. For a review of best practices in design see also Regier, Victor. *Assisted Living for the Aged and Frail*. New York: Columbia U. Press, 1995.

<sup>6</sup> Based on 1996 ed. "An overview of the Assisted Living Industry." Assisted Living Federation of America.

<sup>7</sup> "Elderly are Turning to Assisted Living." New York Times, Aug 20, 1997. Sec 13LI, p1.

have argued that the greater numbers of women in the workplace is diminishing the number of elders who can turn to their daughters for aid, traditionally an important provider of housing and care.<sup>8</sup>

Nearly half of the population age 85 and over needs assistance with at least one activity of daily living, and nearly half of the population age 75 and over needs assistance with at least two areas of basic need.<sup>9</sup> These statistics provide some explanation for the rapid expansion of the assisted living industry in Massachusetts, which has grown to approximately 105 facilities from a handful over the course of a decade. Approximately twenty percent are owned by not-for-profit sponsors such as community development corporations, and religious institutions. The remainder are owned by private partnerships, real estate investment trusts, and corporations in the hospitality or senior housing business. Some owners are very involved in the daily operations of the facility, while others contract with a service provider. Approximately half of the owners responding to a 1997 Mass-ALFA survey contracted out building maintenance, housekeeping, personal care, and/or laundry services.<sup>10</sup>

## ***2.2 Assisted Living and Affordability***

Afordability is a complicated concept for assisted living residences, in part because they are comprised of both housing *and* services components. From the standpoint of federal housing policy, “affordable” rents are defined as being less than 30 percent of household income. Due to the inclusion of meals and services in assisted living fees, there is more uncertainty over the appropriate level of expenditure for assisted living. The Massachusetts Housing Finance Agency

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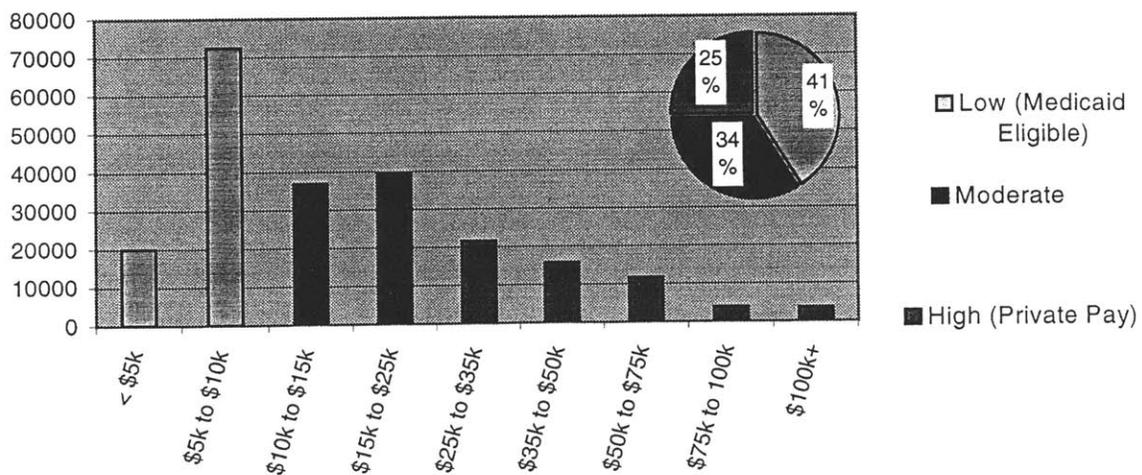
<sup>8</sup> Wolfe, John. The Coming Health Crisis. Chicago: The University of Chicago Press, 1993. P.63.

<sup>9</sup> Status of the Elderly in Massachusetts. Executive Office of Elder Affairs of Massachusetts. In 1993 EOEAA conducted a survey of needs of the 60+ population, based on a random sample of 3,837 individuals. Activities of daily living include bathing, dressing, eating, transfer in/out of bed/chair, getting around indoors, toileting, and dealing with incontinence. 34 basic areas of need were also surveyed, 27 of which could be fulfilled by services in an assisted living environment. Areas of need include activities of daily living, as well as household tasks such as shopping, doing the laundry, bookkeeping etc.

considers assisted living fees less than 80 percent of household income to be affordable. In their market analyses, developers more typically assume expenditures of 70 to 75 percent of income. A more complicated issue surrounding the question affordability relates to the source of funds for resident fees. To what extent should a resident be expected to spend down assets, when income is depleted?

If income is assumed to be the chief determinant of affordability, it can be demonstrated that there exists an affordability problem statewide. Assisted living residences typically charge a flat rate for a basic service package plus room and board, and additional fees for further services on an hourly basis. An informal study in 1994 determined that a newly constructed “low end” residence might charge \$2000 per month for a studio unit, without subsidy or other revenue support.<sup>11</sup> Approximately one third of the fee might cover the real estate component of this hypothetical facility; the remainder would pay for the care and services component. Assuming an annual price index inflation of 3 percent, in 1998 a “low end” residence might charge \$2250. Given that someone may be willing to spend 80 percent of their income on assisted living fees, a senior paying independently would require \$33,750 in after-tax income, or approximately \$40,000 in taxable income, to afford a one bedroom unit in this hypothetical residence. Only an elite 15 percent of the population over the age of 75 falls into this income category.

**Income Distribution of Massachusetts Seniors Age 75+**



<sup>10</sup> Mass-ALFA. Residence Survey, 1997.

Now assume that an elder may be willing to spend down assets. The US Census Bureau estimates that nationwide in 1993, individuals over the age of 75 who owned homes and earned between \$12,800 and \$24,000, had an average home equity of \$62,000.<sup>12</sup> Allowing for a 2:1 differential in the median assessed value of owner-occupied homes in Massachusetts to that of the nation, the average Massachusetts elderly homeowner in this income category has approximately \$124,000 in home equity. Thus in order to pay for assisted living resident fees of \$2,250 per month, an individual in this moderate-income cohort must contribute approximately 10 percent of their home equity annually. The population earning \$24,000, to \$36,000, which has roughly \$180,000 in home equity, must only spend approximately 4 percent of home equity on assisted living fees.<sup>13</sup>

Because elders do in fact spend down assets for assisted living fees, the industry serves a greater population than those whose income is in excess of \$40,000. This practice has strong negative associations, however, due to deep-seated cultural beliefs, as well as economic reality. The wish to pass on wealth to the next generation, and the difficulty of suppressing a lifetime ethic of saving (especially for depression-era elders) are the chief factors in this resistance, as well as the very real fear of having no means of support in a short span of time. Policy-makers, for their part, are reluctant to encourage elders' spending down home-equity to help finance assisted living fees, because any resident relying on a non-sustainable source of funds may eventually become a burden to the state. When assisted living fees threaten to consume the greater share of an elder's assets over the course of three or four years, they may no longer be considered affordable. Thus the benchmark "low end" assisted living facility may be accessible to Massachusetts elders who earn more than \$24,000, and whose assets will last upwards of 10 years. For those who fall below this income-level, however, the current landscape fails to provide many opportunities .

With this in mind, the issue of affordability has become widely discussed in the assisted living industry. Apart from a desire to service a needy population, interest in this issue from the private

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<sup>11</sup> Mass-ALFA. Assisted Living Affordable Housing Task Force Report, 1994 .

<sup>12</sup> US Census Bureau. Asset Ownership of Households: 1993, P70-47.

<sup>13</sup> These numbers are very conservative, since the home equity figures are based on assessed value, not sales price, and most assisted living facilities charge more for a studio (the average monthly fee is \$2,500 to 2,600). Furthermore, this does not account for those elders who only have a share of ownership in a home, or for that matter

sector is motivated by a race to increase market share. More than 20 publicly traded companies currently compete for projects in this field, pushing to meet their growth projections. Successfully reducing rates is the simplest way to gain market share.

From the public sector, interest in the affordability issue is motivated in part by a desire to reduce Medicaid outlays on nursing home care. Medicaid paid for approximately 41 percent of all nursing home expenditures in 1996, totalling \$51 billion nationwide. In many cases the needs of nursing home residents can be met in an assisted living environment, however. A 1993 study found that only 37 percent of Massachusetts nursing home residents required the level of care that they were receiving.<sup>14</sup> Because skilled nursing homes are 25-30 percent more expensive than assisted living, Medicaid expenditures for elders which are transferred to assisted living may be reduced substantially. One study estimated that subsidy programs supporting elders in an assisted living environment resulted in an average net savings to Medicaid of \$2,502 per member per stay in assisted living as compared to nursing home costs.

Recognizing the potential savings from wider use of assisted living residences, the Massachusetts legislature instituted a special category of supplemental security income (SSI) for assisted living residents in 1994, referred to as SSI-G. SSI is a means-tested cash assistance program created in 1972 as an amendment to the Social Security Act, to ensure a minimum standard of living for elderly or disabled, regardless of their contributions to the Social Security system. SSI-G is paid for by the federal Social Security Administration, and administered by the Massachusetts Department of Transitional Assistance. Recipients are elders who earn less than \$924 per month (subject to a federal cost of living adjustment), who have less than \$2,000 in assets, and who living in a certified assisted living residence. The maximum income supplement paid to eligible seniors is \$948 per month.

As part of the state/federal government SSI agreement, an individual who receives any SSI benefit

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those who don't own a home at all.

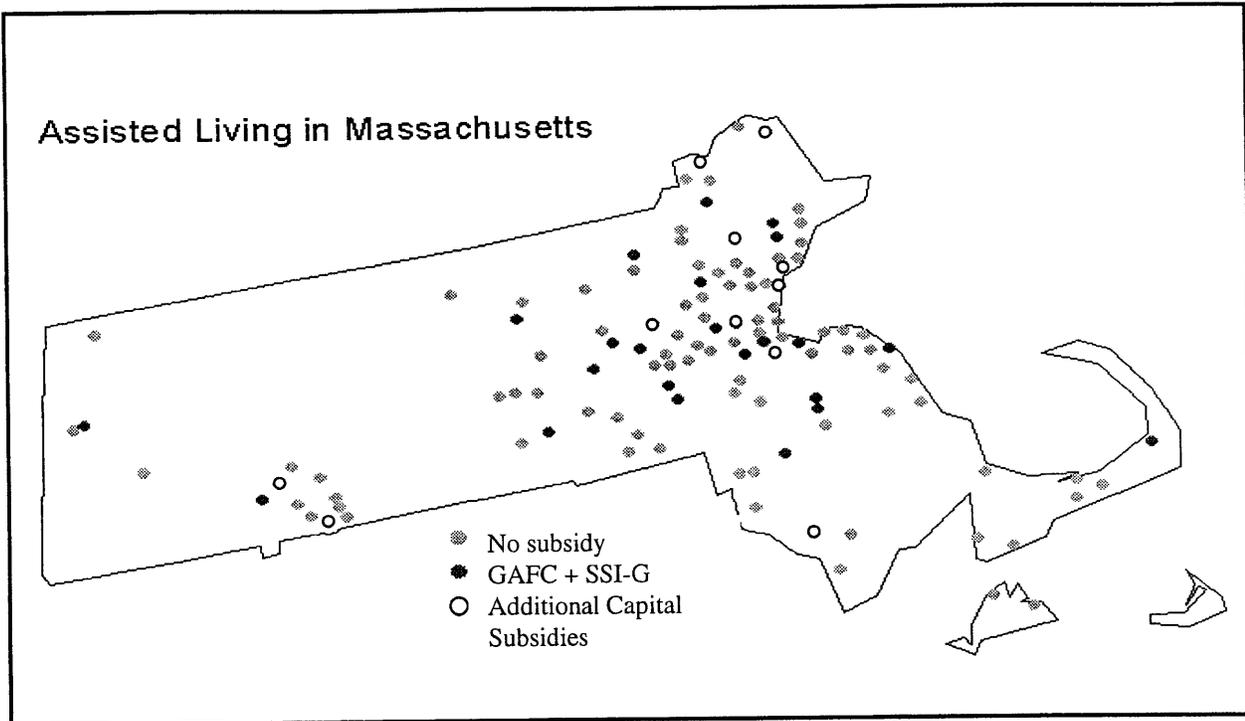
<sup>14</sup> Kristig, H. and Morris, P."Alternatives of Institutional Care for Elderly and Disabled," *The Gerontologist* (1992), pp. 139-142.

is “categorically” eligible for Medicaid benefits. Thus SSI-G recipients, who earn up to \$924 per month, are automatically eligible to receive reimbursements from Medicaid’s Group Adult Foster Care program (GAFC) for personal health care, even though the standard maximum income for the state Medicaid program is \$522 per month. In addition to financial need, GAFC recipients must need assistance with at least one activity of daily living, and must have confirmation from a physician that the individual may be at risk of institutional placement, and that services provided under the GAFC program fulfill the individual’s medical needs. Consequently, GAFC residents tend to be more frail and require more services than the average assisted living resident.

GAFC service providers include subsidized elderly housing or public housing in conjunction with home health agencies, and assisted living residences. Providers must have a housing component, which must not be subject to licensing requirements, such as a nursing home, and the housing must comply with basic fire and safety codes, and be in good repair. Providers are required to offer two hours of personal care daily if need be, 24-hour surveillance, and supervision of a formal care plan by a qualified program director. Approximately 34 assisted living residences statewide are certified for GAFC. Enrollees receive approximately \$1000 in personal care reimbursements. Combined, SSI-G and GAFC subsidies are worth approximately \$1,900 per month, enabling beneficiaries to meet most of the expenses of assisted living.

While an important means of providing access to assisted living for low-income elderly, the GAFC and SSI-G programs do not benefit elderly earning more than \$11,000. The moderate income population earning between \$11,000 and \$24,000 annually comprises a third of Massachusetts elders over the age of 75. How to develop assisted living residences which are affordable to this population, as a potentially valuable proposition for both government and private sectors, as well as an important measure in raising the quality of life for many elders, is the fundamental question the following chapters address. At the heart of this exercise is an assessment of the trade-offs which are necessary to reach this population. There is a rapidly growing literature of best practices in design for this seniors housing category, but there is little review of the costs incurred by each

additional amenity. In exploring the frontier of affordability, one must continually return to the question: what services and housing elements are indispensable to the proper functioning of assisted living?



Five approaches during the development phase have been identified which may reduce assisted living resident fees. They are:

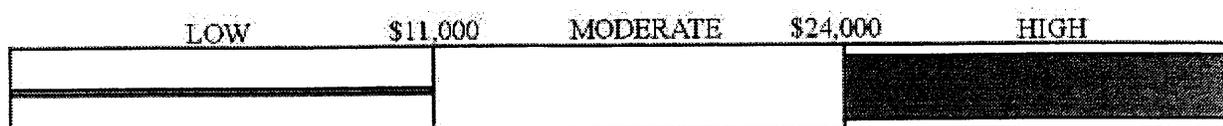
- Approach No. 1: Massachusetts Housing Finance Agency (MHFA) financing, plus Group Adult Foster Care where possible (20% moderate and low-income).
- Approach No. 2: MHFA financing plus GAFC plus Low Income Housing Tax Credits, and other subsidies (50% moderate and low-income).
- Approach No. 3: Use of deep Low Income Housing Tax Credits plus low debt, HOME funds, and low operating costs.
- Approach No. 4: Low cost construction, but no subsidies.
- Approach No. 5: Federally subsidized housing with community-based services brought in.

These categories have been identified through an informal survey of existing assisted living and assisted living-like residences in the state. All the residences surveyed which offer lower than average resident fees use one of these approaches. They are not all equally robust in enhancing the affordability of a residence, nor are they all appropriate for the same type of sponsor. Through case studies, each approach is illustrated, and then an attempt is made to assess its strengths and weaknesses, and its applicability to other projects. The cases are evaluated not on their success in accommodating the most poor elderly, but rather their success in accommodating those persons who are under-served by the industry, i.e. the moderate income population.

Within each approach, the cases have been chosen principally by virtue of their history of financial success while reaching low and moderate income residents, or, as in the case of two of the projects, their status as current developments which are breaking new ground. The cases are located in diverse townships, both from the standpoint of income level and employment base, and geographic locale. They also represent a diversity of ownership entities, including a single proprietorship, a not-for-profit religious institution, and mid-sized corporation with multiple investors.

The following scale is helpful in conveying each case's success in offering resident fees which are

affordable to the moderate income population:



*Benchmark residence with Group Adult Foster Care*

The width of the shaded bands corresponds to the relative number of residents in the corresponding income spectrum. The scale does not describe the success of the facility in providing a home-like environment or comprehensive services. Although a crude illustration, it is useful in comparing the general resident makeup of different projects, as determined by the fee structure.

Each project has certain basic components, which apply to any real estate development. First, the land or building to be refurbished must be acquired, and public approvals obtained. A development budget must be prepared, and funds procured to build the project. It is usually not possible to finance the entire project with investor equity alone, and debt financing must be arranged either through a commercial bank, a state or local agency, or another type of lender. By the time the construction phase begins, significant decisions have already been made with respect to the anticipated rent stream from the property, and the level of affordability has nearly been established. Following construction, the lease-up phase tests the accuracy of the developer's market analyses, during which there may occur some adjustment of resident fees.

Assisted living is different from a conventional housing development in its service component. How services will be provided is typically decided early in the development process, because they comprise such a substantial portion of the operating costs, and are seminal to the success of the project. Service costs comprise approximately one third of the overall operating expenses for a typical residence, of which the principle expense is labor. As a result, beyond conceptualizing an affordable residence, and financing the capital costs of the structure in a way which is compatible with the affordable concept, a strong effort must be made to bring the provision of services into alignment with that concept. Services may be provided by the project sponsor, or by a separate firm

under contract. Sponsors using outside service providers face an extra challenge in choosing a compatible firm, and nurturing a long-term relationship which safeguards the satisfactory delivery of services in conformance with the concept for the residence. Following a review of the capital financing process, each case study explores the particular operating practices of the residence, to assess its contribution to the level of affordability.

Information about each case was gathered through interviews with the developer of each project. Where possible, the director of resident services was contacted as well. Follow-up interviews were conducted with the finance agencies which participated in the projects, consultants, contractors, other staff members, and in some cases the residents themselves. A questionnaire was completed for each, detailing fee structure to determine depth of affordability. Second, a series of questions were posed pertaining to each phase of the development process. Finally, questions were posed pertaining to the ongoing operations of the residence.

In the chapters that follow, the theory of each approach is described, followed by at least one case study as an illustration. The goal throughout is to establish a picture of the financial success and the qualitative success of the representative projects and to understand how they achieve that success.

**4****APPROACH No. 1: Elder CHOICE  
(20% moderate and low-income)**

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***4.1 Description of the approach***

The essence of this approach is a low cost of debt capital, which reduces debt service, and may enable the residence to set aside more units for GAFC enrollees, and potentially for moderate-income elderly who do not qualify for GAFC.

The Elder CHOICE program was initiated in 1994 by the Massachusetts Housing Finance Agency, a quasi-public agency created in 1966 to address the lack of safe, decent and affordable housing in Massachusetts. Elder CHOICE provides low-interest construction and take-out loans to the assisted living industry through the sale of tax-exempt bonds. It was created with the same impetus as the GAFC program, namely to relieve the state Medicaid budget for nursing home costs, while creating a more attractive long-term care option for seniors. “Elder CHOICE was designed to be capital side of the state’s initiative, which would be easily married to the service side,” says Nancy Anderson, Senior Development Officer at MHFA.

To be eligible for Elder CHOICE funds, projects must meet the certification criteria for an assisted living residence, and must at a minimum set aside 20 percent of units for individuals whose income is below 50 percent of the area median income. For these individuals, assisted living fees can not exceed 80% of income. While these requirements may sound onerous from a financial perspective, Elder CHOICE was designed to be fully compatible with the GAFC and SSI-G. Most low-income residents in Elder CHOICE projects receive an income supplement from SSI-G, and are enrolled in GAFC. Funding for Elder CHOICE is subject to the state’s private activity bond volume cap, although there have historically been ample supply of funds.<sup>15</sup>

There are several benefits to using MHFA and Elder CHOICE, as opposed to conventional lenders.

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<sup>15</sup> The state funded approximately \$350 million in 1998 for private activity bonds, 45% of which is allocated to

First, the rate of interest and transaction costs are almost universally lower than other sources of debt capital (by approximately 150 basis points), made possible by passing through the value of the tax-exemption on the bond issuance. Second, the agency is familiar with the assisted living product, and may reach a comfort level with the program and financial projections more quickly than wary lenders new to the industry. Third, Elder CHOICE projects are automatically eligible for a comprehensive permit, which substantially reduces risk during the public approvals process. Under Chapter 40A, Massachusetts General Laws, complainants have multiple opportunities to contest a variance. A comprehensive permit, on the other hand, allows a prospective developer a better chance of securing the right to proceed. Elder CHOICE loans are also non-recourse, which is a substantial attraction to for-profit project sponsors with assets to protect. Lastly, most Elder CHOICE projects automatically qualify for “4 percent” Low Income Housing Tax Credits (LIHTC).<sup>16</sup>

Ordinarily, the application process for Tax Credits through the state is extremely competitive. Tax Credits which are used in tax-exempt bond financed projects, however, such as Elder CHOICE assisted living, do not count against the state’s LIHTC allocation cap. As a result, MHFA is authorized to administer Tax Credits used in conjunction with Elder CHOICE projects, without a competitive application process.

As “federally subsidized” projects, Elder CHOICE developments are eligible for “4 percent” Tax Credits, which are worth approximately 4 percent of the project’s qualified basis, annually, for 10 years.<sup>17</sup> Projects financed with conventional debt are generally eligible for a larger Tax Credit, the

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MHFA.

<sup>16</sup> The Low Income Housing Tax Credit was created as a means of encouraging low-income housing development after the Tax Reform Act of 1986 took effect, which otherwise substantially reduced the tax incentives for investing in real estate. Instead of permitting investors to offset active income through passive losses incurred by real estate partnerships as in the past, Congress provided for Tax Credits which could be used on a dollar-for-dollar basis against taxes which investors would otherwise have to pay. Sponsors of Tax Credit projects typically realize the value of the tax credits by selling a portion of its equity interest in the property to limited partner investors, who use the credits to offset their tax liability. Tax Credits are allocated to states based on population and, in Massachusetts, the Department of Housing and Community Development establishes a priority system to determine which projects in the state receive Credits that year.

<sup>17</sup> The term “qualified basis” refers to a project’s total development costs, less non-depreciable and other ineligible expenses, multiplied by the percentage of low-income units.

“9 percent” Credit.

One anomaly of the Tax Credit is that since it applies only to housing expenses and not services, assisted living units funded by the Tax Credit must separate all services out of the basic rate, and charge on an “a-la-carte” basis for services, as opposed to having an all-inclusive fee. This accounting complication, in addition to the need to continually monitor compliance with the Tax Credit regulations during operations may incur considerable administrative costs.

Elder CHOICE does impose restrictions which may be a deterrent to investors and developers. First, MHFA requires that cash flow distributions to equity investors be limited to 10% annually. Secondly, management fees are limited to 4% of effective income. Thirdly, letters of credit or a cash escrow equal to 6% of the mortgage amount must be provided to secure the loan, which may be reduced incrementally during the loan period. Also, for-profit developers must spend a minimum of 15% of the acquisition cost on renovations, for existing properties, and all construction must be completed by union labor. Most importantly, use of the Elder CHOICE program requires adherence to MHFA’s accounting and reporting standards, which may require a significant time commitment on the part of the developer.

Since its inception, Elder CHOICE has funded \$121 million in 13 assisted living projects statewide, representing 1,137 units. How the advantages and disadvantages of the program affect the successful development and operation of a facility is best determined through a detailed look at an existing project.

#### **4.2 Case Study: *Longwood at Reading, Reading, MA Reading Senior Living, Developer***

##### ***Conceptual Background***

Reading Senior Living is a limited partnership led by two entrepreneurs. Bill Casper, one of the partners, had a 13-year career with a regional real estate firm, which included the development of 2,000 units of elderly housing. He left the company in 1993, but desiring to remain active in the

business he knew best, began seeking new business opportunities on his own. “I was interested in assisted living at the time because there was a market opportunity,” Casper explains. Casper felt he could use his own development expertise and business relationships, in alliance with his partner, Ed Levitt, who was in the nursing home industry and operated one of the few existing assisted living facilities in the state, to create a profitable and well-functioning residence. The partnership purchased an old school building near downtown Reading, and renovations were completed in October of 1996. The building is comprised of 86 studio, 1-bedroom and 2-bedroom units and is currently 96 percent occupied.

In addition to Casper and Levitt, the partnership consisted of a contractor with whom Casper had built a number housing projects previously, and several equity investors. Parkside Senior Services is the service provider at Longwood. Parkside is a national firm based in Chicago, which operates over 100 seniors housing facilities around the country.

### ***The Financing Process***

The partnership began looking for sites in 1993, and targeted Reading as an underserved market with a mixed income population, many of whom could support the high fees of private-pay assisted living. Median household income in Reading is approximately \$53,000 -- 40 percent higher than the statewide median income. The median home sales price was \$184,000 in 1994.

The former Pearl Street elementary school had been closed in 1984 due to declining enrollment, and the city was eager to put the property back into use when the partnership submitted its proposal. After a public RFP process, and refinement of the proposal by a reuse committee, the planning board approved the project in late 1994. While the partnership had not originally sought to build a facility with low-income affordable units, the site had a zoning requirement that at least 10 percent of the units be “affordable,” by federal housing policy standards. Given this constraint, and Casper’s prior experience working with MHFA, the partnership decided to turn to the Elder CHOICE program for financing.

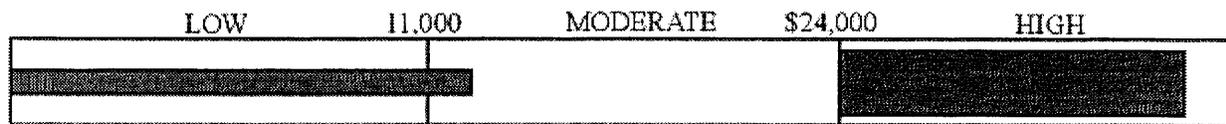
Approximately 85 percent of the capital costs for renovating the building and constructing an addition were funded through an Elder CHOICE loan. The remainder was financed through a syndication of “4 percent” Tax Credits granted by MHFA, combined with Historic Tax Credits granted by the National Park Service for rehabilitation of an historic structure. Susan Cwieka, who was the Executive Director of the facility when it was opened, says the funding process through MHFA went very smoothly. “MHFA regards Longwood as one of its flagship developments,” she says, “because of the relative ease of processing the application.” Casper’s familiarity with the agency may have contributed to this.

In terms of creating a viable financial plan, Casper explains that the Historic Tax Credit was critical. The Historic Tax Credit is offered for certified rehabilitation of a certified historic structure, and is worth approximately 20% of the rehabilitation costs. As a 1930’s PWA building, the elementary school qualified for the Credit, and after an initial application process which failed, the partnership obtained the Credit through a second design proposal. The Historic Tax Credit is especially appealing for for-profit developers in that it does not affect control over pricing, as does the Low Income Tax Credit. As a result Senior Living Residences was able to provide an immediate return to investors. “Once the building was placed in service, I knew I had created the value of the Historic Tax Credit; the tax code provided me with a clear method of return,” says Casper.

In accordance with MHFA’s minimum affordability requirement, 18 of the 86 units are set aside for low-income elders earning less than 50% of the area median income (\$21,000). The fee for private pay residents is \$2,850 per month for a studio unit. Low-income residents enrolled in GAFC pay an average rent of \$550 per month, which may or may not be supported by SSI-G reimbursements.

In its resident make-up of mostly high-income elders and a few low-income elders, Longwood at Reading resembles many facilities which are not Elder CHOICE projects, but which are certified for GAFC. There are two differences, however. First, the facility is able to offer *more* low-income affordable units. Second, and perhaps more interestingly, Longwood sets aside a certain number of

units (currently eight) for residents who cannot qualify for GAFC, yet still meet the low-income cut-off for the Elder CHOICE program. These residents, which comprise the lower end of the moderate-income population, pay a reduced fee equal to the facility’s reimbursement from GAFC. This structure not only allows access for moderate-income elders to the residence, but provides a safety net for high-income residents who can no longer afford the private-pay fee due to spending down of assets over time.



*Affordability Scale*

***The Building and Site***

Longwood at Reading is situated in quiet, safe, tree-lined neighborhood, less than a mile from Reading’s central business district. An adjacent soccer field is still used by school groups, which provides an added amenity for the residents who enjoy watching the games.

The historic building is of masonry construction with red brick facing and limestone and wooden trim. Most of residence’s common and administrative spaces are located in the old school building. A 60,000 square foot building adjoining the property was built to house the residents. As part of the National Park Service requirement for the Historic Tax Credits, the developer had to retain the school building’s large spaces, and wide corridors. While this lends an institutional atmosphere to some spaces (the dining room is particularly gallery-like) the finish and tasteful furnishings mitigate this, and create a more home-like impression. In the new building, long double-loaded corridors with little natural light are less conducive to resident comfort. The program includes a parlor, library, exercise and activity spaces in the basement, sitting areas on each floor of the residential wing, and a common kitchen for resident events.

While the developer has had to make the best of a less than ideal physical configuration, the residence succeeds in providing a comfortable and secure environment for elders. The inflexibility



priorities of the developer, for which the affordable component was really a matter of circumstance. Reading Senior Living selected Parkside after a referral from the project architect, and after interviewing several competing service providers. “They do both marketing and management, and they do them well,” says Cwieka, a former Parkside employee. Originally, Ed Levitt’s own management company had been intended as the service provider. During the review process for the Elder CHOICE loan, however, MHFA decided the company was unsuitable, and required that an outside provider be brought in.

The basic service package at Longwood at Reading includes 45 minutes of personal care per day. GAFC recipients are entitled to two hours of care, and because they are more frail, they generally consume a disproportionate share of staff time. “The GAFC program is difficult to administer, because you spend a lot of money to care for people who have a lot of need, and it doesn't always balance out,” says Cwieka. To help control its staffing costs, a detailed scheduling system is administered by personal care attendants to assure that residents do not exceed their allotted time. Several residents pay for additional care above the basic package.

Parkside’s general philosophy, however, is to enhance the residents’ independence and happiness through extensive activities programming, and a comprehensive service plan. Group trips are organized regularly. Three hot meals a day are provided, with a choice of entrees. Even though it is a savings on payroll, the residence has ceased cross-training staff to perform different functions (i.e. giving personal care givers waitstaff responsibilities) because the practice is considered discordant with the residents’ sense of propriety. Staff is paid slightly higher than the industry average (personal care attendants earn \$10 per hour). The residence employs a full-time activities director, and wellness director. Kim Sandler, the current Executive Director, provides the day-to-day leadership for the residence. She comments that there was a high rate of staff turnover during the first years of operation, but that staff has begun to stabilize.

Parkside’s marketing materials emphasize that each of its projects are treated in the context of the local community, and the goals of the sponsor, and that it “never uses a cookie cutter approach.”

Casper states that the project has been a success, and this is in no small degree owing to the fact that the services component closely mirrors the owner's overall concept. Within the limited framework of that concept, the project succeeds modestly in reaching a moderate-income population. A more robust model requires a concerted effort on the part of the sponsor to push the limits of affordability.

**PROJECT SUMMARY**

Project Name: Longwood at Reading  
 Developer: Reading Senior Living  
 Service Provider: Parkside Senior Services  
 Total No. Units: 86  
 Total SF: 60,000

**APARTMENT MIX**

**Market Rate**

No.	Apt Type	Monthly \$
21	Studio	2,631
36	1-BR	2,891
6	2-BR	3,382

**Subsidized Rate**

No.	Apt Type	Monthly \$
8	Studio	1,746
10	1-BR	1,804

**FINANCING AND CONSTRUCTION**

Debt Sources		Equity Sources		Land / Building Acquisition Cost		Development Cost	
Source	% of TDC	Source	% of TDC	Transaction Type	% of acquisition cost	Total Development Cost	
MHFA Elder CHOICE	85 %	Limited Partner/LIHTC	5%	Market Rate	100%	\$10.5m	
		Limited Partner/Hist. TC	10%	Below Market Rate	--	Hard Construction Cost	
				Gift	--	\$/Unit TDC	\$122,000

**SERVICE PACKAGE**

Market Rate Basic Package				Subsidized Rate Basic Package				
Minutes/day of personal care: 45	Bathing	Y	Using telephone	Y	Bathing	Y	Using telephone	Y
	Mobility	Y	Shopping	Y	Mobility	Y	Shopping	Y
	Hygiene/grooming	Y	Laundry	Y	Hygiene/grooming	Y	Laundry	Y
	Incontinence	Y	Special diets	Y	Incontinence	Y	Special diets	Y
	Eating	Y	Activities	Y	Eating	Y	Activities	Y
	Toileting	Y	Transportation	Y	Toileting	Y	Transportation	Y
	Behavior/orientation	Y	Alzheimers Care	Y	Behavior/orientation	Y	Alzheimers care	Y
	Phys./occ. Therapy		Meals/day	3	Phys./occ. Therapy		Meals/day	3

### *5.1 Description of the approach*

Most Elder CHOICE projects to date have been 80 percent market rate, in the same manner as Longwood at Reading. By combining an Elder CHOICE loan with deeper subsidies from other government agencies, several projects have succeeded in creating a greater percentage of affordable units, however. In addition to the Low Income Housing Tax Credit, and Historic Tax Credit, several private and public sources of capital exist which may be used to strengthen a project's affordable component in combination with Elder CHOICE, and potentially expand access for the moderate-income population.

**HOME Investment Partnership Program** is a federal block grant program to state and local governments, designed to create affordable housing for households earning less than 60 percent of area median income.<sup>18</sup> The HOME program is notable in its flexibility, empowering communities to use funds based on their particular needs. State and local governments may use HOME funds for grants, direct loans, loan guarantees or other forms of credit enhancement. The total program funding nationwide is 1.5 billion, which is disbursed according to a formula.

Participating jurisdictions must match every dollar of HOME funds used with 25 cents from nonfederal sources, which may include donated materials or labor, the value of donated property, proceeds from bond financing, and other resources. The participating jurisdiction is responsible for ensuring that HOME-funded housing units remain affordable for at least 15 to 20 years. To qualify for HOME funds, eligible jurisdictions must have an approved Consolidated Plan.

The application process for HOME funds is quite competitive. In Massachusetts, approximately 50 percent of annual applications to the state can't be funded due to budget constraints.

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<sup>18</sup> HOME is authorized under Title II of the Cranston-Gonzales National Affordable Housing Act.

Through the **Community Development Block Grant (CDBG)** program, the federal government distributes approximately \$380 million to states, and \$900 million directly to roughly 1,000 of the largest local governments annually, for use in revitalizing neighborhoods, expanding affordable housing and economic opportunities, and improving community facilities and services. While traditionally intended for provision of public facilities, in recent years CDBG funds have been used to stimulate economic development activities that expand job and business opportunities for lower income neighborhoods.

The **Federal Home Loan Bank of Boston** is a federally-sponsored wholesale bank which offers direct grants and subsidized amortizing advances to qualifying affordable housing projects through its local member banks throughout New England. Funding for assisted living is available through FHLB's Affordable Housing Program, which disburses 10 percent of the bank's annual net income for projects which provide housing to low-income individuals and families.

There are many more sources of capital funding, ranging from lending institutions to private foundations, which may be used in coordination with Elder CHOICE to help finance reduced resident fees. The following two case studies examine very different projects which employ this approach.

## **5.2 Case Study: *Cohen Florence Levine Estates, Chelsea, MA Chelsea Jewish Nursing Home, Sponsor***

### ***Conceptual Background***

Cohen Florence Levine Estates was built by the Chelsea Jewish Nursing Home, a 79-year-old not-for-profit organization whose mission is to serve the elderly in the poor, predominantly immigrant community of Chelsea. The project was conceived in 1993, as a means of leveraging the services and expertise of the existing 123-bed nursing home to reach a broader population of frail elderly, and potentially to provide a continuum of care between the two facilities.



*Cohen Florence Levine Estates*

The sponsor envisioned a facility which would house low-income elders, but which looked beautiful, and could attract market-rate tenants as well. The facility was intended to target the Jewish population in particular, with kosher meals, and a chapel for services. “We figure out what we need to have in order to provide people with a nice lifestyle to age gracefully in place. How would we want our own parents cared for?” says Barry Berman, Executive Director of Chelsea Jewish Nursing Home. Berman’s mother, in fact, resides in the facility.

To aid in the financing and development of the residence, the board of directors hired Affirmative Investments, a consultant with experience developing low and moderate income housing projects across the country.

Services are provided by the Chelsea Jewish Nursing Home. Berman himself took responsibility for hiring new staff, and recruited from other assisted living facilities, offering the attraction of working in a state-of-the-art facility, as well as the opportunity to work with a needy population of low-income elders. “I came from a job I loved, right near my home, and now I commute an hour every day, but I’m very happy I made the move.” says Joyce Tassinari, Director of Resident Services. Among other considerations, Tassinari cites the strong leadership and vision of the

Executive Director as a factor in her decision to relocate.

### *The Financing Process*

Affordable Investments became involved shortly after the Chelsea Jewish Nursing Home had chosen the site. David Ennis, a principle of Affordable Investments, describes the project as a "quilt" of different financing sources. The first task in assembling the capital to build a residence, explains Ennis, is to assess the sponsor, and its financial strength and resources. "Because the Chelsea Jewish Nursing Home had the capacity and the willingness to raise money, we didn't need to go after the most competitive funding." Instead, Ennis turned to MHFA, to secure Official Action Status on an Elder CHOICE loan.

In 1995, when funding was secured, bank loans were around 11 percent for a conventional 30-year mortgage. Cohen Florence Levine Estates is financed at 9.43 percent over a 40-year term. The low interest rate effectively reduces debt service payments by \$60,000 per year, which can directly impact resident fees. The MHFA loan was available during construction, and stayed in place as the first mortgage. "Working with the state finance agencies is time consuming. You're looking at a 2-3 year minimum," cautions Ennis. The time spent completing the application, and waiting for approval should be carefully factored into the sponsor's goals and budget, he adds. Cohen Florence Levine Estates took approximately three years to complete, from initial conception to move-in.

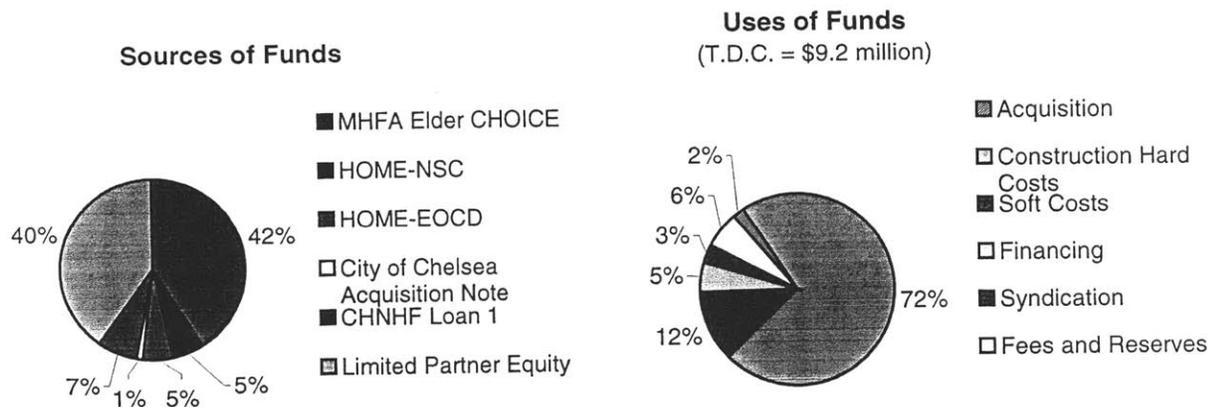
In addition to the MHFA loan, the project secured HOME funds from the city worth \$500,000, and an equivalent amount from the state. The sponsor's historically prominent role in the community played an important part in competing for these funds.

In addition to the Chelsea Jewish Nursing Home's own equity contribution of \$640,000, limited partner equity of \$3,681,425 was raised through the sale of Tax Credits awarded by MHFA as part of Elder CHOICE. Ennis notes that at the time, the Tax Credit syndication market was soft, and whereas the project raised approximately \$.70 per dollar of Tax Credit value, 1998 investor margins are much thinner. The Tax Credits were sold to the Massachusetts Housing Equity Fund, a

consortium of corporate investors.

The city of Chelsea also contributed to the project in the form of a discounted price for the land, and an acquisition note worth \$100,000, to be paid for out of cash flow during operations.

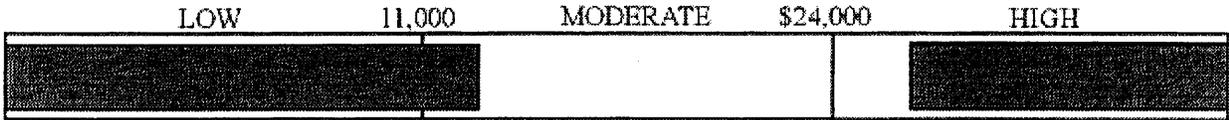
In summary, the financing package was as follows:



Ennis emphasizes that the strategy of combining several different funding sources is viable only to the extent that the sponsor is comfortable with the fact that the process is time consuming, and that the application process for HOME funds and other capital subsidies is competitive. The reward for the Chelsea Jewish Nursing Home was to be able to set aside half of the facility's units for low income individuals. 39 units are occupied by elderly whose incomes are less than 60 percent of the area median income, which in Chelsea is \$25,144. "Many residents here have come from extremely poor living environments," says Tassinari, describing one Chelsea man who was unable to climb down stairs and go outside, and lived alone in an top floor tenement without air conditioning during the summer.

The subsidized residents pay approximately \$1,950 for a studio apartment, as compared to \$2,900 for private pay residents. All of the subsidized units are occupied by recipients of GAFC benefits, and average \$490 per month for rent.

Despite the depth of affordability for low-income seniors, Tassinari concedes that the residence is not really affordable for the population which cannot qualify for GAFC, and cannot afford the private pay fee. On the other hand, the residence has a policy of never evicting existing residents due to financial difficulty. Similar to Longwood at Reading, residents who are no longer be able to afford the fee due to dwindling assets or income, they may switch to the subsidized rate. 7 residents have changed their payment plan in this way since the project's opening. However, it is instructive that this phenomenon colors the application process for new residents. "If I interview two individuals who claim to be able to afford the market rate, and one is earning \$12,000 per year, and the other \$15,000, I am forced to favor the lower-income individual, because should they suffer a financial loss, they will have a better chance of meeting the eligibility requirements for GAFC," says Tassinari.



*Affordability Scale*

One other significant fact about the residence's finances is that the property operates at a loss. While Berman says he expects the facility to become financially viable in the near future, it has deferred its interest payments since startup. For the Chelsea Jewish Nursing Home, this is not a crisis, since the organization was not set up to generate profits, as long as costs are contained. A walk through the elegant building, and an assessment of the extensive services suggests the nature of the trade-off the sponsor has made.

***The Site and Building***

The residence is in the same neighborhood as the nursing home, although more than a mile distant. The land was purchased from the city—almost an acre lot on Admiral's Hill, a knoll overlooking the Mystic River and Boston, which was formerly the site of the Chelsea Naval Hospital. Today many of the historic buildings in the quiet, leafy neighborhood have been converted to high-end condominiums. The site enjoys 180 degree views, and unobstructed eastern light, as well as close proximity to route 1, the main artery into Boston.

Building construction is of reinforced concrete with masonry exterior. The four-story building is 57,000 square feet, with 69 units, comprised of 30 studio units, and 49 one-bedroom units. Construction took place between late 1995 and November, 1996. The building was conceived as an “T” shape, with a central service area, and residential wings extending from the middle. Thus the residential units all have unobstructed views, and are all a minimum distance from the elevator and central lobby areas. The ground floor is all common and administrative space, including a dining room, sitting room, library, café, bakery, exercise room and chapel, and reception area, as well as the kitchen and laundry room, and staff offices. The residential floors include a sitting area in the center with a bay window overlooking Chelsea, double loaded corridors with inset entryways, and a large window at the end of both corridors.

The Cohen Florence Levine Estates is especially remarkable for its high quality interior finishes. Cherry crown mouldings, solid wood doors, reversible hinges on bathroom doors, full kitchens with a range, sink, and refrigerator all attest to the high priority the Chelsea Jewish Nursing Home placed on providing a homelike environment. The furnishings are elegant, and upholstered with decorative fabrics; special care was taken to select dining room chairs which slide easily on the floor, and armchairs with high arms to facilitate access. The common kitchen is equipped with a 1950s oven, and the countertops and cabinets all have chrome trim, to simulate the kitchen décor of most of the residents, who purchased their first homes in the 1950s. Tassinari indicates that the residents and their grandchildren often assemble in the 1950s kitchen because of its casual, homelike atmosphere.

### ***Resident Services***

The Chelsea Jewish Nursing Home operates the facility with its own staff. Because it had the experience operating a nursing home, the organization felt no need to contract with an external provider to hire and train staff for the assisted living residence. Berman, who provides leadership to both facilities, spends his days shuttling between both.

Consistent with its philosophy of providing the highest quality environment for the residents, the services component is comprehensive. Residents receive an hour of personal care, if need be, as part of the resident fee. Personal care includes help with all activities of daily living, including help with incontinence. Tassinari says that the 1-hour limit is only very loosely enforced. Additionally, a home-care agency unaffiliated with the residence rents an office in the facility, and is staffed with a full-time nurse. Daily activities are planned by a full-time "leisure moments" director, including concerts, bingo, arts classes and exercise. Three hot meals per day are offered in the dining room, each with a choice of entrees. The bakery is open most of the day, and residents and their families may take pastries as they please. Residents pay a \$250 annual fee for the bakery, thereby eliminating the need for inconvenient and impersonal exchange of money over the counter.

Ennis explains that one of the reasons for the failure of the facility to operate profitably is the particularly high cost of these services. Meals, for example, cost \$8 per resident per day, as compared to the industry standard of \$6. Tassinari notes that the bakery is uneconomic.

Tablecloths and linens are used at every meal, and laundered regularly. Staff includes 7 full-time department heads, 6 full-time personal care givers, 3 night staff and a night watchman, waitstaff, kitchen staff, housekeeping staff, and grounds maintenance staff, none of which are cross-trained.

Despite the loss which the facility generates, the sponsor continues to offer this array of services with the understanding that the facility will eventually break even, and the belief that the details which create a homelike atmosphere are vital to the proper functioning of the residence. Chelsea Jewish Nursing Home also has the ability to raise money separate from its operating revenues, as testified by the numerous honorary placards distributed throughout the residence. Illustrative of its philosophy, however, it will spend \$50,000 raised in recent fund drive on a transportation van for the residence, rather than pay down the building's debt. Its unique ability to raise funds aside, Ennis believes the Cohen Florence Levine Estates may be a model for other developers. "This is one of the first assisted living residences in the nation with such a high percentage of low and moderate income units," he says.

PROJECT SUMMARY								
Project Name:	Cohen Florence Levine Estates		<b>APARTMENT MIX</b>					
Developer:	Chelsea Jewish Nursing Home		<b>Market Rate</b>		<b>Subsidized Rate</b>			
Service Provider:	Chelsea Jewish Nursing Home		<u>No.</u>	<u>Apt Type</u>	<u>Monthly \$</u>	<u>No.</u>	<u>Apt Type</u>	<u>Monthly \$</u>
Total No. Units:	69			Studio		42	Studio	1,875
Total SF:			4	Alcove	2,900	0	Alcove	--
			19	1-BR	2,550	0	1-BR	--

FINANCING AND CONSTRUCTION							
Debt Sources		Equity Sources		Land / Building Acquisition Cost		Development Cost	
<u>Source</u>	<u>% of TDC</u>	<u>Source</u>	<u>% of TDC</u>	<u>Transaction Type</u>	<u>% of acquisition cost</u>	Total Development Cost	\$9.1m
MHFA Elder CHOICE	42 %	Limited Partner/LIHTC	40%	Market Rate	--	Hard Construction Cost	\$
HOME—NSC	5%			Below Market Rate	100%	\$/Unit TDC	\$131,884
HOME—DHCD	5%			Gift	--		
Chelsea Jewish Nrsing Home	7%						

SERVICE PACKAGE									
Market Rate Basic Package				Subsidized Rate Basic Package					
Minutes/day of personal care: 60	Bathing	Y	Using telephone	Y	Minutes/day of personal care: 60	Bathing	Y	Using telephone	Y
	Mobility	Y	Shopping	Y		Mobility	Y	Shopping	Y
	Hygiene/grooming	Y	Laundry	Y		Hygiene/grooming	Y	Laundry	Y
	Incontinence	Y	Special diets	Y		Incontinence	Y	Special diets	Y
	Eating	Y	Activities	Y		Eating	Y	Activities	Y
	Toileting	Y	Transportation	Y		Toileting	Y	Transportation	Y
	Behavior/orientation	Y	Alzheimers Care	Y		Behavior/orientation	Y	Alzheimers care	Y
	Phys./occ. Therapy		Meals/day	3		Phys./occ. Therapy		Meals/day	3

5.3 Case Study: *Landmark at Fall River, Fall River MA*  
*Simsbury Associates, Developer*



*The building was formerly operated as a Days Inn.*

***Conceptual Background***

Landmark at Fall River is an 88-unit hotel conversion currently under development, and planned for completion in September 1998. Half of the units in the residence will be set aside for low-income seniors earning less than 60 percent of area median income.

The project differs from the Cohen Florence Levine Estates in many ways, most fundamentally in the motives of the project sponsor, which at Fall River is a for-profit entrepreneur. Simsbury Associates' principle, Cliff Boyle, had 15 years experience refurbishing and building apartment buildings in Boston's South End and Roxbury neighborhoods, before focusing his development efforts on assisted living. The company had built an expertise in Low Income Housing Tax Credit and Historic Tax Credit financed projects, but found development opportunities scarce in the late 1980's. Simsbury Associates shifted to assisted living with the perception that it was a growth market driven by a fundamental need, that the end user caused minimal wear and physical depreciation to the facility thereby sustaining the property's value, and that the use provided a

potentially profitable income stream. The company currently has five other assisted living projects in development around the region, and one other in operations. “Seniors housing, from a development perspective, is like any other real estate deal,” says Boyle. “Find the market, find the financing, build it, lease it, and hope it makes money.” To aid in the financial engineering, Boyle enlisted Rick Lefferts, who had coordinated financing for Simsbury on several other housing projects.

The resident services at the Fall River project will be provided by Senior Living Residences, a private firm which operates five other assisted living facilities. It will be the first collaboration between the two companies.

### ***The Financing Process***

As a small entrepreneur whose business is creating value where niche opportunities exist for assisted living, site selection is a critical component of Simsbury’s business strategy. Boyle began studying Fall River in 1994 as a potential market for an assisted living residence. Fall River is a port town which has suffered a general decline in prosperity since its heyday in the ‘20s and ‘30s as a textile manufacturing center with a population of 130,000. Today Fall River has 90,000 inhabitants. Its economic base is comprised of several heavy manufacturing establishments and services firms. The average unemployment rate is 10%, as compared to 6.7% for the state. Median household income is approximately \$22,000, or 60 percent of the average median income for the state. From the outset, Landmark at Fall River was conceived of as a comparatively low-fee assisted living residence to accommodate the city’s predominantly low-income population. “Everything has been backed out of the fee which we felt was appropriate for the area,” says Andrew Copelotti, the construction manager for the project.

The financing package for Landmark at Fall River was originally conceived to be a combination of a conventional bank loan plus HOME funds as debt, plus investor equity from the sale of “9 percent” Low Income Housing Tax Credits. The developer first moved to secure HOME funds from Fall River, approaching the city council in March of 1996 with its redevelopment proposal for

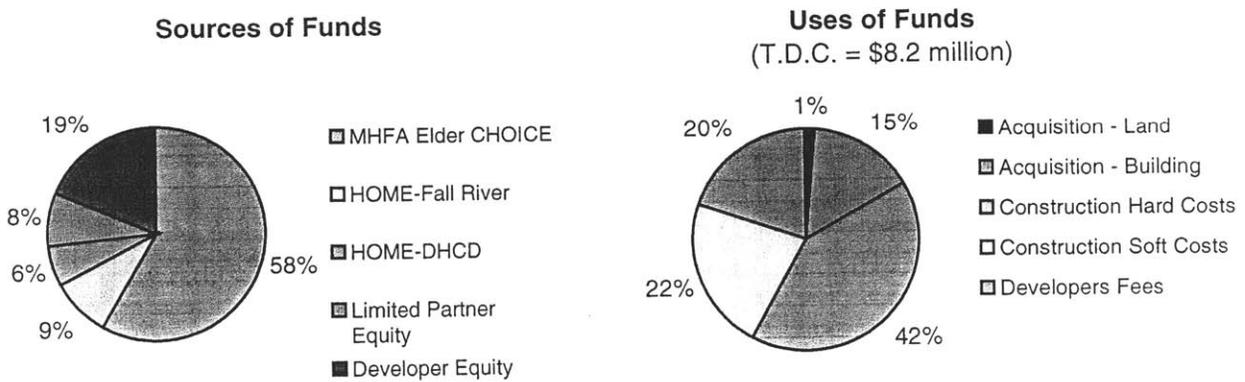
the hotel. At the time, the city had an excess of state allocated HOME funds, for which there was little competition. Based on the number of jobs the project would generate, the city determined that the proposal offered a valuable economic development opportunity for the central business district, and quickly embraced the idea of the conversion. For its 44 low-income units, the city contributed \$750,000.

Next, the developer approached the Department of Housing and Urban Community (DHCD), which was intrigued by the possibility of a residence with wider scale affordability. The project was determined to be eligible for state HOME funds worth \$500,000. To complete the debt financing, the developer made preliminary arrangements with a regional bank for a 30-year non-recourse loan at approximately 8% interest. The low interest rate climate in 1997 was the chief factor in favoring a conventional lender over MHFA, with which Simsbury had worked extensively in the past.

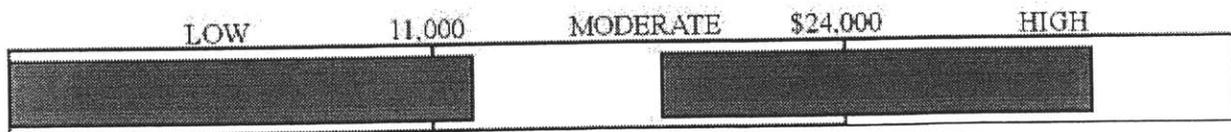
Meanwhile, however, the developer's application for "9 percent" Tax Credits to DHCD was rejected during the review process due in part to the below standard unit size, dictated by the hotel's existing concrete block walls. Altering the unit sizes was not economically feasible, and so in lieu of the "9 percent" Tax Credit, Simsbury turned to Elder CHOICE, with the idea of taking advantage of its concomitant "4 percent" Tax Credits. MHFA had been comfortable working with Simsbury from the start, as a company with a history of successful low-income developments. However, in the initial stages of the application process design concerns caused delay, pertaining to the size of the units and their configuration along a 240 foot double-loaded corridor. The processing of paperwork also caused delay. "It's a really difficult process to get through, because there's a bureaucracy that administers the bonds. They want [the application] perfect before its submitted for approval, and each person has their own category, and everyone needs to be 'cc'd on everything, and the application is very thick, and you have to amend it, and set it all to a standard format," says Bill Giovanucci, a project manager at Simsbury. Towards the end of the process MHFA became a strong ally and advocate, adds Giovanucci, and was an important resource during the Tax Credit syndication. Ultimately, Simsbury succeeded in raising \$650,000 in investor equity through the

sale of Tax Credits, and secured a 40-year non-recourse loan from MHFA at 5.85 percent interest, plus administrative fees.

Overall the most critical hurdle to overcome during the financing process was securing the Home funds. “It was really important to maximize the Home funds in order to achieve 50 percent affordability,” says Lefferts. The peculiar situation of Fall River, which had seen little development downtown, and had a reserve of funds, contributed significantly to the developer’s success in this regard.



Landmark at Fall River’s low cost of capital is expected to help make possible a fee of \$2,250 for a studio unit for private pay residents. While this fee has risen from an initial projection of \$1,650, it still represents a considerable savings to residents over the average assisted living fee of \$2,800. 50 percent of the units will be set aside for low income residents, as defined by the Tax Credit and HOME programs. These residents are anticipated to be recipients of SSI-G and GAFC benefits, and fees for these units have been projected based upon the current value of these reimbursements.

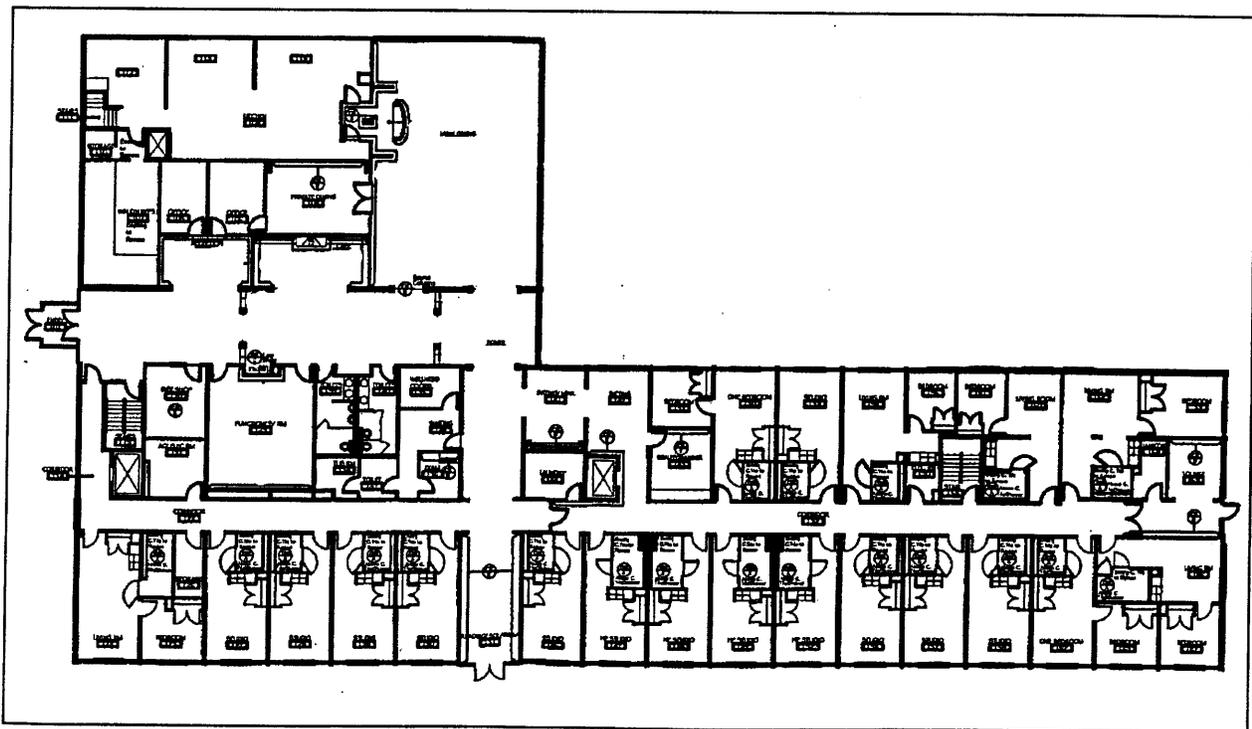


Affordability Scale

### *The Site and Building*

The total development costs are \$93,000 per unit, as opposed to an industry average in the Northeast of approximately \$110,000. Part of this savings was realized through the purchase of an existing structure, a failing hotel in downtown Fall River, built in 1968. Hard construction costs are estimated to be approximately half that of new construction for assisted living, and acquisition costs are low due to the poor financial performance of the hotel. At Fall River, every effort has been made to reuse existing infrastructure. Windows, walls, plumbing, exterior curtain-wall, even existing kitchen equipment—all are intended to be reused.

While such measures may save on costs, Copelotti warns that what looks good on paper may not be practical in application. For instance, reusing the existing bathroom tiles was anticipated to save \$3,000 per unit, however damage caused by installation of new fixtures has necessitated the installation of a new floor covering. Furthermore, Landmark at Fall River has not been immune to the threat of unforeseen circumstances which plagues all rehabs. Partway through construction, for example, it became evident that the electrical main under the building would need to be excavated and replaced, which will effectively exhaust the 10 percent construction contingency.



*First floor showing common areas*

### ***Resident Services***

Debt service is expected to exceed no more than one third of total expenses during operations. Thus a services package which was equally compatible with the overall concept of affordability was crucial to the financial viability of the project. Senior Living Residences operates 5 assisted living projects in the region, all of which have GAFC certification, and include an affordable component. "Simsbury came to us because we are focussed on operating for the low and moderate-income cohort," says Peter Mullin, President of Senior Living Residences. "Our operating framework allows us to work with Medicaid (GAFC), and be marketable for the private pay customer."

Part of Senior Living Residences strategy is to create a seamless service delivery package to all its residents, regardless of income category. Mullin states that because there is a relatively small difference between the income level of the private pay population and the subsidized population at Fall River, this seamless service package is easier to achieve. The company is able to offer a simple continental breakfast, because it doesn't have high-paying residents which expect more elaborate fare. By not providing hot breakfasts, and using table-cloths for only one meal per day, and not keeping a designated dining room host on payroll, or a designated van driver, Senior Living Residences estimates it will save \$300 per resident per month. Mullin stresses that operations are not finance driven, but need and community driven. "We tell our staff that we will figure out how to get paid, in order that they can say 'yes' to the residents."

Opening channels of communication with the community plays an important part in the company's strategy for successful operations. "We get a broader understanding from the community if we approach those who have a history of working with our potential residents," says Mullin. "We like to be thought of as someone who's there to help solve problems for the community, rather than just to carve out a market for ourselves." Senior Living Residences has contacted a local hospital to establish a cross-training and staff-sharing program, and has begun reaching out to church organizations and other referral sources in Fall River.

Halfway through construction, it is impossible to foresee how these measures will eventually play out

in the day to day functioning of the residence. As recently as two years ago, however, it would have been very implausible that a for-profit developer should enter a community like Fall River with a concept for a full-service assisted living facility, since no high-income population exists nearby to offset the subsidized component. “If it is responsive to the 70 people within 5 miles it is a perfect project,” says Mullin. With its concept and the groundwork in place, Simsbury Associates and Senior Living Residences are busily preparing to launch the facility, which may become an important model for future residences seeking to serve such communities.

**PROJECT SUMMARY**

Project Name: Landmark at Fall River	<b>APARTMENT MIX</b>					
Developer: Simsbury Associates	<b>Market Rate</b>			<b>Subsidized Rate</b>		
Service Provider: Senior Living Residences	<u>No.</u>	<u>Apt Type</u>	<u>Monthly \$</u>	<u>No.</u>	<u>Apt Type</u>	<u>Monthly \$</u>
Total No. Units: 88	21	Studio	2,250	42	Studio	1,875
Total SF: 60,000	4	Alcove	2,350	0	Alcove	--
	19	1-BR	2,550	0	1-BR	--

**FINANCING AND CONSTRUCTION**

<b>Debt Sources</b>		<b>Equity Sources</b>		<b>Land / Building Acquisition Cost</b>		<b>Development Cost</b>	
<u>Source</u>	<u>% of TDC</u>	<u>Source</u>	<u>% of TDC</u>	<u>Transaction Type</u>	<u>% of acquisition cost</u>		
MHFA Elder CHOICE	58 %	Developer Equity	19%	Market Rate	100%	Total Development Cost	\$8.2m
HOME—Fall River	9%	Limited Partner/LIHTC	8%	Below Market Rate	--	Hard Construction Cost	\$3m
HOME—DHCD	6%			Gift	--	\$/Unit TDC	\$93,000

**SERVICE PACKAGE**

<b>Market Rate Basic Package</b>				<b>Subsidized Rate Basic Package</b>				
Minutes/day of personal care: 60	Bathing	Y	Using telephone	Y	Bathing	Y	Using telephone	Y
	Mobility	Y	Shopping	Y	Mobility	Y	Shopping	Y
	Hygiene/grooming	Y	Laundry	Y	Hygiene/grooming	Y	Laundry	Y
	Incontinence	Y	Special diets	Y	Incontinence	Y	Special diets	Y
	Eating	Y	Activities	Y	Eating	Y	Activities	Y
	Toileting	Y	Transportation	Y	Toileting	Y	Transportation	Y
	Behavior/orientation	Y	Alzheimers Care	Y	Behavior/orientation	Y	Alzheimers care	Y
Phys./occ. Therapy		Meals/day	3	Phys./occ. Therapy		Meals/day	3	

### ***6.1 Description of the approach***

All the Elder CHOICE projects above use at least 40 percent debt financing, resulting in significant carrying costs during operations. Through use of the “9 percent” Tax Credit, it is possible to raise substantially more equity for a project than is possible through the “4 percent” Credit – almost three times as much. In so doing, sponsors may be able to reduce debt service payments during operations enough to accommodate an even greater degree of affordability in resident fees. This is the strategy behind Approach No. 3.

The deep Tax Credits are subject to the same eligibility requirements and restrictions as the “4 percent” credits. The chief limitation of this approach relates the competitive nature of the “9 percent” Tax Credit. The Massachusetts Department of Housing and Community Development disbursed approximately \$4 million in “9 percent” Tax Credits in the most recent funding round, while applications totalled roughly \$8 million. Allocation of Tax Credits will probably remain highly competitive in the future, as HUD project-based subsidies expire, and property owners seek new sources of funds for capital improvements.<sup>19</sup>

### ***6.2 Case Study: Mason Wright Retirement Home, Springfield, MA Springfield Home for the Elderly, Sponsor***

#### ***Conceptual Background***

The Mason Wright Retirement Community is a 118-unit assisted living residence planned for completion in the Winter of 1999, consisting of a new facility of 90 units, and 28 units of existing independent housing which will be converted to assisted living. Construction on the new facility will begin in Fall of 1998. The sponsor is the Springfield Home for the Elderly, a not-for-profit

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<sup>19</sup> HUD discontinued its project-based subsidy programs in 1986, although existing projects continue to receive funds through the expiration of the contract period, typically 20-40 years.

organization founded in 1898 to provide housing for elderly Springfield men.

The Springfield Home for the Elderly began planning for the new facility in 1994. The organization benefits from a substantial endowment, which was originally a gift of 19th century industrialist Primus Mason, and has grown to nearly \$10 million over the course of a century. Considering appropriate uses of these funds, the Board of Trustees determined that an assisted living residence which served the population of downtown Springfield, and which would turn no one away on the basis of income, would best fulfill Mason's legacy. The new facility will replace a rest home, operated since 1920, which has become obsolete both in terms of the structure and the services provided.

Lacking experience in leasing and managing an assisted living facility, the Board of Trustees enlisted Loomis Communities of Holyoke, Mass, to handle operations and resident services. Loomis owns and operates two continuing care retirement communities in the region, and shares a similar not-for-profit mission as Springfield Home for the Elderly. The Board also enlisted MBL Housing and Development as financial consultant.

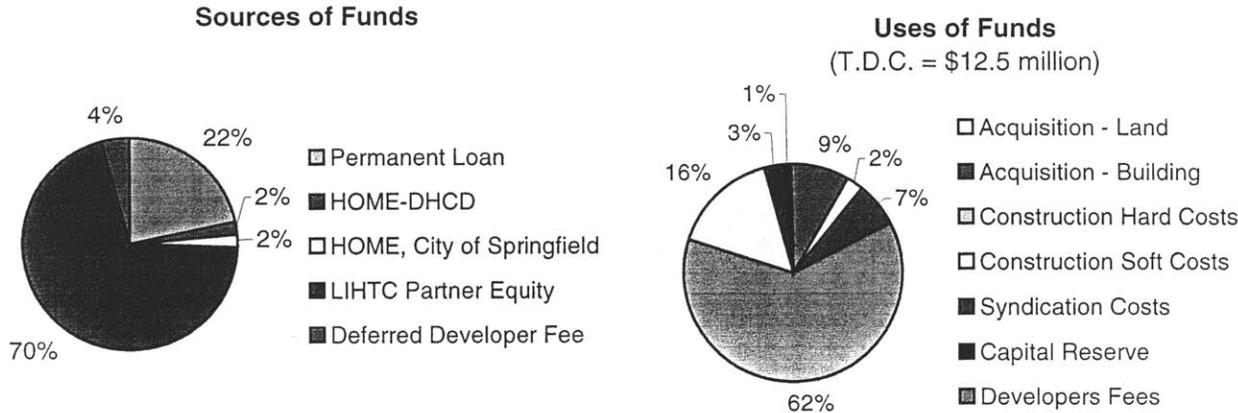
### ***Financing Process***

The sponsor determined early on during its market analysis that the facility would not attract the more affluent suburban population, due to its downtown location. Unable to use market-rate fees to help offset lower fee units, the sponsor opted to reduce carrying costs on the property as much as possible by using the 9 percent' Tax Credit, and to offer all the units at below-market rents. The shortfall in operating revenues will be covered by the organization's endowment.

The 9 percent' Credit was applied for in 1996, and was awarded by the state, but as construction costs for the project grew, it became necessary to reapply the following year. Miller explains that the application process is lengthy because the project is "double-scored," for both financial feasibility, as well as adherence to state housing policy priorities. In all, the sponsor raised \$8.79 million from Tax Credit investors. The syndication proceeds were enhanced by the state

designation of the site as a "difficult to develop area," in which Tax Credits are awarded which are worth 87 percent of construction costs to the sponsor in equity.

The remainder of the capital costs for the \$12.5 million project were funded by a bank loan of \$2.7 million, HOME funds from the state and the city worth \$250,000 each, and a contribution of the developer's fee worth \$520,000. The bank loan was shopped to a variety of public and private lenders. Ultimately a private commercial bank issued a 30-year loan at 7.5 percent interest (compared to a prime lending rate of 8.5 percent).



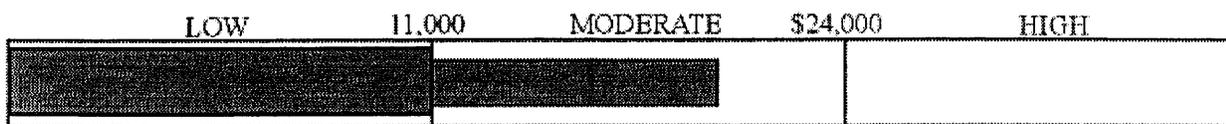
The large equity portion of the financing package effectively reduces debt service payments to 10 percent of operating costs, compared to 20 percent for Cohen Florence Levine Estates and 35 percent Landmark at Fall River. While the Springfield Home for the Elderly had the option of partly funding the capital costs with its endowment and using no debt, Miller states that on account of the equity investors, it was more advantageous for tax reasons to borrow money.

Using Tax Credits to finance the entire facility imposes an income eligibility limit for residents of 60 percent of area median income, or \$19,100 for an individual. In theory, the endowment will ensure that anyone who meets the income and medical eligibility may access the residence. Given that the average income of elderly in the community is \$14,000-\$16,000, however, admissions must be carefully managed so as not to exhaust the endowment. "The idea is not to turn away residents

because of income. On the other hand we can't afford to pay everybody's way. Some people must be on medicaid, and some private pay," says Miller.

All residents will pay rent equal to 30 percent of their income, as stipulated by the Tax Credit regulations. The proforma estimates that 39 residents will receive reimbursements from GAFC. The remaining 79 residents will pay a fee for services and meals, and the endowment will pay approximately \$28,000 monthly to support any shortfall. Which residents benefit from this supplement will be determined during the income screening process for new admissions. If all residents were paying the same fee for services and meals, the monthly charge would come to approximately \$800. Combined with an average proforma rent of \$400, the average resident fee is \$1,200.

Without having any operating history, it is difficult to determine what the actual income spectrum of the resident population may be. Given that all the targeted residents are in the moderate and low-income cohorts, however, it appears that the combination of deep Tax Credits, and a sizeable endowment, is a powerful approach to serving a poor urban community. The applicability of this approach to other projects is limited chiefly by the presence of a financially strong not-for-profit sponsor. For the Mason Wright Retirement Home, the deep Tax Credits alone are worth an average of \$150-200 per resident, in place of the "4 percent" Credits combined with more debt.



*Affordability Scale*

***The Building and Site***

The independent living complex was built in 1964, and the adjacent rest home, with 20 individual units, was constructed in the 1920s. The facilities are located in the poorest census tract of Springfield, just northeast of the central business district. Roughly half of the one-acre lot is open space, which gives the site a quiet, suburban character.



The building to be constructed is approximately 89,000 sf, four stories, with 54 studio units and 36 1-bedroom units. Construction is of reinforced concrete and a masonry exterior. Residential wings will extend from both ends of a core service structure. The design conforms to the urban setting by presenting a rowhouse-like facade to the street. The program includes a separate dining room on each floor, a living room, cafe, activity room, an outdoor patio, and sitting alcoves on each floor for small gatherings of family. Miller says the build-out will be simple, but of residential quality. "The whole idea is to make it not feel institutional," he says.

### ***Resident Services***

With the financing in place, Loomis Communities faces the challenge of balancing the residents' ability to pay with the day-to-day costs of providing services. The Chairman of the Board of Directors of Springfield Home for the Elderly chose Loomis after visiting their facilities, and witnessing the quality of care provided. The new facility will offer a full array of resident services, including personal care, activities and transportation.

Several cost savings measures are planned for the Mason-Wright Retirement Community. Meals will be served in separate dining rooms on each floor, and will be buffet style, thereby reducing waitstaff. Food will be lifted on dumb-waiters from the basement kitchen. Residents may elect to have three meals per day, although only a simple continental breakfast will be served in the morning. 11.25 full time personal care givers will staff the facility, a fairly low staff ratio for 90 residents.

Because Loomis, originally the Holyoke Home for the Aged, was also founded by a civic-minded philanthropist at the turn of the century, it has evolved similarly over the course of the century, and shares the same values as Springfield Home for the Elderly. Loomis' mission, like the Springfield Home for the Elderly, is to serve low income urban seniors. As Miller puts it, the inability of the facility to attract market-pay residents is not so much a constraint for the operation of the facility as it is a testimony to the importance of its role in the community. "The organization did not want to serve the population that already can afford assisted living," he explains.

PROJECT SUMMARY								
Project Name:	Mason Wright	<b>APARTMENT MIX</b>						
Developer:	Springfield Home for the	<b>Reduced Rate (LIHTC Eligible)</b>			<b>Subsidized Rate (GAF/SSI-G)</b>			
Service Provider:	Loomis Retirement	<u>No.</u>	<u>Apt Type</u>	<u>Monthly \$</u>	<u>No.</u>	<u>Apt Type</u>		
Total No. Units:	118	36	Studios	1,231	18	Studio		
Total SF:	125,000	43	1-BR	1,261	21	Alcove		
						1,707+		
FINANCING AND CONSTRUCTION								
<b>Debt Sources</b>		<b>Equity Sources</b>		<b>Land / Building Acquisition Cost</b>		<b>Development Cost</b>		
<u>Source</u>	<u>% of TDC</u>	<u>Source</u>	<u>% of TDC</u>	<u>Transaction Type</u>	<u>% of acquisition cost</u>	Total Development Cost \$12.5m		
Permanent Loan	22%	Developer Equity	4%	Market Rate	100%	Hard Construction Cost \$7.82m		
HOME—Springfield	2%	Limited Partner/LIHTC	70%	Below Market Rate		\$/Unit TDC \$130,000		
HOME—DHCD	2%			Gift	--			
SERVICE PACKAGE								
<b>Market Rate Basic Package</b>				<b>Subsidized Rate Basic Package</b>				
Minutes/day of personal care:	Bathing	Using telephone		Minutes/day of personal care: 90	Bathing	Y	Using telephone	Y
	Mobility	Shopping			Mobility	Y	Shopping	Y
	Hygiene/grooming	Laundry			Hygiene/grooming	Y	Laundry	Y
	Incontinence	Special diets			Incontinence	Y	Special diets	Y
	Eating	Activities			Eating	Y	Activities	Y
	Toileting	Transportation			Toileting	Y	Transportation	
	Behavior/orientation	Alzheimers Care			Behavior/orientation	Y	Alzheimers care	
Phys./occ. Therapy	Meals/day		Phys./occ. Therapy	Y	Meals/day	3		

### *7.1 Description of the Approach*

In contrast to the foregoing approach, the rapid development approach is most appropriate for a for-profit sponsor. It is characterized by minimal development costs through careful selection of a target market, low-profile land acquisition, and standardized construction processes. One powerful advantage of this approach is that it does not rely on state or federal subsidies, and thereby potentially shortens the time frame for development by a significant amount. This is also attractive for for-profit sponsors in that the owner does not lose pricing control over the project due to government-imposed limits.

The limitations of this approach in providing full service assisted living at affordable fees relate in part to the depth of affordability achievable. These projects seem to skim the lower tier of the high income population, and service some moderate-income individuals who have assets. It is impossible to determine with certitude the income level of residents, however, since there is no formal screening process for eligibility.

Secondly, this approach is really appropriate only for sponsors with the capability to refine their construction processes through repetition. A locally based sponsor building a one-time project may find this knowledge difficult to duplicate.

Lastly, the approach implicitly compromises some of the home-like qualities of other residences, with its use of lower-cost materials and limited capacity to conform to special requirements in residential districts. How this affects the functioning of the facility is best considered through a look at an existing residence.

7.2 Case Study: *The Woods at Eddy Pond, Auburn, MA*  
*Legatt McCall Retirement Properties, Developer*



*The Woods at Eddy Pond, in the foreground, and the independent living facility behind*

***Conceptual Background***

The Woods at Eddy Pond was built between April, 1996 and June, 1997. It is the 7th assisted living residence built by Leggat McCall Retirement Properties, which has 23 more currently under development in the region. The company was formed in 1992 as a subsidiary of Leggat McCall Properties Group, LLC, a full service commercial real estate firm concentrating in the Northeast. The firm is profit driven, and with the belief that high-end assisted living is a saturated market in the Northeast, has concentrated on middle-income elders.

"We're looking at people earning between \$15,000 and \$25,000, with roughly \$100,000 in assets," says John Sawyer, President and CEO. Sawyer compares assisted living to a theatrical show, in which the housing component is the stage, and the services are the show. "People are not there because the theater is attractive. They come to see the show." By providing all the technical requirements for the population in its unembellished structures, and offering a full array of assisted

living services, the company hopes to fill its buildings with elders who are unable to afford more luxurious residences. "Everybody knows when they walk into our building, they're shopping the low-priced variety. What they're getting is a loaded Chevy, not a Cadillac or Mercedes," says Sawyer.

One of Leggat McCall's most important partners is its architecture firm, MBBJ, which fulfills both the design and cost estimating functions on its projects. Because most of the company's pricing advantage is achieved through its construction processes, MBBJ contributes to much of the firm's product value.

The company has contracted with Emeritus Inc. to run the building operations. Emeritus is a nationwide provider of assisted living services, headquartered in Seattle. Additionally, Leggat McCall partners with several external investors who provide capital for development.

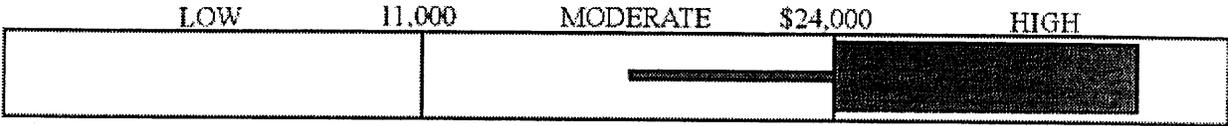
### ***The Financing Process***

The rapidity with which funds can be deployed to build its projects is key factor in Leggat McCall's ability to shorten the development timeframe. Consequently the company has established long-term relationships with private equity investors, several regional banks which make construction loans, and a large institutional lender for its take-outs.

The Woods at Eddy Pond, like most of the firm's projects, was financed with approximately 25 percent debt, and 75 percent investor equity. The weighted average cost of capital for the project was approximately 11.75 percent. Leggat McCall contributes its expertise, and earns a fee and a percentage of ownership.

The contract with Emeritus, the service provider, stipulates that Emeritus pays a fixed rent to Leggat McCall, and collects all resident fees and manages the facility independently. Leggat McCall essentially acts as a landlord, although because of the depth of their entanglement in numerous projects, Leggat McCall exercises some influence over management practices.

For its part, Emeritus charges resident fees of \$2,195 for a studio and its basic service package, and \$3,195 for its enhanced package, with gradations in between. Most residents opt for the basic package. In terms of Emeritus' rent payments to Leggat McCall, the facility's break even point is approximately 80 percent occupancy.



*Affordability Scale*

***The Site and Building***

Reducing the timeframe of development is a critical priority for the company, since the period between the time capital is committed to the time revenues are generated has an opportunity cost. Locating in a municipality which is cooperative with the development team is a significant factor in this regard. The Woods at Eddy Pond is located in a sparsely developed commercially zoned district of Auburn. The company chose the site because of its non-controversial location, with no residential abutters, its secluded and quiet suburban setting, and proximity to transportation thoroughfares. Interstates 90 and 395 are a short distance from the site, and as such the land is less desirable for home-builders, and cheaper than in more established residential communities. The residence draws from the Auburn market, population 15,000, and Worcester, population 170,000. The median household income for the area is \$40,000. "We only go into middle-class communities where our market is. We don't build in Wellesley or Marblehead," says Sawyer. Each of Leggat McCall's assisted living residences is identical in appearance. Each is developed alongside an independent living residence, and at some sites, a special dementia facility. They are all 60,000 square feet, two stories high, with two residential wings anchored by a central arcade. They house 80 individuals in 72 studios and 8 one bedroom units.

Hard construction costs for the building are approximately \$50 per square foot, compared to an

industry average of roughly \$95.<sup>20</sup> This savings has been achieved over time through benchmarking costs for every building system. "Most people don't have a target, they're just feeling their way," says Sawyer. "We start from the foundation design through the roof system, and we design it to get it cheap." During the design phase, the company engages a contractor to aid in the value engineering. Given the competitive market, the firm is protective of its construction processes which contribute to this substantial cost savings. However, they include:

- Use of a prefabricated roof truss system.
- Use of negative air pressure ventilation systems.
- Room dimensions conforming to factory cut sizes.
- Bulk purchasing, and purchasing of volume-produced goods.
- Design for a minimal number of shear walls and costly structural components.

The cost estimating process occurs in an iterative fashion between schematic design and design development, and by the time working drawings are prepared, any budget overruns are the responsibility of the architect.

Sawyer takes pride in the fact that many of the cost savings measures also make sense for the residents. Large sinks are installed in the units, because they're cheaper than the smaller hotel sinks produced in lower volume; they are also safer for washing good china, which is typically the only crockery the residents bring from their homes. The closets contain modular shelves and removable hanging rods, which are cheaper than built-ins, as well as more flexible to each resident's preferences. Because the residents are almost all female, the company looks for women architects to work on the building. "Women react differently to spaces than men do. When I talk to 40-year old men designing buildings for 80-year old women, there's a disconnect," says Sawyer.

Nevertheless, the cost cutting measures in the construction process do impact the atmosphere of the place. The spaces are generally sparse and impersonal. Little, if any, wood is used in interior finishings. Furnishings are upholstered in plastic. The program is rectilinear and predictable. Sawyer argues that the very nature of the use as retirement living precludes a home-like atmosphere. "It's still an institutional structure," says Sawyer. "No matter what I do, I can't make it

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<sup>20</sup> 1996 ed. "An overview of Assisted Living," MassALFA.

feel like a house." To mitigate the plain appearance of the interior, the central common space and entryway is designed with a two story cathedral ceiling. Creating this type of volume, Sawyer says, is not expensive, and gives the impression of prestige.

### ***Resident Services***

Emeritus is a five year old company specializing in assisted living services. Its chairman also runs Holiday, a nationwide manager of independent living residences, which has had an ongoing relationship with Leggat McCall for 12 years. When Leggat McCall began developing assisted living residences, it turned to Emeritus as a natural extension of its relationship with Holiday.

Given the project owner's philosophy that "the building makes no difference in terms of the happiness of the residents," the burden of responsibility for the residents' well-being rests with Emeritus. The company's professed philosophy is to honor its residents with the highest quality service. As part of the basic package, residents are provided with housekeeping, three meals a day, linen service and laundry, transportation, recreational activities, 24-hour medical emergency and security, medication management, assistance with activities of daily living, and other common assistance as needed.

In terms of meeting the affordability goals of the project, Emeritus' management practice reflects the "loaded Chevy" concept, with an effort to trim operating expenses where possible. Three meals per day are offered, yet no choice of entrees is available, and no tablecloths or linens used. Food service expenses per resident per per day average \$4.50, just over half that of the Cohen Florence Levine Estates. Waitstaff and housekeeping staff is cross-trained, to reduce staff overhead, as well as create more job variety and satisfaction.

The performance of the staff in providing quality service is the subject of concern at Leggat McCall, however. "Emeritus is noticeably lacking in mission," complains Sawyer, who has witnessed a lack of compassion among staff at the residence. Part of this he attributes to the age of the staff, which he says is too young to be able to understand and respect the resident population.

Part of it he attributes to poor leadership by the company's management.

The Woods at Eddy Pond is 60 percent occupied, after more than a year of operations. This slow rate of rent-up may be a reflection of many variables, including the management issues Sawyer mentions. For a private-pay residence, the occupancy rate is a good barometer of the project's success in delivering well-functioning assisted living, assuming a market exists. Emeritus, however, attributes the low occupancy level at The Woods at Eddy Pond to a soft market. The management's effort to address the problem will include applying for GAFC certification, which will allow the residence to receive reimbursements for low-income individuals. Even if this approach does succeed in boosting occupancy, however, the project will suffer a revenue loss of approximately \$300 per GAFC recipient.

<b>PROJECT SUMMARY</b>						
Project Name: Woods at Eddy Pond		<b>APARTMENT MIX</b>				
Developer: Leggat McCall Retirement Prop.		<b>Market Rate</b>			<b>Subsidized Rate</b>	
Service Provider: Emeritus, Inc.		<u>No.</u>	<u>Apt Type</u>	<u>Monthly \$</u>	<u>No.</u>	<u>Apt Type</u>
Total No. Units: 80		72	Studio	2,195		Studio
Total SF: 60,000			Alcove			Alcove
		8	1-BR	2,295		1-BR
<b>FINANCING AND CONSTRUCTION</b>						
<b>Debt Sources</b>		<b>Equity Sources</b>		<b>Land / Building Acquisition Cost</b>		<b>Development Cost</b>
<u>Source</u>	<u>% of TDC</u>	<u>Source</u>	<u>% of TDC</u>	<u>Transaction Type</u>	<u>% of acquisition cost</u>	Total Development Cost \$9.1m
Permanent lender	25 %	Limited Partner	75%	Market Rate	100%	Hard Construction Cost \$3m
				Below Market Rate		\$/Unit TDC \$131,884
				Gift		
<b>SERVICE PACKAGE</b>						
<b>Market Rate Basic Package</b>				<b>Subsidized Rate Basic Package</b>		
Minutes/day of personal care: 60	Bathing	Y	Using telephone	Y	Bathing	Using telephone
	Mobility	Y	Shopping	Y	Mobility	Shopping
	Hygiene/grooming	Y	Laundry	Y	Hygiene/grooming	Laundry
	Incontinence	Y	Special diets	Y	Incontinence	Special diets
	Eating	Y	Activities	Y	Eating	Activities
	Toileting	Y	Transportation	Y	Toileting	Transportation
	Behavior/orientation	Y	Alzheimers Care	Y	Behavior/orientation	Alzheimers care
Phys./occ. Therapy		Meals/day	3	Phys./occ. Therapy	Meals/day	

### *8.1 Description of the Approach*

For many years, the Department of Housing and Urban Development (HUD) has sponsored elderly housing developments through section 202 US Housing and Community Development Act. Traditionally these projects have been intended to provide basic living arrangements for poor, but healthy and independent elderly. Enacted at a time when housing creation was the backbone of HUD's mission of addressing the problems of the nation's cities, the programs originally had no services component. Over the years, as elders in these residences grew increasingly frail, and their needs multiplied, it became clear that services such as assistance with mobility and eating were necessary to retain the residents. Today, use of community based service providers by project sponsors has become increasingly sophisticated, to the point where several subsidized elderly housing projects in Massachusetts resemble assisted living in many respects.

The enhanced subsidized housing approach is dependent on elder care organizations in the community to provide services. Due to constraints of the Section 202 program, and related financial issues, residences cannot be staffed full-time by care providers as in a typical assisted living residence. Services instead may be provided for a fee by home care providers, or by government subsidized elder services agencies. Because the potential consumers of services are concentrated under one roof, providers may serve more people with lower fees, and may improve the level of attention each individual receives.

In terms of affordability, this approach is very different from those previously discussed. All Section 202 apartments are available to seniors over the age of 62 who earn less than 50 percent of area median income. Residents pay rent equal to 30 percent of their income, and HUD makes up the difference between this payment and its approved operating cost per unit. As subsidized housing, there is little market pressure on the sponsor to balance revenues with expenses. Once the

project is in the HUD system, any deficit in the housing component and certain service contracts are paid for by HUD. On the other hand, the entire project must adhere to HUD's income eligibility criteria, and manifold other requirements. Section 202 funding is available only to not-for-profit sponsors.

The approach is limited most significantly in the level of service which may be provided. Most notably missing from the service plan for these residences are 24-hour staffing and on-site emergency response. Consequently the residences are poorly equipped to handle unscheduled needs. Overall, elders in enhanced subsidized housing are less frail than in a typical assisted living resident. One important question in evaluating this approach is whether this is because these residences are simply available to a broader band of elderly, or because of a functional shortcoming in services.

## **8.2 Case Study: *Nevins Manor, Methuen, MA* *Nevins Home for the Aged, Sponsor***

### ***Conceptual Background***

The sponsor of Nevins Manor is the Nevins Home for the Aged, a charitable organization founded at the turn of the century on the bequest of Julie Nevins, in memory of her husband Henry, a local entrepreneur. The organization is similar to the Springfield Home for the Elderly in its mission, which is to care for the elderly and indigent sick. Unlike the Springfield Home for the Elderly, however, the organization's endowment had been substantially depleted at the time the project was conceived.

Nevins Manor was an existing home for the elderly built in 1906. The building was shut down in the late 1970's, when Medicaid eligibility requirements made it necessary to construct a more modern nursing facility on the property. Nevins Manor had sat vacant until 1989, when Felix Albano joined the organization as Executive Director. Suffering from the financial drain of insurance payments on the vacant property, the Board of Directors began searching in earnest for a use. The Board's goal for the property was twofold: to preserve the building, as an historic gem,

and to make it a viable enterprise consistent with the organization's mission.

The principle motive for turning to HUD, Albano explains, was need for financial support. The organization had evaluated the possibility of renovating the property as a conventional assisted living residence, but funds were not available in 1992 to make the project sustainable. After hiring a development consultant, The Community Builders, the organization turned to HUD to fund renovations of the facility as service enhanced section 202 elderly housing. The residence was completed in June, 1997

Elder Services of Merrimack Valley (ESMV), a publicly funded elder care agency, provides services coordination and assessment, and acts as the payor for most services to the residence.



*Nevins Manor*

### ***The Financing Process***

Before even approaching HUD, the Nevins Home for the Elderly performed a market analysis, and determined that Methuen and the surrounding area was poorly served by long term care facilities for low-income elderly. Methuen (pop. 40,000) has a median household income of \$37,000, and an unemployment rate of 7.7 percent. Nearby Lawrence (pop. 70,000) has a median household income

of \$22,000, and an unemployment rate of 15 percent. “As a potential location for low-income elderly housing, this was a no-brainer,” says Albano.

The organization applied for section 202 funding from HUD in 1992, but was not approved until it reapplied in 1994. Russ Tanner, the development consultant with The Community Builders, explains that the HUD 202 program is highly competitive, due in part to increasing interest and reduced federal funding for other programs.

Nevins Manor was awarded \$3.7 million for capital improvements from HUD. To supplement this amount, the sponsor also sought funding from the Department of Housing and Community Development through the Housing Innovation Fund. Once the HUD capital advance was approved, the Housing Innovation Fund awarded the project \$462,000. The sponsor also applied for HOME funds from the city of Methuen, which awarded the organization \$100,000.

Prospective residents of Nevins Manor must be earning less than \$19,500 annually. Nevins Home for the Elderly collects their rent payments, equal to 30 percent of their income, and receives monthly reimbursements from HUD. Nevins receives no payments for services, other than those included in the rent, such as day-to-day building maintenance and janitorial services.



*Affordability Scale*

***The Building and Site***

The building itself is of wood frame construction with masonry exterior, and elaborate gothic revival ornamentation. Total floor area is 44,000 square feet, on four floors. It is situated on a hill a mile northeast of Methuen's central business district, with good views and light on two facades. Directly behind the building is the new nursing facility. Also on the site are an adult day health facility, and a transportation service for seniors.

The interior spaces were thoroughly renovated. The 84 rooms comprising the original plan were converted into 36 studio and 8 one-bedroom apartments. A kitchenette and full bathroom were installed in each unit. Common areas were constructed or rebuilt, including a dining room, living area, library, and sitting alcoves. Original wood panelling and decorative features were kept or reused to create a higher quality finish than might have otherwise been possible under the HUD imposed budget constraints. Total development costs were \$95,000 per unit, including the modest acquisition cost for the building shell. Occupancy reached 90 percent 8 months after completion.

### ***Resident Services***

The service component at Nevins Manor may be described as improvisational, in that the sponsor has made best use its resources, pulling together several different community organizations to meet the needs of the residents. The central component of this medley of services is a service coordinator, the Merrimack Valley Elder Services, which evaluates each individual resident's needs, and functions as a payor for service providers.

Merrimack Valley Elder Services is a private not-for-profit organization, which disburses federal and state government funding for care of low-income elders throughout the region. The organization contracts with home care agencies, meal service providers, housekeeping agencies, and other service providers to fulfill the needs of its clients. In most states funding for support of low-income elderly is made directly through a public agency. Massachusetts has approximately 60 not-for-profit organizations like MVES which fill this role throughout the state.

To qualify for services through MVES, residents must meet certain state-imposed medical eligibility requirements, which determine whether residents are "at risk" of nursing home placement. The eligible residents at Nevins receive:

- one lunchtime meal per day through an outside vendor, the Merrimack Valley Nutrition Program;
- personal care, including assistance with activities of daily living, through the Veterans Nurse

Association;

- homemaker services, including light housekeeping, shopping, laundry and medical escort, provided by Merrimack Valley Area Agency on Aging.

Missing from the service package is 24-hour surveillance and security, and on-site emergency response, as well as a full meals program.

Given the complexity of coordinating different providers, and the gaps in the service package which still exists for very frail elders, one might wonder why a full time staff was not hired to run the facility from the beginning. As a HUD project, however, the sponsor cannot select residents based on need for services. For most of the residents, Nevins Manor seems to be a housing choice, rather than a long-term care alternative, which is consistent with the original intent of the 202 program. "Most residents were motivated to move here by the low rent, and by the environment, the historic building," says Albano.

Initially, the sponor had set a goal of 50 percent frail residents in need of enhanced services, and 50 percent independent, healthy seniors. The number of frail residents "at risk" of nursing home placement has not yet reached that goal, however, due in part to the popularity of the residence for independent seniors.

With time, however, it is anticipated that the needs of the residents will increase, and additional services may be brought in which may accomodate them. Jerry Haley, an administrator at Nevins Home for the Aged, explains that 10 residents qualified to receive care is the critical mass which justifies having home care providers make more than intermittent scheduled visits. At Nevins Manor, two home care providers work in "clusters" of approximately 6 hours per day, as opposed to visiting the residence for two hours on occasional days of the week. Thus should residents have unscheduled needs during this period, they may obtain assistance immediately. As more residents require services, the expectation is that the facility will be better able to provide more comprehensive services in the manner of certified assisted living.

On the other hand, it is notable that the Board of Directors is considering building a certified assisted living facility on the property, a project Albano hopes will be underway within three years. One model for the new facility, Albano says, is the Cohen Florence Levine Estates, which is also associated with a nursing home, and had similar financial constraints to the Nevins Home for the Aged. This ambition is perhaps driven partly by a desire for the prestige of a new state-of-the-art facility. Nevertheless there seems to be a tacit belief on Albano's part that Nevins Manor will never fully function as a long-term care alternative for the very frail and needy elderly.

### 9.1 *General Lessons*

For all the differences among the cases, they impart several general lessons about expanding the affordability of assisted living for moderate-income elders, which may be grouped into three categories: site, financing, and resident services. The lessons are summarized below, and a comparative analysis of the individual cases follows.

#### *Site*

Certain cases share the same geographical context, and thereby serve similar populations. Landmark at Fall River and the Mason Wright Retirement Home both serve poor urban communities. Cohen Florence Levine Estates does too, but is in close proximity to a much more affluent population. The other three cases serve middle-class suburban communities. We may draw the following lessons from the cases regarding geography:

- In isolated, poor urban areas, residences must be affordable to the *immediate* moderate and low-income neighbors.
- In mixed income areas, residences draw from farther afield, and may succeed in attracting high-income residents which help to subsidize a reduced fee component for low and moderate-income residents.

Nancy Anderson, of MHFA, says that the greatest challenge for the Elder CHOICE program in the future will be servicing softer market areas like Fall River, and increasing the percentage of low-income units in each residence. She explains that the trade-off in servicing these areas will be either a lower quality of building and amenities, or a greater degree of subsidies. Certainly this is corroborated by the cases of Landmark at Fall River, and Mason-Wright. Landmark at Fall River achieves affordability through minimal development costs by reusing an existing structure, and providing a very simple service plan. The spread between private-pay fees and subsidized fees is very small, since there are no high-income individuals in the area. At Mason-Wright, the capital expenditures and operating expenses will be closely managed, but the residence is really only able

to provide affordable assisted living to the moderate-income group through its endowment, which will pay for roughly 16 percent of annual operating expenses.

Both the Mason-Wright Retirement Community and Landmark at Fall River are currently under development, which is illustrative of the fact that developers of assisted living are only just beginning to explore these types of communities. They will be increasingly important as the industry continues to seek opportunities for expansion.

### ***Financing***

Disentangling the effects of the geographic market from the effects of the financing and development approach is a hard task, although certain common themes emerge among the different approaches:

- Government capital subsidies apply to units for low *and some* moderate-income seniors. Sponsors should be flexible and resourceful in using these important sources of funds.
- Sponsors may use the GAFC and SSI-G programs as a safety-net for some moderate-income residents, in order that they not be forced to leave a residence when their assets are spent-down.

There are many sources of subsidized debt and equity capital funding which may be used for projects which provide housing for seniors earning less than 50 percent of median income. Because in most communities the lower end of the moderate-income population meets this criteria, these subsidized units may service such individuals. During their operations, Cohen Florence Levine Estates and Longwood at Reading have both had several residents who pay the subsidized rate, and yet do not receive Medicaid reimbursements due to income ineligibility. Low Income Housing Tax Credits, Home Funds, low interest debt through Elder CHOICE, and other publicly available monies all may significantly reduce debt service payments, and expand the residence's capability to provide more units affordable to these elders.

It should also be noted that while there may be a trade-off in terms of processing time to obtain these funds, the timeframe for all the cases was approximately 3 years. The Woods at Eddy Pond,

which falls under the “rapid development” category, was actually under development from June of 1994, when the land was put under contract, to April of 1997. This is not to imply that reducing the development timeframe does not add value to a project. Leggat McCall continues to streamline its processes since the construction of the Woods at Eddy Pond in its effort to reduce cycle time, and create dividends sooner for its investors. Real estate development will never resemble the predictability and regularity of manufacturing, however. Given that negotiations must occur around public approvals, site acquisition, professional contracts, and so forth, a three year time frame, give or take a few months, appears to be a point of stasis. As such, the time commitment required to move through government bureaucracies matters less than it might otherwise.

Of course, the cheapest sources of capital are also the most competitive, and sponsors must be prepared to respond to setbacks. Almost all the sponsors in the cases had to resubmit applications for subsidies after an initial failure, or change their financing strategy altogether.

The second point, regarding the use of GAFC as a safety net, is more controversial, for the practice of spending down assets and subsequently relying on the State for support has had a history of abuse in the nursing home industry. As Joyce Tassinari of Cohen Florence Levine Estates points out, the incidence of this phenomenon is low, because the criteria for GAFC are strict, and it involves a risk on the part of the elder who may not qualify when she can no longer afford the market-rate fee. On the other hand, several residents at Cohen Florence Levine Estates and elsewhere have shifted payment plans in this way, and it represents a limited measure in expanding access to assisted living.

### *Resident Services*

Among the different resident service plans, one can elicit the following lessons:

- Basic services should vary little from the benchmark standard.
- Scope of service should be tailored to the customs of the resident population.
- Not-for-profit sponsors and for-profit sponsors share the same challenges.

Basic services include assistance with activities of daily living, housekeeping and laundry, some off-site transportation, social activity programming, meal service, 24-hour surveillance and emergency supervision. One reason for including all these services to some degree in the basic package is that they provide a baseline of safety and well-being among residents. In the case of Nevins Manor, the term “assisted living” may apply if the facility’s capacity for meeting the unscheduled needs of the residents improves as residents continue to age.

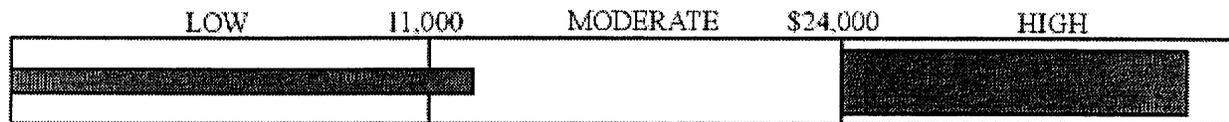
While these basic services should be provided in any assisted living facility, the scope of these services is flexible, and should reflect the comfort level of the resident population. At the Woods at Eddy Pond, for example, the limited choice of entrees is successful because as a cost-conscious middle-class population, the residents do not *expect* an elaborate menu. At Cohen Florence Levine Estates on the other hand, where half the population is relatively high-income and accustomed to hot breakfasts and a varied diet, a more extensive meal plan is necessary to keep the residents happy. The case of the Woods at Eddy Pond may in fact suggest that Cohen Florence Levine Estates overspends on services for the subsidized population. Separating services for the population with lower expectations may be difficult, if not impossible to accomplish (no tablecloths for half the dining room?), but it is worthwhile to point out that a resident population with a wide income spectrum may create inefficiencies in operations.

Lastly, one important observation which does not bear directly on the issue of affordability, is that not-for-profit sponsors and for-profit sponsors share the same challenges in their management practices as they strive to create well-functioning residences. This is because assisted living, as an idealized concept, is the same no matter what the orientation of the sponsor. Strong leadership is critical for both types of sponsors, in assuring that staff is compassionate, and that expenses are contained. Both also play an important roll in the expansion of the assisted living industry, as the following analysis elucidates.

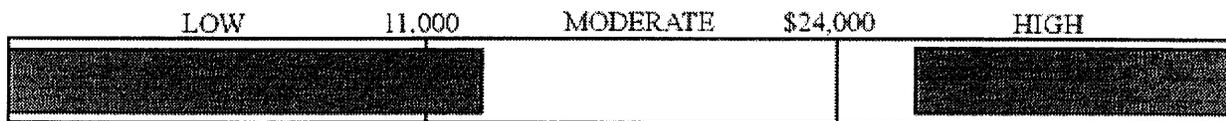
## 9.2 Comparative Analysis of Case Studies

Before evaluating the success of each of the cases in expanding affordability to moderate-income elderly, it may be helpful to restate the importance of this endeavor. First, this is a necessity in order for the assisted living industry to continue to grow. From the perspective of the for-profit sponsors, expanding the frontier of affordability will enable companies to continue to meet their investors' return expectations, and continue to develop new residences profitably. Second, from a not-for-profit perspective, there is a desire to optimally provide for the elderly, who are growing in number, and many of whom suffer from social isolation and physical disability.

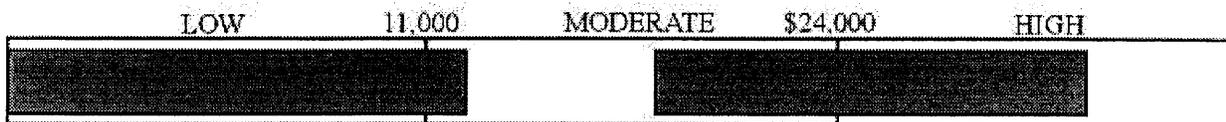
A glance at the affordability scales below demonstrates that the approaches yield very different results, in terms of the income spectrum of the residents:



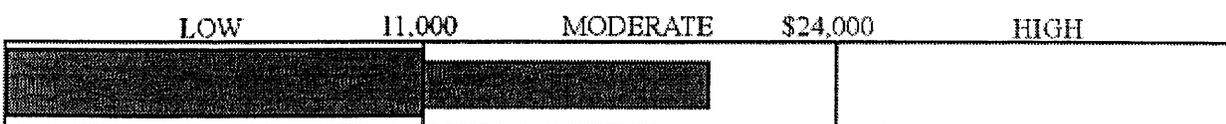
Longwood at Reading



Cohen Florence Levine Estates



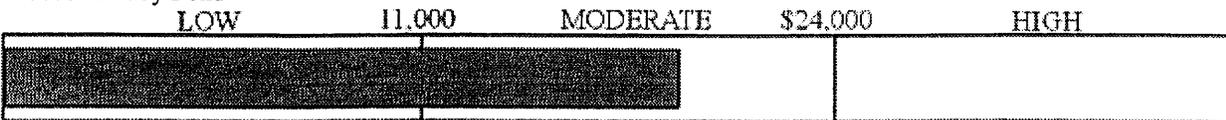
Landmark at Fall River



Mason-Wright Retirement Home



Woods at Eddy Pond



Nevins Manor

Although Nevins Manor and the Mason-Wright Retirement Home seem to have the greatest degree of affordability for the moderate-income population, as regards their respective approaches this information may not be as useful as it appears. Mason-Wright's sponsor is idiosyncratic in its ability to heavily subsidize rents out of its own pocket, while the scale for Nevins Manor fails to convey the important information that the residence falls short of providing a comprehensive assisted living environment. All the same, both these residences are unique in providing a long-term care alternative entirely for low-income and moderate-income elderly. Mason-Wright is particularly interesting located as it is in a poor urban area. Both facilities play critical roles in their communities by serving a *large number* of elders in need of long-term care.

The "rapid development" approach, in concept, is the most successful from the standpoint of a for-profit sponsor in reaching a portion of the moderate-income population, while retaining earnings. In practice, however, as illustrated by the Woods at Eddy Pond, the approach has pitfalls. Because the home-like quality of the physical environment is minimal, its success depends critically on the ability of the staff to care compassionately for the residents. This reliance on staff seems to conform to the general belief that as a needs-based long-term care alternative, resident services are the most important component of assisted living.<sup>21</sup> To the degree that staff attitude and demeanor is affected by the quality of the physical environment, however, this approach may be flawed. The outspoken pride of Joyce Tassinari in the physical environment at Cohen Florence Levine Estates contrasts vividly with the indifferent attitude of the marketing personnel at the Woods at Eddy Pond.

Cohen Florence Levine Estates, for its part, succeeds in making half of its units accessible to low-income individuals. Compared to Longwood at Reading and most other Elder CHOICE projects, this is a significant achievement. On the other hand, few of the units are accessible to moderate income elderly. Longwood at Reading and Cohen Florence Levine are similar in that the spend-down phenomenon is their chief means of providing for this population. The key reason these

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<sup>21</sup> One study conducted by Promatura Group in 1997 using a resident survey demonstrated that staff attitude was

projects are more alike than the Landmark at Fall River, although all are Elder CHOICE projects, comes back to geography. Both Cohen Florence Levine Estates and Longwood are located in mixed income communities.

The Landmark at Fall River is the riskiest project of all the cases. It is a risky development because it is a rehab, it is risky because it serves a poor urban population without a high-income cohort to lean on, and it is risky because it strays from the benchmark assisted living prototype in its format, with long corridors, smaller than average rooms, and a simple service plan. Cliff Boyle says with confidence that “the numbers work,” but this has not been achieved without a struggle, and the project is not yet built, let alone occupied. Landmark at Fall River would have been less risky had it received the “9 percent” Tax Credits which were originally applied for, putting it in the same camp as the Mason-Wright Retirement Home. As an Elder CHOICE project, its cost of capital is higher, and therefore its margins for operations are thinner. In pioneering the delivery of assisted living into this working class community, however, Simsbury Associates also stands to reap high rewards, both in terms of serving a need in the community, and in terms of earning high returns over the long-run for its investors. If the poor, urban market is a cloud over the project, the silver lining may be the strong identity of a downtown site, and the active support of the city. If the operating company, Senior Living Residences, is able to capitalize on these advantages and establish strong ties to the community, Landmark at Fall River may be an excellent model for other entrepreneurial organizations seeking to expand the horizon of assisted living by serving a moderate-income population.

The cases demonstrate that the public sector plays an important role in making assisted living accessible to moderate-income elders. Approach No. 4 --the rapid development approach-- while it does not use public sector support, seems to reach only a very limited population of upper moderate-income elders, with significant assets. As far as providing the intangible home-like qualities of assisted living, the market will be the measure of success for these projects. The Woods at Eddy Pond may not be representative in this regard, but it serves as an admonition to others.

The public sector is involved with all the Elder CHOICE projects as a lender, and in each case as a provider of important equity funds too, through the use of Tax Credits. Overall, however these projects serve only a thin band of the lower moderate-income population. Landmark at Fall River, where private-pay fees are no higher than \$2,550, and as low as \$2,250, is the exception in its ability to reach both ends of the moderate income spectrum. To attempt this variation of Approach No. 2, however, requires low risk aversion, and a high level of creativity and entrepreneurialism on the part of the sponsor. Combined with the internal dynamic of a narrower income spectrum of residents, this approach has promise.

The Mason Wright residence also depends heavily on public sector support. While the organization's endowment contributes significantly to its operations, the very low debt service is just as important to its financial stability. The project is excellent in terms of its accessibility to moderate-income seniors. Not-for-profit sponsors which have resources near those of the Springfield Home for the Elderly, but which are considering Approach No. 2, might reconsider. Funding which may close the gap in operating expenses need not come from one source, and the ability to raise these funds makes a fundamental difference in the makeup of the resident population. Efforts should be made by public agencies and industry leaders to educate potential sponsors of the shortfalls which need to be covered in this type of project.

Approach No. 5 employs the deepest government subsidy. As a result of being in the HUD system, however, Nevins Manor cannot, as yet, offer all the services which very frail elders need for optimal safety and comfort. If being in the Section 202 program means a project is forever shackled to HUD's current housing priorities, this approach may never provide a fully satisfactory assisted living environment. On the other hand, the 202 program has evolved over time, and if a deeper service component becomes possible, this approach will be a critical means of providing for moderate-income elderly.

Given that federal, state and local governments play such a prominent role in each approach, administrators may raise the question: is the government getting its money's worth?

The first response to this question relates to the subsidy programs' payoff in terms of reduced Medicaid expenditures, and does not relate specifically to the moderate-income population. A rough calculation demonstrates that if only 75% of assisted living residents which receive aid postpone entry to a nursing home, the government saves money.<sup>22</sup> Close monitoring of this equation will assure the continued value of these programs.

The second, more interesting response to this question relates to the public purpose which assisted living residences serve in society. As the nation's demographic composition changes, and a cultural shift away from family-oriented care continues, this study suggests that the level of public funding which supports access for needy populations of the elderly is partly a reflection of how well the society values its most senior citizens. Both the Landmark at Fall River, and the Mason Wright Retirement Community defy convention by providing assisted living which is not luxurious, but simple, and functional. In so doing they underscore the point that assisted living is a basic need for many elders.

Through expansion of the GAFC program to higher-income earners, investment in more extensive

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<sup>22</sup> Assuming there are approximately 400-500 GAFC + SSI-G recipients in assisted living, and that MHFA loans approximately \$20 million per year for construction of new residences at a discount of 1.5% from prevailing rates.

services to public owned and publicly subsidized housing projects like Nevins Manor, or through developer incentives access for the moderate-income population may be further expanded. These initiatives may not be necessary, however, in the presence of creative private sector sponsors with a strong desire to reach the underserved moderate-income market, and who have a willingness to partner with the State. Finding these sponsors, educating them and encouraging them should be the public sector's first step.

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