FEATURE

Gaining Momentum

Promoting and Developing Affordable Assisted Living

In recent years, increasing attention is being paid to the financial challenges of the impending silver tsunami of Baby Boomers approaching retirement. Simply put, their fiscal outlook is bleak. In regard to retirement savings, too many will have not enough. For the seniors housing and care industry, the time is now to invest in and develop more affordable assisted living (AAL) options. Fortunately, for both the industry and the low- and middle-income seniors of the present and future, there are several organizations and companies doing outstanding work to help address the problem.

By 2030, the population of seniors is expected to reach 74 million, nearly doubling in two decades.[1] The financial outlook for many in that group is concerning. By 2024, 6.5 million 50-and-over households will have an income under $15,000, a 37% increase for that income level in a single decade.[2] Approximately 30% of households aged 55 and older have no retirement account or pension. For the 70% of households that do have some savings, the median total account balance is $104,000, not nearly enough for multiple years of assisted living (AL). When looked at per capita, the numbers are even worse—median retirement assets for individuals aged 62 to 69 totaled only $32,000 in 2015. Those in the 75th percentile have only around $130,000, still far from sufficient.[3]

The need for more AAL options is clear. Fulfilling that demand is a challenging proposition, to be sure, however recent developments indicate that the cause is gaining momentum.

Shining the Spotlight

In a previous article, "Supportive Living Facilities and Medicaid Waivers: Addressing the Wave of Low- and Moderate-Income Seniors," we detailed two of the most prevalent and successful AAL models—Illinois's supportive living facilities (SLFs) and Indiana's Medicaid waivers. In a subsequent piece, "Care for All: Financing and Development Considerations for Affordable Assisted Living Facilities," we discussed the three major considerations for developing AAL facilities, which are summarized in this infographic. In this article, we provide an update on AAL efforts nationwide and present a case study of a recent successful AAL financing.

Signaling the growing attention being paid to that group of seniors who earn too much to qualify for Medicaid but not enough to live in a traditional AL facility for an extended period, the National Investment Center (NIC) recently announced it has engaged a research group to conduct a major study on the issue. The project, which it calls a "demand study," will attempt to gain more demographic information on the middle market population.

In another example of the increasing attention being paid to the AAL cause, Senior Housing News and Plante Moran recently published a white paper on the issue titled "The Next Big Challenge: Building & Operating Middle Income Senior Housing." The report diagnoses the challenges of providing AL for the middle market, which it said consists of approximately 30% of households in the 85+ age group (roughly 1.2 million households). If you look at the 75+ age group, that number increases to 4.4 million households. Again, the demand clearly exists, and the report goes on to discuss how developers are pioneering solutions through operations, design and development. It discusses different operating models, such as the SLFs in Illinois, as well as other mixed income approaches where private pay and Medicaid waiver residents enjoy the same amenities and services but at different price points. In regard to design and development, the report notes that building more studio apartments, as opposed to one- and two-bedroom units, can save costs and reduce rents.

There is also an AAL working group, which is likely the largest such AAL organization in the country, that is led by Gardant Management Solutions, Inc. and the Affordable Assisted Living Coalition. The group held its second annual Affordable Assisted Living Summit in September of 2016. At the event, the group outlined what it believes are the characteristics of an ideal AAL model, which it broke into nine categories:

1. **Political support**. To maintain a successful AAL model, a state needs a receptive government at all levels, from the governor's mansion to municipalities. Cooperative nursing home associations and housing lobbies are also essential.

1. U.S. Census Bureau
2. Shelterforce, "Meeting the Housing Needs of an Aging Population," May 29, 2015.
3. The Bipartisan Policy Center, "Healthy Aging Begins at Home," May 2016.

2. **Medicaid authority**. This can be in form of standalone Home and Community-Based Services (HCBS) waivers for AL, although the details will vary by state. An established, effective Medicaid eligibility system for long-term supports and services is critical.
3. **Reimbursement**. Reimbursement must be adequate to cover costs, timely, adjust with inflation, allow separate room and board payments, and be as uncomplicated as possible in regard to the billing and claims process. In addition, it should be stratified based on acuity level.
4. **Financial**. Funding sources can include low-income housing tax credits (LIHTCs), tax-exempt bond financing, the U.S. Department of Housing and Urban Development (HUD)/Federal Housing Administration (FHA) Sec. 232 program, the U.S. Department of Agriculture (USDA) Sec. 538 program, and conventional bank financing.
5. **Operations**. Some of the ideal operations' characteristics include good location, sufficient employment pool and adequate staffing, effective partnerships with managed care, use of data collection and electronic health records, and sufficient marketing resources.
6. **Demand/market demographics**. The area must have sufficient market demand in regard to age and income. AAL facilities can be supported by urban, suburban and rural locations.
7. **Regulatory**. Regulatory considerations are similar to the traditional AL model and will include announced annual compliance audits, a good partnership with technical assistance from state regulatory compliance staff, and a small or no licensure fee, among other characteristics.
8. **State AL association**. State AL associations play an integral role in the development of AAL by providing promotion, protection, lobbying, ongoing education and affiliation with national associations.
9. **Target states**. As the development of AAL facilities is still very much a state-by-state endeavor, the factors that determine which states are conducive to AAL vary widely. In general, states that have committed to increasing access to HCBS waivers for AL and are giving priority to residents who have transitioned from skilled nursing facilities (SNFs) should be among the first considered.

As these organizations and companies continue their work in promoting AAL options nationwide, progress continues to be made and the momentum builds. Below, we examine a recent AAL financing success story.

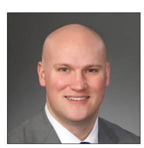
Financing for the Future

Heritage Woods of Moline is a 99-bed SLF located in Moline, Illinois. The facility is operated by Gardant Management Solutions, the largest provider of AL in Illinois and the 14th largest in the nation. Gardant is committed to providing AAL and spearheaded the first national summit on the topic in 2015. One of the AAL models Gardant helped create is the SLF, which combines apartment-style housing with personal care and other services so residents can live independently. In the SLF senior housing model, a Medicaid waiver obtained by the Illinois Department of Healthcare and Family Services pays for services that are not routinely covered, such as personal care, homemaking, laundry, medication supervision, social activities, recreation, and 24-hour staff to meet the residents' needs.

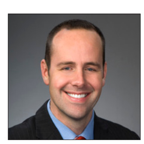
Heritage Woods of Moline was constructed in 2007 and originally financed with tax-exempt, private activity bonds and 4% LIHTCs. The bonds' interest rate was fixed and its first call date was in December of 2016. As the interest rate environment had become more favorable over the past decade, Gardant sought to refinance the existing debt on the facility. Since the existing debt was in the form of tax-exempt bond financing and LIHTC equity, there were several stakeholders and considerations not typically involved in a standard mortgage loan refinance. For example, reserves and escrows associated with the bonds had to be released in a specific manner, and the bonds had to be called and paid off in accordance with the outstanding bond documents.

Ultimately, the FHA Sec. 232/223(f) program was used as it provides non-recourse financing with a 35-year term. Gardant's investment bank and lender facilitated the closing of the $10.5 million loan in an efficient manner, adhering to a tight timeline and ensuring that the bonds were called in step with the closing of the FHA Sec. 232/223(f)-insured mortgage loan. The new fixed interest rate is nearly half of the previous rate, providing the ownership group with substantial debt service savings. Heritage Woods of Moline is now ideally positioned to reinvest in its mission to provide much-needed AAL to its residents for decades to come.

The issue of not having enough AAL options for a wave of retirees with insufficient funds is a serious one that will not be fully alleviated any time soon. But, thanks to the hard work of organizations such as those discussed above, substantial progress is being made.



Brett Murphy is a vice president with Lancaster Pollard in Chicago. He may be reached at bmurphy@lancasterpollard.com.



Steve Kennedy is a senior managing director with Lancaster Pollard in Columbus. He may be reached at skennedy@lancasterpollard.com.