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AFFORDABLE SOLUTIONS

STRATEGIES FOR BUILDING ASSISTED LIVING FOR THE LOW- AND MODERATE-INCOME MARKET

Dwight "Ike" Burgess, 62, has attached six American flags to his Amigo scooter. But Burgess says he's not just trying to be patriotic. For him, the flags express his gratitude to Bloomingfield Hills, Michigan-based American House for allowing him to move out of a nursing home and into the more compassionate and apartment-like environment of American House Hazel Park.

Burgess, who suffered a stroke and has multiple sclerosis and diabetes, had been in the nursing home simply because he couldn't afford any other option. But under American House's pilot program for "Affordable Assisted Living," federal Section 8 Housing vouchers pay for a portion of Burgess's rent, and MIChoice (Michigan Medicaid) long-term care waivers cover food and services such as housecleaning.

"American House gave me the freedom that I thought I would never see again," Burgess says. "I get much more personal care here. It's good to know that these people really care about me."

Many low-income seniors who only require minimal assistance are forced into nursing homes because affordable assisted living options are unavailable in their area or their state Medicaid programs will only cover nursing home care. The question of whether assisted living can truly be made affordable for low- and moderate-income seniors is one that industry analysts and providers may disagree about. However, they do agree that cost reduction is extremely difficult in the current market and public policy environment.

UNTAPPED MARKETS

Approximately 30 percent of seniors aged 75 and older, or 3.3 million households, were projected to have annual incomes under $12,000 in 2003, according to Moore Diversified Services Inc. (M-D-S), a Fort Worth, Texas-based national senior housing and health-care consulting firm. This income level qualifies individuals for government entitlement programs such as HUD 202 and Section 8 senior housing, which provide rent subsidies.

These programs proved a real boon to seniors who could live independently in apartments, while Medicaid programs were supposed to cover long-term care in nursing homes, says M-D-S President Jim Moore, author of *Assisted Living Strategies for Changing Markets* (2001). The assisted living industry wasn't even born yet, and lawmakers didn't factor seniors in a middle group who required some assistance with daily living but not full-blown medical treatment.

"People were expected to cook and care for themselves," he adds. "Instead, those people aged in place, and now we have a huge time bomb."

Another approximately 28 percent of seniors aged 75 and older, or 3.1 million households, have moderate incomes between $12,000 to $25,000. Most of these seniors, which Moore dubs the "Gap Income Group," make too much money to qualify for government subsidies but not enough to afford private-pay assisted living at an average monthly market rate of $2,500 or more depending on geographic area.

These figures would suggest a substantial untapped market for assisted living providers, Moore says. Other people are drawn to affordable assisted living out of altruistic reasons. However, relatively few providers have moved into the affordable arena. The biggest obstacle is simply the operating costs of running a community—from meals, housekeeping, and health-related services to the escalating price-tag of liability insurance.

"The numbers are very compelling, but it's not a matter of 'I'll offer services more efficiently,'" Moore says. "There's a very finite floor and a lot of very well-intentioned people realize that. You need to ask yourself 'What is my monthly fee to cover my costs?' Most of the time, when you get the answer, you find out that you have not made a lot of progress."

Another compounding factor is that a resident's acuity may deteriorate over time, requiring more care and thus increasing costs, says Evelyn Howard, president of Bethesda, Maryland-based Howard and Associates, which provides market demand analysis for the senior housing industry.

"If you have a group of people that can be handled as a group—for example, if you can provide the same menu to all the people—and there's very little one-on-one, affordable assisted living is possible, but is it a reality today in assisted living? No, it is not," she adds. "People in assisted living are frailer than they were three years ago and they require more help—whether it's getting dressed, getting to meals, or reminding them to take their medications. It's very labor-intensive."

In Howard's view, donations and grants can form a foundation for affordable assisted living. However, because of the amount needed and the fact that donors often stipulate restrictions on use, the only way affordability can be made to work in the long run is through government assistance, she maintains.

AT A GLANCE

- Few providers have moved into the affordable arena due simply to the high costs of running a community.
- Entitlements differ greatly from state to state. Medicaid waiver programs, for example, fluctuate widely in terms of eligibility requirements and the extent to which they cover assisted living.
- Entrepreneurial types should look for innovative ideas to combine programs, suggests one provider.

"For example, a donation per person would need to be about $800,000, given that assisted living costs each person at least $3,000 to $4,000 per month or $36,000 to $48,000 per year," she says. "I assume that an $800,000 donation invested at five percent would yield $40,000 per year."

Still, the viability of depending on entitlements differs greatly from state to state and remains volatile, Moore says. Federal program tax credits can reduce the capital costs of constructing or refurbishing buildings, but these programs are administered by state housing credit agencies that determine selection criteria. Medicaid waiver programs also fluctuate widely among states both in terms of eligibility requirements and the extent to which they cover assisted living services. Finally, providers need to consider that states, faced with strapped budgets, are more likely to cut, rather than expand, their entitlement programs. With huge state budget deficits forecast for upcoming years, it's a fair speculation that this downward trend will continue.

"The number of Medicaid units or slots allocated for assisted living is generally limited in each state and, in some states, is not guaranteed renewable," Moore says. "So what if you agree to provide some Medicaid slots [in your community] and next year, they're not there? Do you throw out the resident? That's a human issue."

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>
> Steven Vick
> Assisted Living Concepts Inc.

COMING HOME MODEL

The most important thing a provider interested in affordable assisted living can do is become politically active, says Robert Jenkens, deputy director of Coming Home, a $13 million national program working to increase affordable assisted living options in rural communities where low-income seniors are forced into nursing homes at a much higher rate than urban residents. Funded by the Robert Wood Johnson Foundation (RWJF) and the National Cooperative Bank Development Corp. (NCBDC) and launched in 1992, Coming Home is in its second five-year $6.5 million grant period.

"Providers need to talk to state agencies and state legislators about how they can replicate this kind of effort in their state," he adds. "It doesn't happen without a specific focus on it. There are too many competing interests."

The first phase of Coming Home directly supported organizations interested in developing affordable assisted living. However, because state policy environments were recognized to be so critical to success, the second phase gave grants to nine states to study gaps in their public policies and programs. Both Arkansas and Vermont created new regulations under this program, while Coming Home assisted the other seven states—Alaska, Washington, Iowa, Wisconsin, Massachusetts, Maine, and Florida—in honing existing programs to remove obstacles.

According to Jenkens, three elements in the state policy environment must align and form partnerships to make affordable assisted living feasible.

First, "you need to have good regulations in place governing assisted living, regulations crafted to allow assisted living to fill the function of an institutional alternative as opposed to a stepping stone to an institution." One example would be a regulation that requires that each assisted living community, regardless of its size, have its own administrator. Such a rule wouldn't allow three small rural communities to save operating costs by sharing one administrator.

Second, the state needs to have a strong Medicaid program set up in such a way that it can be a viable funding source for assisted living. Such a program not only benefits seniors but also can save taxpayer money because nursing home care costs more than assisted living care, Jenkens says.

"When an individual is appropriate for assisted living and, but for the affordable assisted living, would end up in a nursing home, the average savings in the nine Coming Home states is 62 percent for the state," he adds. "That savings includes Medicaid costs, as well as any income supplement the state provides for the individual."

Third, "the state housing finance agency must have programs that not only are available to fund assisted living but have made assisted living an eligible or a priority category under their tax credit program."

Coming Home also created a revolving loan fund for community groups interested in exploring the feasibility of developing affordable assisted living. At this stage, a potential developer is faced with two challenges—one, convincing investors of a project's viability, and, two, learning the ins and outs of all the paperwork and bureaucracy required to obtain government support. The fund loans groups $100,000 at no risk. They either pay it back at construction or permanent financing of the project, or if the project is judged not viable for market reasons or lack of sufficient subsidies, the loan is forgiven and never needs to be repaid.

"To get these projects developed, it takes an extraordinary amount of technical assistance to organizations typically inexperienced either in service or in housing development," Jenkens says. "Even if the organization is somewhat experienced in either service provision or housing development, they don't know how to easily get the info they need and are reluctant to move forward."

Of projects that received revolving loans from Coming Home, 13 are open and operating with a total of 466 units, Jenkens says. Another 72 communities are in some stage of analysis, development, or construction. The average project size is 37 units.

"Of those 72, we expect a significant number to drop out, but we also expect a significant number to become fully operational," Jenkens says.

Beyond state regulatory environments, other factors that affected whether a project took off included the availability of land that was donated or purchased at reduced cost and the ability of rurally based nonprofits, which typically have fewer resources than urban ones, to raise funds from multiple sources, Jenkens says. Finally, federal housing subsidies stipulate that a portion of, but not all, residents be low-income, and lenders and investors tend to prefer a mixed-income model. Thus the majority of successfully launched communities under the Coming Home program rely on mixed-income residents as the final piece to assure financial feasibility.

"The idea is if we demonstrate this a few times, then organizations won't have to go through the same blood, sweat, and tears to get their project going," Jenkens says. "The first few projects that go through will really work out the kinks in the process."

OTHER STRATEGIES

Three other assisted living providers who are experimenting with the affordable arena also say the main reason they have any degree of success is thanks to a supportive government environment in their states.

When Dallas-based Assisted Living Concepts Inc., was founded in 1994, its growth and development strategy was specifically targeted toward states with Medicaid programs providing reimbursement for assisted living services, says President and CEO Steven Vick. The public company underwent a reorganization in 2001, but now has been profitable for more than four quarters, according to Vick. Today, it owns 177 residences in 14 states, of which five have Medicaid waivers. In the other states, the company uses a variety of community programs to keep costs down for residents, including a giveback program whereby a current resident, whose assets are depleted, can continue to live in a residence at a discounted rate. The company remains committed to maintaining its original mission, but keeping rates reasonable is challenging given operating costs and without tort reform reducing liability insurance rates.

"We have stockholders who want to have a return out there," Vick says. "However, for the average cost of a night's stay in a hotel, we are able to provide all the activities of daily living assistance. I think that's affordable."

Des Plaines, Illinois-based Pathways Senior Living operates five assisted living communities and is building three more in the six-county Chicago region. The company started out developing affordable independent senior living through the Illinois tax credit program, then partnered with a nursing home provider and expanded into assisted living after the state introduced its "Illinois Supportive Living Program," a progressive Medicaid reimbursement program, in 1998. Even though Pathways residences provide group meals, in order to meet the IRS definition of a dwelling—a qualification for federal low-income construction funding—Pathways added a kitchen to each unit, says Principal/Partner E. James Keledjian. Depending on location and land/development costs, communities have three types of residents—completely private-pay at $2,500-$3,000/month, tax credit-qualified residents with annual incomes from $14,000 to $32,500 who pay $2,500-$2,600/month, and Medicaid-qualified residents.

"Right now, our average [Medicaid] reimbursement is $61.94 per day and our rent, including services, is $2,436 per month per unit," he adds. "Rent charged to residents is $470, Medicaid pays $1,880 under reimbursement, and all of our residents are approved for federal food stamps."

In order to find low-income residents, Pathways has built relationships with local public housing authorities, hospital discharge planners, community groups, veterans' hospitals, and outpatient treatment facilities, Keledjian says. In urban locations, he estimates that 15 percent of his referred residents previously were homeless.

"We aren't struggling for the top five percent; we work with the bottom 60 percent," he adds. "We were leasing 17 units a month in Victory Center of Melrose Park, probably more than double the lease-up rate of the average assisted living community. Lease-up normally takes 14 months, but I think this will be six to seven months."

Most of American House's properties were bought at a low price and converted, using Michigan State Housing Development Authority tax credits, which stipulate that a fixed number of units be rented to low-income residents, says Robert W. Gillette Jr., director of sales and marketing for American House, which operates 29 communities within the metro Detroit area ranging in size from 38 to 204 units. Almost 10 percent of residents benefit from MIChoice, Michigan's Medicaid waiver program.

American House also keeps costs down by not including health services in its monthly fees. The company provides meals, housekeeping, laundry services, transportation, and activities, but leases space to a home health agency in every building to provide medical reminders and personal grooming services on an "a la carte" basis, Gillette says.

"If someone moves into American House and agrees to the basic parameters of American House, they have the option of utilizing the home health agency, not utilizing it, or bringing their own," he adds.

Some might argue that American House is simply shifting costs to another provider rather than reducing costs to a resident who requires some care. However, Gillette says that residents can get considerable service using the in-house health care provider for $300/month or less, with total bills typically staying under $2,000/month, considerably less than the $3,000/month starting rates of his competitors.

American House also recently partnered with the Detroit Housing Commission to open American House Detroit DHC, a 95-unit inner city converted apartment building that will house 45 MIChoice-qualified residents.

"We envision people paying $200, perhaps less, to the building, with the rest being financed by HUD and using Medicaid waivers to supply them with two to three meals per day," Gillette says. "At the end of the day, private entrepreneurial types like American House and forward-thinking public agencies have to put aside the old thought processes and think outside the box and start combining programs." ◂

Anya Martin is a freelance writer in Decatur, GA.