

Affordable Assisted Living Case Study

NCB Capital Impact Coming Home Program Demonstration Project

THE GARDENS AT OSAGE TERRACE

3317 Southeast L Street
Bentonville, Arkansas

Opened: November 2002
Case Study Date: May 2007



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The Coming Home Program is a partnership between nine states, [NCB Capital Impact](http://www.ncbcapitalimpact.org) (www.ncbcapitalimpact.org), and the Robert Wood Johnson Foundation (www.rwjf.org). Funding for the Coming Home Program is provided by the Robert Wood Johnson Foundation.

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I. Executive Summary

NCB Capital Impact implemented the Coming Home Program in 1992 with funding from the Robert Wood Johnson Foundation to make high quality, high service assisted living available to Medicaid eligible individuals as a nursing home alternative. The Gardens at Osage Terrace was the first Coming Home project in the State of Arkansas. The Gardens is a 45-unit assisted living facility in Bentonville, AR that serves a low-income Medicaid-eligible population of frail seniors. At the time of the Gardens' opening—November 2002—it was the sixth assisted living facility in the state of Arkansas, and the only facility located in Northwest Arkansas. The facility is licensed as a level-2 assisted living facility under Arkansas regulations. For the purposes of this case study, assisted living is defined as the housing with services category offering private apartments and high levels of service to nursing-home eligible seniors. Arkansas Assisted Living Level 2 regulations require significant minimum services standards, including assessments, 24-hour awake staffing, 3 meals plus snacks, laundry, housekeeping, and a nurse on call.

The distinguishing features of this project are:

- New construction financed by the low-income housing tax credit (LIHTC) program
- Partnership model between a community development corporation and a health service provider.

The Community Development Corporation Bentonville/Bella Vista, Inc. developed the project, and Mercy Health Systems of Northwest Arkansas provides personal and health services to the residents. Equity generated through the sale of tax credits financed about 57% of the project's total development costs. Additional equity from the Federal Home Loan Bank and a local community foundation covered another 16% of development costs.

After an initial period of startup losses due to long Medicaid turnaround times, service operations are currently showing a positive net margin. Housing operations are showing a modest positive cash flow. Going forward, both the housing and service operators expect to be able to maintain or improve current margins.

II. Prefatory Notes

1. **Purpose of Case Study:** This case study provides an illustration of how an affordable assisted living project was created. The case study and the information it contains is designed to provide policy makers, developers, and potential sponsoring organizations with useful and detailed information about how one project made affordable assisted living work within their state's context. Through multiple case studies, the Coming Home Program hopes to provide helpful examples of affordable assisted living development and operations as well as the challenges that were overcome and those that continue.
2. **Limits of Usefulness:** Case studies of assisted living projects serve as illustrative examples of what may be accomplished. However, it is important to note that every assisted living project and its developers and operators must respond to a multitude of unique factors when developing and operating a project, including state regulations, site conditions, local markets, and the capacities of staff and providers. While a case study is a useful example, it cannot serve as a template for another project. The methods, assumptions, and other development and operational aspects discussed in this case study may not apply to another project. Any one considering developing or operating an assisted living project should seek the assistance of qualified professionals.
3. **No Endorsement Implied:** The designation of a facility as a Coming Home demonstration project does not constitute explicit or implicit endorsement of the project's proposed or actual quality, financial soundness, plan of development, operations, or other aspects by Coming Home, the State of Arkansas, NCB Capital Impact, or the Robert Wood Johnson Foundation. This case study is intended to illustrate one project's method of development, financing, and operations, and is not an endorsement of those methods either in general or for any particular assisted living project.
4. **Consumers:** Consumers considering the project described in this case study for themselves or others should not construe this case study or the project's designation as a Coming Home demonstration project as an endorsement of the facility or as an indication in any way of its quality or appropriateness for them. The Coming Home Program, NCB Capital Impact, nor the Robert Wood Johnson Foundation has not and will not examine this facility for quality, compliance, or appropriateness. For information on this facility, contact your state's licensing agency.
5. **Information not Verified:** The information contained herein has been reported by or collected from a variety of sources, and has not been independently verified by Coming Home, NCB Capital Impact, or the Robert Wood Johnson Foundation. Some figures are estimated where not easily obtained and may not accurately reflect actual expenses, revenues, profits, or losses.

III. Demonstration Partners

This case study describes the development of the first 100% affordable assisted living residence in Arkansas, **The Gardens at Osage Terrace**, located in Bentonville. The Gardens was developed under the Coming Home Program, an affordable assisted living demonstration program of NCB Capital Impact and the Robert Wood Johnson Foundation. The Gardens was developed by the Community Development Corporation of Bentonville/Bella Vista, Inc. (CDC) with technical assistance from NCB Capital Impact and is owned by Osage Terrace II Limited Partnership, LLC and an affiliate of the CDC. Personal and health-care services for the residents are provided through a partnership with Mercy Health Systems of Northwest Arkansas, Inc. (Mercy Health Systems). The CDC, as owner, developed and is responsible for maintaining the building, including licensing, leasing, and rent collections. Mercy Health Systems is responsible for providing all services and daily oversight of the residents. The Arkansas Department of Human Services, especially the Division of Aging and Adult Services (DAAS), played a vital role in developing new programs, rules and regulations that enabled the development and operation of an affordable assisted living residence. The Arkansas Development Finance Authority (ADFA) provided tax credits and HOME funding for the projected and worked closely with DAAS to coordinate affordable housing programs with state service initiatives.

Partner Backgrounds

NCB Capital Impact: NCB Capital Impact is a national nonprofit organization with a mission to provide solutions that empower underserved communities to address the problems poverty creates in America. NCB Capital Impact fills gaps where products and services do not reach low-income communities. It does so through a unique combination of financial and technical assistance, acting as a catalyst for innovation and change. NCB Capital Impact's primary focus is on housing, health care, affordable assisted living, education, worker ownership, and economic and community development.

NCB Capital Impact is the National Program Office for the **Coming Home Program**, funded by the Robert Wood Johnson Foundation. Based in nine states (AK, AR, FL, IA, MA, ME, VT, WA, WI), this program seeks to expand the supply of affordable assisted living serving Medicaid eligible individuals in underserved and rural areas. With technical assistance from NCB Capital Impact on regulations, Medicaid programs, and housing finance, each state is working to implement policy and program initiatives to expand the availability of high quality, affordable assisted living.

NCB Capital Impact also provides technical assistance to sponsors of affordable assisted living in these states, providing assistance with market and feasibility analysis, development and finance strategies, design and operational planning, and creating necessary partnerships between facility sponsors, developers, financing agencies, and program operators. NCB Capital Impact also provides a pre-development loan fund to help sponsors assemble necessary development team members and conduct development tasks. As a result of this assistance, more than 2,300 units of affordable assisted living are in development or predevelopment, with more than 700 units already operational. For more information, visit the Affordable Assisted Living page of

www.ncbcapitalimpact.org or contact Robert Jenkens at 202-336-7653 or rjenkens@ncbcapitalimpact.org.

Robert Wood Johnson Foundation: Established in 1972, The Robert Wood Johnson Foundation (RWJF), based in Princeton, NJ, is the largest philanthropy devoted exclusively to health and health care in the United States. RWJF concentrates its grant making in four areas: to assure that all Americans have access to quality health care at reasonable cost; to improve the quality of care and support for people with chronic health conditions; to promote healthy communities and lifestyles; and to reduce the personal, social and economic harm caused by substance abuse. To accomplish these goals, RWJF uses a variety of strategies. It supports training, education, research (excluding biomedical research), and projects that demonstrate the effective delivery of health care services. Rather than paying for individual care, RWJF concentrates on health care systems and the conditions that promote better health. It has provided generous grant support to The Coming Home Program for Affordable Assisted Living since the program's inception in 1992. For more information, visit www.rwjf.org.

Community Development Corporation Bentonville/Bella Vista Inc: The CDC was founded as an outgrowth of a Chamber of Commerce Housing Committee in 1991. The CDC's mission is to provide safe, decent, affordable housing to low-income households and seniors in the Bentonville/Bella Vista community. Since 1991, this private, nonprofit corporation has developed and now manages 190 affordable rental units in Bentonville, with another 33 units under construction and 73 units in pre-development. In 1995 the CDC developed its first Low Income Housing Tax Credit (LIHTC) property, the first tax credit project developed by a non-profit in Arkansas. By 2003, they had completed five LIHTC projects, most focusing on seniors, but also including a transitional housing facility for single parents.

In 1999, the Community Development Corporation (CDC) developed a 40-unit independent living apartment complex for older adults. Brenda Anderson, the CDC Director of Development, reported that her staff members became frustrated by their inability to provide assistance to persons residing in independent living apartments who became increasingly frail but did not require on-going nursing care. Several residents were forced to move to nursing facilities because no other options for low-income persons existed in their community. This experience led to the CDC's interest in developing affordable assisted living. This interest resulted in the development of the Garden at Osage Terrace, a 45-unit affordable assisted living project.

The CDC continues to focus on senior housing. Currently, they are working with NCB Capital Impact to plan and develop an 85-acre senior campus in Bella Vista Village. Projects in the planning stage for this campus include a 20-unit HUD 202, which has received a funding commitment, a 60-unit senior cooperative, and a community center. A 60,000 square foot building has been donated for the center, along with a grant from the Northwest Arkansas Community Care Foundation for renovations.

Mercy Health Systems of Northwest Arkansas, Inc.: Mercy Health Systems is a healthcare provider that is affiliated with the Dominican Sisters and the Sisters of Mercy Health System—St. Louis. They operate St. Mary's Hospital, Mercy Health Center, and 11 medical specialty

clinics in Northwest Arkansas. Mercy has a mission to serve the economically poor, and has experience interacting with Medicaid programs and reimbursement systems.

State of Arkansas, Division of Aging and Adult Services: DAAS serves as the focal point for all matters concerning older Arkansans, including: providing an effective and visible advocate for older individuals; operating multiple programs that provide citizens a choice of how and where they receive long term care services; and planning, coordinating, funding, and evaluating programs for older Americans. For more information, contact Herb Sanderson, Director, at 501-682-8520 or herb.sanderson@mail.state.ar.us.

Arkansas Development Finance Authority: ADFA's mission is to provide capital for qualified activities that enhance the quality of life for Arkansans. ADFA administers funding in the form of tax-exempt bonds and other debt instruments through its series of program activities. These activities are divided into three main categories: Economic Development, Homeownership, and Affordable Rental Housing. Each of these three categories resides over several specialized programs for funding disbursement.

IV. Project Summary

A. Project Description

<i>Name of Project:</i>	The Gardens at Osage Terrace
<i>Location of Project:</i>	Bentonville, Arkansas
<i>Development Period:</i>	3 years
<i>Construction Duration:</i>	13 months
<i>Opening Date:</i>	November 2002
<i>Lease-up Period:</i>	12 months
<i>Total Development Costs:</i>	\$3,958,208
<i>Total Construction Costs:</i>	\$2,702,098
<i>AL Licensure Category:</i>	Arkansas Level II Assisted Living Facility
<i>Number of AL Units:</i>	45
<i>Affordable AL Units:</i>	Number of Units for Medicaid Recipients – 100% are designated as Medicaid eligible, at the present time, 11 residents pay privately for services (all are qualified for rental subsidies)
<i>Number of Rent-Subsidized Units:</i>	45 (40 LIHTC and 5 HOME): <ul style="list-style-type: none">• 13 LIHTC studios targeted to 50% area median income• 22 LIHTC studios targeted to 60% area median income• 5 LIHTC 1-bedrooms targeted to 60% area median income• 5 HOME 1-bedrooms targeted to 50% area median income
<i>Other Unit Types:</i>	None
<i>Co-located Programs:</i>	A 40-unit LIHTC independent living apartment building for seniors, 24 units of HUD 202 senior housing, and a senior center are located on the same campus as The Gardens.
<i>Adjacent Services:</i>	Doctor’s offices, a regional hospital, and a shopping center are located immediately adjacent to the campus
<i>Service Subsidies:</i>	Arkansas’ Medicaid <i>Home and Community Based Service 1915(c) Waiver</i> , referred to as the “Living Choices Assisted Living Waiver,” provides service payments in assisted living for persons who are

eligible for Medicaid nursing home placement and who are appropriate for residence in assisted living.

B. Project Partners

Project Sponsor: Community Development Corporation Bentonville/Bella Vistas, Inc.
Project Owner: Osage Terrace II Limited Partnership, LLC
General Partner: Community Development Corporation Bentonville / Bella Vistas, Inc.
Limited Partner: US Bancorp Community Development Corporation
Services Provider: Mercy Health Systems of Northwest Arkansas, Inc.
Housing Manager: Community Development Corporation Bentonville/Bella Vistas, Inc.
Project Developer: Community Development Corporation Bentonville/Bella Vistas, Inc.
Technical Assistance: NCB Capital Impact, Inc.

C. Project Financing

Pre-development: NCB Capital Impact \$100,000 credit line

Equity Sources: Low-Income Housing Tax Credits: \$2,270,761 (9%)
Federal Home Loan Bank – AHP: \$450,000
Grants (Norwest Community Care): \$187,000
Other: None

Hard Debt: Conventional Mortgage: \$750,447 (first mortgage)
Other: None

Soft Debt: HUD HOME (ADFA) \$300,000

(See Appendix 1 for development budget information)

D. Project Fee Structure (as of November 2004)

1. Private Pay Rates:

- a. Rates for Rent: All units are subsidized and residents' incomes must qualify under the applicable subsidy program. Assisted living rents range from \$361 to \$568.
- b. Rate for Meals¹:
- | | |
|---------------|---------------------------|
| Studios: | \$157/month - \$200/month |
| One-Bedrooms: | \$226/month - \$225/month |
- c. Rates for Assistance:
- | | |
|----------|---------------|
| Level 1: | \$1460/month |
| Level 2: | \$1581/month |
| Level 3: | \$1753/month |
| Level 4: | \$1,845/month |

2. Rate for Medicaid Eligible Individuals²:

- a. Rates for Rent: \$361/month³
- b. Rate for Meals: \$152/month
- c. Rates for Assistance:
- | | |
|----------|--------------|
| Level 1: | \$1185/month |
| Level 2: | \$1285/month |
| Level 3: | \$1424/month |
| Level 4: | \$1499/month |

¹ Meal costs vary by residents' income. All residents qualify for rental subsidies (see Section IV.A for rental rates). The total rent and meal package for an individual who pays for services privately are: Studio: \$600/month, One-bedroom: \$720/month

² The Arkansas Medicaid program for assisted living requires participating providers (as a condition of participation) to limit their total rent and meal charges to residents enrolled in the Medicaid program to 90% of the Federal SSI payment. While the Medicaid program does not pay for or subsidize rent or meal costs, it limits what providers may charge a resident if they receive Medicaid payments for services delivered to that resident. While Medicaid will not pay for the "meal" costs, by which we mean the raw food costs, Medicaid will pay for the staff time involved in preparing the meals.

³ The maximum combined rent and meal amount a provider may charge a resident enrolled in Medicaid in Arkansas is \$513/month. In 2004, the food costs for The Gardens was \$152/month per resident. If the meal cost is deducted from the \$513 maximum, the effective rent charge is \$361/month. All units are subsidized and residents' incomes must qualify under the applicable subsidy program. For rental rates see Section IV.A.

V. Assisted Living Project Description

For the purposes of this case study, assisted living is defined as the housing with services category offering private apartments and high levels of service, including 24-hour awake staffing. The services offered at The Gardens are designed to support residents who qualify for nursing home services under the state Medicaid program but desire and are appropriate for a more residential alternative. The Gardens is not able to serve residents who require continual skilled nursing oversight.

Project licensure category	Assisted Living II
Number of licensed units	45 apartments
Number and percentage of assisted living units designated as private occupancy (except by the residents choice – e.g., a couple, sisters who want to share an apartment)	45 (100%)
Number of units designated for people who qualify for Medicaid or other service subsidy	45 (100%): All 45 units are available to persons who qualify for the state’s Medicaid Home & Community Based Services waiver
Number of actual Medicaid (or other specified subsidy) clients or units	31: At the time the case study information was collected, there were 31 Medicaid clients, with several others likely to qualify due to “spend down” of assets within 24 months. The project is designed to be able to provide 100% of its units to Medicaid eligible residents.
Number of units with affordable rents regulated by funding or financing agreements	45 (100%): All 45 units are rent-subsidized: 40 under LIHTC requirements and 5 under HOME
Number of units/residents using Housing Choice Vouchers (HCV)	None
Number of residents receiving rent subsidies but paying privately for services	14
Unit characteristics	<ul style="list-style-type: none"> • Apartment-style • Kitchenette (including stove, microwave) • Private bathroom • 34 Studios (380 square feet average) • 11 One-bedroom (450 square feet average) • Single occupancy except by choice • Telephone jack • 100% handicap accessible
Number of floors in the building	One
Types of social spaces	Library/game room; fireplace in lobby; café

Resident laundry facilities	Yes
Project type	Campus-style property that includes independent living apartments and a senior center
Site zoning	The site is zoned as multi-family, and because AR rules define assisted living under nursing facility guidelines as a health care facility, a “use on appeal” was required to obtain permission to use the site for assisted living. This involved an application (\$50) and a planning commission hearing.
Neighborhood amenities	Doctor’s offices, hospital, shopping center

Lessons learned:

Regarding zoning, CDC staff knew, based on past development projects, that potential neighborhood resistance to proposed development could best be addressed by informing the local community about the plans in advance of any planning commission hearing. Specifically, they sent letters to local neighbors that described the process. In the case of The Gardens, there was little to no neighborhood opposition.

A. Arkansas Licensing

Arkansas has two levels of assisted living licensing, Levels 1 & 2. The Gardens is licensed as Level 2, the level designed to provide care for more impaired individuals. Arkansas’ assisted living Medicaid program may only be used in Level 2 facilities. Arkansas’ Level 2 assisted living regulations provide the following requirements and allowances:

2. **Physical Environment:** Arkansas rules require that assisted living provide private apartments with kitchenettes and a bathroom. Minimum standards for public and service areas, including type and quantity, are specified in the regulations. Assisted living in Arkansas must be built to UBC I-2 standards to allow non-ambulatory residents.
3. **Services Required:** Arkansas Assisted Living Level 2 regulations require significant minimum services standards, including assessments, 24-hour awake staffing, 3 meals plus snacks, laundry, housekeeping, and a nurse on call. The Level 2 regulations allow high level services to be delivered in assisted living, including medications administration by an RN or LPN, dementia care, and assistance with all activities of daily living (ADLs).
4. **Services not Available:** Arkansas regulations prohibit assisted living facilities (Level 2) from admitting or retaining individuals who require 24-hour skilled nursing; who are bedridden; who have a condition that requires on-going treatment (unless a health care practitioner certifies that the facility staff are capable for providing the needed services); who have transfer assistance needs, including but not limited to assistance to evacuate the facility in case of emergency, that the facility cannot meet with current staffing; or who present a danger to self or others or engage in criminal activities. If a resident declines to this level, he/she will be asked to move to a more appropriate care setting.

5. **Staffing:** Arkansas regulations require a full-time (40 hours/week) administrator in every assisted living facility. They must either hire or contract with a registered nurse (RN) who must be available to the facility by phone or pager. Facilities may employ an individual to act both as administrator and as the facility's registered nurse, but the duties of administrator may not take precedence over, interfere with, or diminish the responsibilities and duties associated with the registered nurse position. The administrator must be certified through a program approved by the OLTC or must be enrolled in a certification program with an expected completion date within twelve (12) months.
- a. **Licensed Nurses & Assistants:** Assisted living facilities must employ or contract with three types of licensed or certified staff. At least one registered nurse (RN). The RN need not be physically present at the facility but must be available to the facility by phone or pager. Facilities must employ or contract with licensed practical nurses (LPN) to provide nursing or direct care services to residents, including medication administration and nursing services as provided by Arkansas law or applicable regulation. Certified Nursing Assistants (CNA) must be hired to provide direct care services and designated nursing duties such as taking vital signs (temperature, pulse, respiration, blood pressure, height/weight); recognizing and reporting abnormal changes; death and dying and admission/transfer/discharge.
 - b. **Personal Care Assistants:** The facility must hire PCAs who have attended and successfully completed an established curriculum for personal care aides to provide direct care services to residents (e.g., bathing, using the toilet or incontinence products).
 - c. **Staffing Ratios:** A minimum on-site staff-to-resident ratio shall be one staff person per fifteen residents from 7:00 a.m. to 8:00 p.m., and one staff person per twenty-five residents from 8:00 p.m. to 7:00 a.m. There shall be a minimum of one CNA on the premises per shift. This person shall count toward the minimum staffing requirement. Staff persons who live on site, but are sleeping shall not be counted for minimum staffing. Facilities may employ *flex staffing*, including varying the beginning and ending hours for shifts, so as to maximize staff time to the benefit of residents. Facilities can designate that their shifts will begin earlier or later than specified above.
 - d. **Universal workers:** Arkansas regulations do not define, but do not prohibit the designation of universal workers, or staff that is cross-trained to do multiple tasks. At The Gardens, every employee is designated as universal, meaning that despite the existence of seven different job descriptions, staff members are cross-trained in order to respond to residents' immediate needs. This allows individuals whose primary responsibility includes direct care services to serve meals and do light housecleaning and laundry. Two exceptions to this organizational approach is the administration of medications, which by state rule must be administered by a licensed nurse, and the Administrator, who is certified.

e. **Medication aides/technicians:** Arkansas does not have an employee classification for medication aides/technicians, and, under the assisted living regulations, only licensed nurses (RN or LPN) may administer medications. Unlicensed, but trained, employees may assist residents who are capable of self-administration of medications. The state does have a nurse delegation act. Historically, nurse delegation has been restricted to only basic personal care tasks and has not permitted unlicensed staff to administer medications, even under the supervision of a licensed nurse. There are some indications that policy regarding nurse delegation of medication administration may be changing in the state to allow limited delegation.

4. **Quality Assurance.** Arkansas rules require assisted living facilities to develop and maintain a quality assessment unit. The unit must meet at least quarterly to identify issues with respect to which quality assessment and assurance activities are necessary, and to develop and implement appropriate plans of action to correct identified quality deficiencies. The quality assessment unit consists of individuals identified by the facility as having the ability to recognize and identify issues of quality deficiencies and to implement changes to facility and employee practices designed to eliminate identified issues of quality deficiencies.

B. Services

As discussed above, Arkansas Assisted Living Level 2 regulations require significant minimum services standards, including assessments, 24-hour awake staffing, 3 meals plus snacks, laundry, housekeeping, and a nurse on call. The following table lists the services provided at the Gardens.

Services Available at the Gardens:

SERVICE TYPE	Service Level or Frequency	Method of Service Provision	Payment
<input type="checkbox"/> Meals	3/day + snacks	<input type="checkbox"/> In-house	<input type="checkbox"/> In rent and meal payment
<input type="checkbox"/> Housekeeping for Resident Unit	Weekly	<input type="checkbox"/> In-house	<input type="checkbox"/> In base service rate
<input type="checkbox"/> Monitored Emergency Pull Cords	24/7	<input type="checkbox"/> In-house	<input type="checkbox"/> In base service rate
<input type="checkbox"/> Resident Assessment & Service Planning	On Admit, Annual & As Needed	<input type="checkbox"/> In-house	<input type="checkbox"/> In base service rate
<input type="checkbox"/> Monitored Life-Safety Systems	24/7	<input type="checkbox"/> In-house	<input type="checkbox"/> In base service rate
<input type="checkbox"/> Direct care assistance	24/7	<input type="checkbox"/> In-house	<input type="checkbox"/> In service rate - based on assessment

SERVICE TYPE	Service Level or Frequency	Method of Service Provision	Payment
<input type="checkbox"/> Nursing Oversight	112 hr/wk & On-Call 24/7	<input type="checkbox"/> In-house <input type="checkbox"/>	<input type="checkbox"/> In service rate - based on assessment
<input type="checkbox"/> Assistance with Unscheduled Needs	24/7	<input type="checkbox"/> In-house	<input type="checkbox"/> In service rate - based on assessment
<input type="checkbox"/> Supervision/ Protective Oversight/ Cueing	24/7	<input type="checkbox"/> In-house	<input type="checkbox"/> In service rate - based on assessment
<input type="checkbox"/> Transferring	Full Assist	<input type="checkbox"/> In-house	<input type="checkbox"/> In service rate - based on assessment
<input type="checkbox"/> Toileting	Full Assist	<input type="checkbox"/> In-house	<input type="checkbox"/> In service rate - based on assessment
<input type="checkbox"/> Incontinence care	Full Assist	<input type="checkbox"/> In-house	<input type="checkbox"/> In service rate - based on assessment
<input type="checkbox"/> Feeding/ Eating	Full Assist	<input type="checkbox"/> In-house	<input type="checkbox"/> In service rate - based on assessment
<input type="checkbox"/> Bathing	Full Assist	<input type="checkbox"/> In-house	<input type="checkbox"/> In service rate - based on assessment
<input type="checkbox"/> Dressing	Full Assist	<input type="checkbox"/> In-house	<input type="checkbox"/> In service rate - based on assessment
<input type="checkbox"/> Grooming	Full Assist	<input type="checkbox"/> In-house	<input type="checkbox"/> In service rate - based on assessment
<input type="checkbox"/> Ambulation/ Walking	Assist	<input type="checkbox"/> In-house	<input type="checkbox"/> In service rate - based on assessment
<input type="checkbox"/> Medications	Self-admin; Assist with self-admin; Full assist	<input type="checkbox"/> In-house	<input type="checkbox"/> In service rate - based on assessment
<input type="checkbox"/> Transportation arranged	As needed	<input type="checkbox"/> Coordinated	<input type="checkbox"/> In base service rate <input type="checkbox"/> Resident pays 3 rd party provider
<input type="checkbox"/> Laundry provided, including incontinence laundry	Weekly or as needed	<input type="checkbox"/> In-house	<input type="checkbox"/> In base service rate
<input type="checkbox"/> Financial management	Monthly or as needed	<input type="checkbox"/> In-house	<input type="checkbox"/> In base service rate
<input type="checkbox"/> Respite care		<input type="checkbox"/> Allowed but not provided/coordinated	<input type="checkbox"/> Facility coordinates in base service rate <input type="checkbox"/> Resident pays 3 rd party provider

Physician services are not provided by The Gardens. Residents are encouraged to continue receiving medical care from their regular doctor or another of their choosing. Similarly, although Mercy Health System manages the services at The Gardens, residents are under no obligation to either use this hospital or its affiliated physicians for any medical services.

Lessons learned: During the first 12 months of operations, the staff at The Gardens realized that they were managing medications for far more residents than originally expected. In fact, only three residents managed their own medications. For greater efficiency and safety, they switched to a prepackaged card-pack medication system, and this required the purchase of a new medication storage cart.

C. Staffing Categories and Levels

Personnel Category	Number (FTEs)	Hours/week
Administrator	1	40
Personal Care Assistants	3	112
Registered Nurse	1	40 (on-call 168)
Licensed Practical Nurse	3	112
Certified Nurse Assistant	7	336
Activities Coordinator	1	40
Dietary <ul style="list-style-type: none"> • Cook • Dietary aide • Server 	2.5 0 0	80
Housekeeper	2	80
Maintenance*	0	0
Other personnel	0	0

- The CDC has a full-time maintenance crew that manages all of their properties.

Lessons Learned

Arkansas regulations require conformity with the Arkansas Nurse Practice Act. The Nurse Practice Act provides that only licensed nurses may administer medications. Arkansas regulations require and that the facility must be able to respond to the needs of residents on a 24-hour basis. If a resident who cannot self-administer medication (as indicated by a physician) asks for a medication after midnight, a licensed nurse must be there to administer it. Locating licensed nurses who are willing to work the midnight shift or to respond on an on-call basis is a challenge in a rural location.

D. Residents (as of May 2003 – six months after opening)

Total number of residents	45
Percent of residents from Benton county	91% (41)
Percent of residents who moved from <ul style="list-style-type: none"> • A private home in the community (alone / with spouse) • A private home in the community (with family) • A nursing facility • Hospital • Residential care facility 	<ul style="list-style-type: none"> • 56% (25) • 24% (11) • 5% (2) • 0 • 15% (7)
Average age of residents	82 years
Percent of total residents who are female	85%
Percent of residents who receive Medicaid	73% (33)
Percent of residents who receive other subsidies	0
Percent of private pay residents	27% (some will “spend down” to Medicaid level within 28 months)
Number of residents in each level of care category	Level 1 31% (14) Level 2 40% (18) Level 3 18% (8) Level 4 11(5)
Percent of residents who have a diagnosis of mild cognitive impairment or dementia	49% (22)
Percent of residents who would have gone to a nursing home if affordable assisted living was not available (estimate)	67% (30)
Percent of residents capable of self-administering medications	7% (3)

The Gardens administrator describes the highest functioning resident as a woman who sleeps until noon, then spends the day visiting with neighbors. She might occasionally stroll the grounds. Her primary service need is for medication monitoring. At the other end of the spectrum is a woman who rates 4 or 5 on a 7-point dementia rating scale⁴ and requires substantial behavior management. She must be bathed, dressed, and taken to meals and is losing the ability to feed herself.

Lessons Learned

The administrator expressed surprise at the level of impairment among the assisted living residents. Although she knew that these residents would be more impaired than residential care residents (an existing licensure category that does not permit nursing services), she did not expect that the residents would compare to nursing home residents. For example, she explained

⁴ Global Deterioration Scale for Assessment of Primary Degenerative Dementia. A score of 4 is described as moderate cognitive decline, and 5 is described as moderately severe cognitive decline.

that at least half of the residents have dementia, only three of 41 residents can manage their own medications, and that a majority of residents require assistance with using the toilet or incontinence products. She said that it “would have been tougher” if they had not been permitted to use universal workers. As it is, “everyone pitches in” to get the work done, whether that means doing laundry, redirecting residents, helping with social activities, or serving meals.

E. The Residence

The Gardens at Osage Terrace is a one-story residential building designed in the craftsman style, with porches and dormers, brick wainscot and accents, vinyl siding, and 30-year asphalt shingle roofing. The building is configured as an irregularly shaped pentagon with an interior courtyard accessible from three points within the building. The Administrator, Arleta Wallace, identified the continuous hallways that circle the building as a popular feature of the building, along with the secure interior courtyard. The hallways, with centrally located sitting areas, serve as interior streets and provide residents the opportunity for protected walking as well as comfortable places to meet with neighbors, rest, or read a book. The Gardens has a walking club that organizes laps around the building interior. One resident refused to walk at all when she moved in; she now walks four laps with a friend.

See Appendix 4: Architectural Drawings for plans and Appendix 2: Project Photos for photographs of The Gardens. Additional images are available on the websites of both The Gardens⁵ and NCB Capital Impact.⁶

The Gardens apartments include 34 studio units of 380 square feet each and 11 one-bedroom units of approximately 450 square feet each. The apartments include kitchenettes, handicapped accessible bathrooms with walk-in showers, living areas or separate living rooms, and bedrooms. The private bathrooms are very popular among residents and staff members accustomed to the shared bathrooms common in nursing facilities. As a safety feature, apartments are equipped with a personal call response system that alerts direct care staff to the specific unit.

Common areas in the building include an enclosed and secure courtyard, dining room, activity room, café, library, game room, beauty shop, conference room, medications room, laundry, and administrative offices. The building has a commercial kitchen. A final important feature is the elopement prevention security system. Residents diagnosed with dementia wear a bracelet that causes a buzzer to sound if they go through an exterior door.

The Gardens is located on a campus that includes independent senior apartments and the Benton County Senior Activities Center, and it adjoins a new medical park that will include a hospital and doctor’s offices.

⁵ <http://www.gardensatosageterrace.org>

⁶ <http://www.ncbcapitalimpact.org> [choose affordable assisted living, then “case studies”]

Architectural Program for The Gardens:

Administration

Office	126 sq. ft.
Office	108 sq. ft.
Conference	120 sq. ft.
Lobby	390 sq. ft.
Restrooms	164 sq. ft.
Vestibule	<u>100</u> sq. ft.
	1,008 sq. ft.

Resident Services

Arts and Crafts	436 sq. ft.
Beauty Salon	240 sq. ft.
Laundry	<u>196</u> sq. ft.
	868 sq. ft.

Resident Living

Resident Units	17,800 sq. ft.
Living Room	576 sq. ft.
Library	252 sq. ft.
Day Rooms (2)	<u>380</u> sq. ft.
	19,108 sq. ft.

Dietary

Kitchen	972 sq. ft.
Dining	1,200 sq. ft.
Private Dining	238 sq. ft.
Bistro	<u>180</u> sq. ft.
	2,590 sq. ft.

Service / Staff

Soiled Utility	72 sq. ft.
Clean Linen/Storage	198 sq. ft.
Janitor	100 sq. ft.
Medication	<u>100</u> sq. ft.
	500 sq. ft.

Other

Mechanical	160 sq. ft.
Circulation	<u>5,945</u> sq. ft.
	6,105 sq. ft.

TOTAL 30,179 sq. ft.

Outdoors

Porches (3)	1,110 sq. ft.
Secured Garden	9,200 sq. ft.

Lessons Learned

The Gardens employees note that apartments are a good size, but complain that the dining room is too small to accommodate all of the people, walkers, wheelchairs and scooters. The activity room can only accommodate 12 people without getting crowded, and there is no room large enough for large-group activities, church services, performances, or exercise. The conference room, which staff determined that they did not need due to the availability of a private dining room and the administrator's office, was converted into a larger medication storage room. The administrator noted that they require additional storage space, in part because the state requires them to keep all records on each resident for at least five years. Finally, she noted that she is glad the building does not include an overhead public address system because of the noise and lack of privacy such systems convey. Instead, the staff members carry two-way radios that are linked to the alarm system in each unit.

By industry standards, the Gardens is fairly generous in its common areas, although unit sizes are slightly smaller than the standard. Studios units are 380 square feet each while industry standards call for 385 – 420 square feet. One-bedroom units average 450 square feet, while the standards call for 485 – 520 square feet. The gross square footage of the building is 670 square feet per unit compared to a more standard 650, reflecting the larger amount of common area space.

VI. Operator/Service Provider Description

While the CDC recognized the need for assisted living in the Bentonville community, they did not have experience in providing direct care services nor did they want to become a service provider. To address service provision, the CDC sought out potential service partners, choosing Mercy Health Systems of Northwest Arkansas, a non-profit Catholic organization with 13 medical clinics and St. Mary's Hospital, a 165-bed general acute care facility due to their strong reputation, experience, and mission match.

Mercy Health provides all personal and health care services for residents of The Gardens and has substantial experience with delivering health care and personal care services under Medicaid programs. Mercy operated a small skilled nursing unit in its Bentonville hospital but had not operated assisted living programs before the Gardens.

The venture into affordable assisted living fits within Mercy Health System's commitment to identify the healthcare needs of the communities it serves and develop progressive and innovative services and programs that best fulfill those needs. Mercy Health Systems former Executive Vice President and CFO Mark Nafziger described the decision to partner with the CDC as a good fit with their mission statement:

“Mercy Health System of Northwest Arkansas is committed to the ministry of health and healing for all God's people, with particular concern for the economically poor...As a people entrusted with the healing ministry of Christ, we will make a significant impact on the health and well-being of the communities we serve. To this end, we will:

- Work with others to ensure a creative, complete and cost-effective range of health and social services that are accessible to all;
- Excel in the measurement, management and delivery of clinical and service quality, and
- Pioneer innovative health care delivery models.”

The structure of the agreement between the CDC and Mercy Health Systems underscores the nature of this commitment. Mercy provides oversight of daily operations and services, collecting revenues for the service portion of resident’s fees and bearing all financial responsibility for a profit or loss on service provision. (The CDC owns the “bricks and mortar” and collects rent and meals fees from residents, bearing the financial liability for the operation of the real estate.)

The Gardens represents less than 1% of Mercy Health System’s operating cash flow. This allowed Mercy to absorb initial lease-up losses and allow long-term operating revenues to recoup the initial losses. Mercy Health anticipated a \$50,000 loss in year one though it appears the number may be closer to \$80,000 due to early problems with timely Medicaid eligibility determinations. As the first year of operations draws to a close, the cash position is improving. The goal is a reliable cash flow stream to cover expenses, with returns anticipated in the 0 – 5% range.

Although Mercy Health is under contract with the CDC, their sole source of payment derives from either direct resident payments or from Medicaid on behalf of residents qualifying for that program. A more common arrangement is for a building owner to contract with a service provider for a fee, with the owner taking the collection risk. However, Mercy Health officials felt confident about the demand for affordable assisted living, and about their ability to meet staffing and service needs: “It’s so nice to be in a business where we are only concerned with staffing to meet resident needs” Nafziger said. This arrangement effectively separates the service provision from the real estate, with each function financially independent (though closely interrelated). The CDC retains responsibility for facility licensure, and therefore is the Medicaid provider under the assisted living waiver, as well as the assisted living license holder.

VII. Pre-development & Development

Pre-development Loan: NCB Capital Impact made a pre-development line of credit of \$100,000 available to the Gardens. This loan, forgivable under certain circumstances, provided working capital to explore development and funding strategies.

Strategy: The CDC assembled their development team early. The CDC included a contractor on this team, preferring to select the contractor in the predevelopment stage in order to have the contractor available to work with the architect on issues regarding local materials, building practices, and to provide ongoing cost estimates to guide design development and cost

containment. They selected Oakridge Builders, who brought experience in nursing home, extended stay hotel, and multi-family housing construction.

NCB Capital Impact helped identify architects based on a national search. The CDC selected DFD Architects, from Austin, Texas. The evaluation criteria for selecting an architect included significant experience with assisted living and/or other types of senior housing and strong, demonstrated capacity to deliver high quality affordable buildings. The CDC entered into a “programming and master planning” scope of work that, for \$4,000, laid important groundwork. It provided schematic plans and cost estimates needed for several funding applications, delaying more expensive design costs until financing was in place. The planning package also provided a chance to work with the architect on a limited scope before making a longer-term commitment (see Appendix 4: Architectural Drawings for the planning package).

Despite interest in providing services to The Gardens, Mercy Health Systems was reluctant to make a firm commitment to the project while the state regulations were still under development. The CDC decided to push forward with development even though they did not have a firm agreement with a service provider or a clear indication of how the state regulatory process would end. They moved forward to meet the schedule of the Low-income Housing Tax Credits (LIHTC) they received and mitigated the regulatory and service provider risks in three ways. First, the CDC actively participated in the committee to develop new assisted living regulation, insuring both strong input and first-hand knowledge of the direction of the regulations. Second, they designed the facility to comply with anticipated regulations; only slight modifications were required after the designs were complete. Finally, and most critically, the CDC established a viable alternative, or “Plan B” to operate The Gardens as an independent living residence with in-home care if assisted living were not possible.

Site selection: Site selection was easy for The Gardens. In the late 1990s the CDC had assembled a 10-acre site with the goal of creating an affordable senior living campus, and one parcel remained. The first set of projects constructed on this site included the 40-unit Osage Terrace independent senior housing, a 20-unit HUD 202 senior development, and a Senior Center. The parcel was zoned for multi-family, but required a use appeal because in Arkansas, assisted living residences fall within the nursing home use category rather than the standard residential category. Strong community support and good relations with neighbors made the zoning change easy.

Market study: Assisted living residences may require a more complex market analysis than typically required to measure demand for independent affordable housing. The Gardens’ market study was completed by Jean Moreau & Associates of Columbia, Maryland, an independent third-party company with experience in evaluating senior housing, including assisted living and local regulations. The market study for The Gardens verified the demand anticipated by the CDC, specifically, that the market could support 40 to 44 units. It described the existing senior housing in the county, including expansions or conversions planned by those facilities. In addition, it included information about planned development based on information available at the local and county planning offices. The study also included the fees and occupancy rates of existing senior housing by category of licensure. For a market study RFP for affordable assisted

living, see www.ncbcapitalimpact.org. See Appendix 6: Market Study for the Gardens market study.

Feasibility analysis: Brenda Anderson, of CDC, notes that the feasibility analysis confirmed the number of units that they believed the community could sustain. The design of the project was shaped by best practice information provided by NCB Capital Impact and by CDC team visits to facilities in other states.

VIII. Financing

Financing sources, types, and quantities: The Gardens was financed with a complex blend of debt, equity investments, and grants, both public and private. As part of Arkansas's participation in the Coming Home Program, the Arkansas Development Finance Agency committed a set-aside of LIHTC for an assisted living project (\$300,000/yr). The CDC applied for the LIHTC set aside and received the full award, selling the credits to investors for \$2,270,761. The CDC also applied for and received \$300,000 in HOME funds and \$450,000 in Federal Home Loan Bank (FHLB) Affordable Housing Program (AHP). The LIHTC, HOME, and AHP program are each highly competitive. The CDC's success in obtaining the funds on its first application is a significant accomplishment. The Community Care Foundation provided a grant of \$187,000 to The Gardens. Finally, Arvest Bank of Bentonville, who had financed most of the CDC's prior development work, provided a mortgage loan of \$750,447. Arvest, as a Federal Home Loan Bank member, provided access to lower-rate Community Investment Program construction and permanent mortgage money, and served as sponsor for the FHLB's Affordable Housing Program grants. Both loans and grants were important in covering the development costs of The Gardens.

In prior residential developments, the CDC sold its tax credit investments to the Enterprise Social Investment Corporation (ESIC). However, ESIC was not buying assisted living credits at the time The Gardens was being syndicated. In researching other investors, the CDC identified First Star Corporation, purchased by US Bank Corporation, who purchased the LIHTC as a direct placement. US Bank Corporation had experience with assisted living residences, but ended up valuing The Gardens on the basis of the strong independent senior market demand – the CDC's fall back "Plan B" should assisted living fail – rather than as assisted living. The separation of the real estate and services made this option feasible. The development *Pro Forma* can be found in Appendix 1: Development Pro Forma.

The HOME and LIHTC programs have significant regulatory impacts. Both establish maximum rents, based on the size of the apartments. The LIHTC program requires that any charges for services that are *mandatory as a condition of occupancy* (such as housekeeping, medication administration, or transportation) must be included in the maximum rent. Another option is to define services as voluntary and provided separate from housing. Because it is cost-prohibitive to provide services and housing for the maximum rent allowable under the tax credit program, the services at The Garden are voluntary. Under federal civil rights law, an owner cannot discriminate based on a diagnosis or disability, but can give preference to people who *need*

personal care services.⁷ It is possible for an individual who does not need assisted living services to qualify for The Gardens, although it would be unusual for someone to choose to live in such a setting if they did not require personal care services. Any person applying to the Gardens with a service need would move ahead of an independent applicant.

Development time-line: Development of The Gardens took three years, including all planning, permitting, funding, construction, and licensing. The following is an abbreviated schedule:

10/99	Designated an NCB Capital Impact Coming Home demonstration and applied for a pre-development loan from NCB Capital Impact
7/00	Received HOME funding award
3/01	Received LIHTC award
5/01	Received FHLB award
7/01	Received foundation funding
9/01	Construction Start
10/02	Certificate of Occupancy
10/02	Medicaid Waiver Approved
11/02	Grand opening

Lessons Learned: Three factors made assembling this financing easier: state funding priorities for affordable assisted living, community support for The Gardens, which translated into a generous grant from a local foundation, and the CDC's strong relationship with a local lender. Operational economies have been achieved using Mercy Health Systems bulk purchasing agreements to buy food and supplies.

IX. Construction

1. **Construction time-line:** 13 months
2. **Contractor:** Rather than distributing a request for proposals or qualifications, CDC elected to use a modified approach. They identified five contractors with experience in senior housing and asked them to provide information on their experience with the project type, their cost to bond a project, their overhead rate, and their profit margin. Oakridge Builders, with a home office in Tulsa, OK, and a regional office in the NW Arkansas community of Springdale, was selected. CDC had previously worked with this contractor.
3. **Lessons learned:** Because The Gardens was largely financed with LIHTCs, the budget was fixed. The pre-selected contractor worked well under these conditions because

⁷ Each housing subsidy source regulates preferences differently. In general, tax credits default to other sources, in The Garden's case, the HOME program. HOME allows preferences by diagnosis, referencing an *Americans with Disabilities Act* provision that allows preference by diagnosis of disability if it increases housing opportunity. Project based Section 8 vouchers, another common subsidy source, prohibit preferences for categories of people with disabilities. Guidance from counsel familiar with fair housing law is helpful when establishing leasing preferences.

pricing could occur with design phases, allowing the CDC to keep to strict budgets by using the builder as a resource for the architect. In addition, the CDC negotiated a guaranteed maximum price contract and made certain that there was an adequate contingency to cover unexpected costs.

X. Marketing

1. **Marketing:** Marketing included tours, both public and individual, and informing the local community – especially referral sources for long-term care. The first open house events for the public were held on the weekend of October 26-27, 2004, a week before The Gardens was scheduled to open. A VIP luncheon for those involved in developing the project was held October 24. The Garden’s administrator attended a meeting of hospital discharge planners and explained the purpose of assisted living, which was new to the community. She distributed information packets to area physicians. A website was developed early in the project, and the administrator indicates that this has been an especially useful tool for families looking for long-term care for their elder relative. The website includes detailed information on costs, services, facilities, and an on-line application. <http://www.gardensatosageterrace.org>
2. **Press coverage:** The local press covered the grand opening of The Gardens. Governor Mike Huckabee attended the grand opening and was quoted in *The Morning News* as saying that, “Improving care is but one thing, but offering independence is what we celebrate today.” This and an article in another paper included photos of the governor. Another local paper profiled the first three residents of The Gardens, including a photograph of one woman. A story in the *Arkansas Democrat-Gazette* included a photograph of the front of The Gardens. Additional newspaper coverage occurred a few months later in response to a Capital Hill briefing that recognized The Gardens as a model of affordable assisted living.
3. **Lessons learned:** An individual’s decision to move into assisted living is often influenced by their family and by physicians and other health care providers. Informing health care providers about the project, including location, services, fees, regulatory requirements, staff capability, is important. Physician’s time is in great demand, so talking to the office administrator and/or social worker or a community outreach planner, if available, is critical to making certain that physician offices have information that will help them advise their patients about assisted living.

XI. First Year of Operations

Operating an affordable assisted living facility requires a unique combination of long-term care services and housing.

A. Assisted Living Regulations in Arkansas

During the 2001 Arkansas legislative session, Act 1230 was proposed to authorize an assisted living program to be administered by the DHS Division of Aging and Adult Services. NCB Capital Impact provided technical assistance on various drafts of the regulations, with special emphasis on strategies to assure high quality while allowing for flexible and efficient operations to achieve affordability. For example, an early version of the regulations prohibited direct care staff from washing resident laundry. However, allowing direct care staff, especially during the evening and midnight shifts, to do laundry is a cost-saving strategy, especially in smaller facilities. Similarly, one draft prohibited the use of “universal” workers. However, allowing direct care staff to complete a variety of tasks, such as cleaning, laundry, and serving meals, saves money and is appropriate in a residential setting. Universal workers are trained to use universal precautions, such as washing their hands before switching tasks. Small facilities, especially those in rural areas, do not have the economies of scale to hire individuals for designated tasks such as laundry, housekeeping, and serving meals. The rules that were adopted by the state permit universal workers as described earlier.

Multiple eligibility criteria produce a variety of possible outcomes for new applicants. Waiver clients must be age 65 or older (or over 21 and disabled) and have a monthly income of not more than 300% of SSI and personal resources of no more than \$2000 for an individual or \$3000 for a couple. Further, they must be eligible for nursing home placement under Arkansas’ Medicaid income and service needs requirements. They must meet two tests of self-sufficiency: 1) each resident must be able to transfer themselves, and 2) each resident must be able to get out of the building on his or her own within 3 to 5 minutes. For more details, see www.state.ar.us/dhs/aging/assistedlivingchoices.html

The following chart demonstrates the impact on four hypothetical cases, all categorized as Tier 2 for services.

Applicants	Mary	Fred	Betty	Ruth
Income	\$10,000	\$15,000 (\$1,250/mo)	\$20,600	\$21,000
Assets	\$500	\$3,000	\$2,000	\$1,000
Tests				
LIHTC Tax Credits (at 60% AMI, or \$20,640 annual income)	Qualifies	Qualifies	Qualifies	Does not qualify; not eligible for The Gardens.
Medicaid (at 300% SSI, or \$20,160 annual income)	Qualifies	Qualifies	Does not qualify; unless income decreases will always be “private pay” for services; however, her income of	Does Not Qualify

			\$1717/month does not cover the \$2083 in rent and services.	
Medicaid Asset Limit = \$2,000	Qualifies	Must spend-down \$1,000 before qualifies for Medicaid payment	Qualifies	Qualifies

1. Regulations

A. List of regulating agencies

1. Department of Human Services: The following two divisions jointly administer the assisted living program.

- Division of Aging and Adult Services (DAAS): This agency co-administers the HCBS waiver, referred to in Arkansas as the “Living Choices Assisted Living Program”.
- Division of Medical Services, Office of Long-Term Care (OLTC): This is the state Medicaid agency and they co-administer the state’s HCBS waiver. This agency sets reimbursement rates, license and monitor AL, and assess clients to verify that they are eligible under the HCBS waiver.

2. Arkansas Development Finance Agency: This agency coordinated a LIHTC set-aside for affordable assisted living and HOME funds

3. Arkansas Health Services Permit Commission: Reviews and grants the Permit of Approval for all health facilities, including assisted living.

B. Regulatory steps:

POA: Arkansas differs from many other states in that it controls the number of licensed assisted living facilities and requires developers to obtain a Permit of Approval (POA) before moving forward with a project. The Gardens was granted its POA legislatively as a demonstration project. Future projects would apply to the Arkansas Health Services Permit Agency (www.arhspa.org).

Licensure: In Arkansas, the agency that grants licenses for assisted living facilities is the Office of Long Term Care in the Arkansas Department of Health and Human Services. The Gardens had a somewhat atypical licensure process because construction began before the licensure rules were even written. As a result the project had to obtain a few minor variances. A new assisted living development would not face this issue. In order to obtain a license, an assisted living developer or sponsor must present: POA, City

Occupancy Agreement, Fire Department Letter of Inspection, building plans, letters from licensed electricians and plumbers regarding code compliance, a letter from the County or State Health Department regarding septic tank/well, W-9 tax ID form, criminal record check form, and modest fees associated with the above items.

Lessons Learned: First survey: The surveyors were unfamiliar with assisted living when they conducted their first survey of The Gardens – it was their first AL survey ever. Only minor problems were found, though some surveyors expressed surprise at the degree of disability among the residents. DAAS is developing training and guidelines to provide surveyors with the tools they need to evaluate this setting.

Staff training & certification: Mercy Health Systems provides an initial training to all staff members. New employees then receive a 2-day orientation of assisted living practices. This training may be spread out over several days so that the individual can better learn the material. Each of the disciplines represented by the various employees, including the administrator, who has a nursing home administrator's license, the RN, LPN, and CNA must meet the state-required standards for the licensure category. In addition, all employees receive on-going in-service training on fire safety, life safety, resident rights, and medication management.

2. Medicaid & Other Public Subsidies

1. **Medicaid certification:** Medicaid: To become a certified Medicaid provider, the organization must apply to DAAS and DMS. Once the organization has been approved, it receives Medicaid payments on behalf of individual residents who qualify for Medicaid under the DHS criteria. Individuals must apply to their local DHS county office.
2. **Reimbursements rates:** Arkansas Medicaid rules for assisted living define 4 service tiers (or levels). A registered nurse from the OLTC completes an assessment for medical eligibility on all applicants for the HCBS waiver. Additional health or social service personnel may also take part in an assessment as needed. The nurse assesses whether or not the individual requires assistance with activities of daily living (ADL) and taking medications, as well as the client's medical diagnosis and psychosocial/cognitive status. The assessment results in a score that is associated with one of the 4 tiers. The state Medicaid agency makes payments directly to the provider on behalf of each Medicaid client. The daily reimbursement rate per resident as of 2004 was:
 - Tier 1: \$39.51 (\$1185/month)
 - Tier 2: \$42.83 (\$1285/month)
 - Tier 3: \$47.47 (\$1424/month)
 - Tier 4: \$49.97 (\$1499/month)

The Medicaid program has an automatic cost of living adjustment built into the program. The state has assumed a rate increase of 3.0% for fiscal year 2005. The OLTC determines

each Medicaid client's Tier (or level of care) based on an assessment of each applicant, as described below.

A. Resident eligibility: Older persons must apply to the county DHS office in order to qualify for the Medicaid subsidy. This application, which must be reviewed by DAAS, includes two parts: financial eligibility and medical eligibility. The state requires that the applicant meet at least one of three medical criteria as determined by a licensed medical professional:

1. The individual is unable to perform either of the following:
 - At least one of three specific activities of daily living: transferring/locomotion, eating, or toileting, without extensive assistance from or total dependence upon another person; or
 - At least two of three specific activities of daily living: transferring/locomotion, eating, or toileting, without limited assistance from another person; or,
2. The individual has a primary or secondary diagnosis of Alzheimer's disease or related dementia and is cognitively impaired so as to require substantial supervision from another individual because he/she engages in inappropriate behaviors which pose serious health or safety hazards to him/herself or others; or,
3. The individual has a diagnosed medical condition which requires monitoring or assistance at least once a day by a licensed medical professional and the condition, if left untreated, would be life threatening.

D. Lessons learned: During the first few months of operations, the nurses from the OLTC who assessed the health needs of prospective residents reported that the one hour assessment did not always give a complete picture of the individual's daily needs. Staff at The Gardens confirmed that sometimes residents and family members overestimate the older persons' ability to manage their daily activities, and it sometimes takes a few weeks to get a more accurate picture. Fortunately, OLTC nurses were willing to reassess residents after one month's occupancy in order to develop a better assessment and service plan.

3. Housing Subsidies

As indicated in the Project Description above, all 45 units are rent-subsidized, with 40 designated for LIHTC and 5 for HOME. The specific allocations are:

- 13 LIHTC studios targeted to 50% area median income
- 22 LIHTC studios targeted to 60% area median income
- 5 LIHTC 1-bedrooms targeted to 60% area median income
- 5 HOME –bedrooms targeted to 50% area median income

However, the actual rental rates that The Gardens charges are less than the total that could be charged under LIHTC and HOME guidelines. For example, the highest rent that could be charged for a 1-bedroom unit under LIHTC rules is \$585 (2004), but the amount actually charged is \$361 (\$513 ret and meals les \$152 food costs). This is due to an Arkansas Medicaid

rule that sets a cap on the amount of room and board that can be charged for a Medicaid client in assisted living. Specifically, Arkansas does not permit facilities to charge more than the federal SSI rate (\$564/month in 2004) minus the resident's personal needs allowance (\$51/month in 2004). Thus, the maximum room and board fee in 2004 was \$513. This rent level does not cover the full cost of room and board, thus, the project must be heavily subsidized in order to overcome this gap.

4. Rent-Up

A. Rent-up strategy: The rent-up strategy allowed for a 12-month lease-up period. The CDC and Mercy agreed to limit move-ins in the first several months to allow the operations teams to settle into the building. The actual rent-up rate was six residents in month one, three in month two, one the next month, 14 in the fourth month, followed by anywhere from three to eight residents per month, with some months seeing a loss of one or more residents who moved out for varying reasons.

B. Rent up timeline: It took approximately 12 months for all units to rent. As of the date of this case study, all units are full and there is a waiting list.

C. Lease-up reserve: The project established a \$185,000 reserve fund. Lease-up reserves were included in the reserve.

D. Lessons learned: The CDC team members used conservative numbers suggested by NCB CAPITAL IMPACT, and were glad for it because the LIHTC program assesses penalties for projects that fail to fill the number of units proposed in the application. The rent-up timeline is affected by at least two external forces in addition to market demand. First, prospective tenants who applied for the Medicaid waiver had to be assessed, both financially and medically, by public agency staff and this process took time. Second, the waiting list of prospective residents had to be managed and updated as the timeline for the opening changed.

5. Staff Hiring

A. Staff hiring schedule: The Gardens began operations with eight employees, including the administrator, a cook, a housekeeper, an RN, an LPN, and three personal care assistants. A second LPN was added in the second month, and additional staff were hired in the fourth and fifth months of operations.

B. Lessons learned: The administrator felt that the staff hiring schedule worked well, and that they met resident needs as well as payroll demands. However, there was one unexpected result of the hiring schedule. The initial residents became used to a 1:1 staff to

resident ratio and they resented the loss of personal attention that occurred as additional residents arrived in the following months.

XII. Financial Results

NCB Capital Impact collected financial data on the Gardens’ operations. One aspect of the Gardens that makes presentation of financial results challenging is the fact that the owner of the Gardens—the CDC—is separate from the entity that provides the personal and health services—Mercy Health Systems. NCB Capital Impact will present the housing and service financial results separately in reflection of this arrangement. Summary versions of the financials are presented below, while detailed financials are contained in Appendix 2.

Interviews with the administrator of the Gardens and other individuals familiar with the project indicate that on the service side, Mercy lost money for the first 13 months of the project. The main reason for this is that Arkansas Medicaid was not very familiar with the affordable assisted living model. Turnaround times for certifying residents for Medicaid were long, and consequently the facility’s vacancy rate was high during the first year of operations. Over the past couple of years this situation has changed dramatically. Medicaid turnaround times are now much shorter, and the financial results of the service operations have improved greatly.

Summary of Service Financial Results

	Jul '05 - Jun '06	%	Per Bed
Income	675,745	100%	15,017
Direct Expenses	591,370	88%	13,142
Gross Margin	84,375	12%	1,875
Administrative Expenses	71,847	11%	1,597
Net Income	12,528	2%	278

The financial results of the service operations for the period from mid-2005 to mid-2006 indicate that Mercy is realizing \$15,017 per bed in service revenues. Direct service-related expenses account for 88% of total revenues, or \$13,142 per bed. After administrative expenses, reported net income is 2% of total revenues. It is important to note that Mercy self-insures and does not separately break out the portion of its overall liability insurance expenses that are devoted to the Gardens. Allocating such costs to the operations would clearly reduce Mercy’s net margin. Appendix 2 contains a detailed income statement for the provision of services.

Summary of Housing Financial Results

	Jan-Dec '05	%	Per Bed
Income	298,917	100%	6,643
Direct Expenses	223,801	75%	4,973
Gross Margin	75,116	25%	1,669
Administrative Expenses	5,115	2%	114
Earnings before Int. & Depr.	70,001	23%	1,556
Interest Expense	60,903	20%	1,353
Net income before depreciation	9,098	3%	202
Depreciation	108,114	36%	2,403
Net Income	(99,016)	-33%	(2,200)

On the housing side, the CDC realized \$6,643 in revenue per bed (\$554 per resident per month) in calendar year 2005. Direct expenses for housing operations amounted to 75% of revenues, or \$4,973 per bed. Net income after interest expenses but before depreciation was 3% of revenues, or slightly more than \$9,000 overall. Principal payments in 2005 were just below \$8,000. After taking \$4,863 in deferred interest payments into account, there would appear to be a small positive cash flow. The management of the CDC said that the tight cash flow resulted from keeping private pay rates for non-Medicaid (but still low-income) residents constant over a period of years. The CDC intends to raise these private pay rates in order to increase revenues and cash flow.

XIII. Project History

Several public agencies collaborated in order to establish policies that either supported or did not hamper the development of affordable assisted living. Arkansas Governor Mike Huckabee and Herb Sanderson, Director of the Division of Aging and Adult Services (DAAS), shared a commitment to meeting the needs of their aging low-income citizens. Before receiving the Coming Home Program award, they began to assemble the financial resources and to put into place the regulatory environment that fosters affordable assisted living. The Department of Human Services worked with the Arkansas Legislature to enact regulations governing the assisted living industry, and then translated the legislation into regulation. They applied to the Centers for Medicare and Medicaid Services (CMS) for a Medicaid home and community-based waiver 1915(c) in order to fund services for low-income populations who required nursing facility-level care. When CMS granted the waiver, the state began the program with 200 “slots” available to qualifying individuals.

The Division of Medical Services’ Office of Long Term Care (OLTC) also participated in drafting the regulations and was designated as the agency responsible for licensure, monitoring, and surveying assisted living. This office helped to develop the resident assessment process and the associated reimbursement rates.

On the housing side, the Arkansas Development Finance Authority (ADFA) agreed to set aside Low Income Housing Tax Credits and HOME funds to support the development of assisted living projects. ADFA Housing Division served as the DHS's primary partner in the Coming Home Program. ADFA publicized the availability of predevelopment funds and state and federal tax credits available to developers, and they partnered with DAAS to provide an assisted living development conference for nonprofit and for-profit developers.

Appendix II

Photos

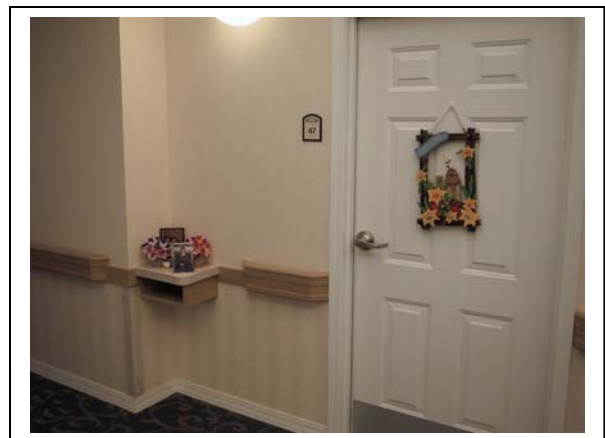
Front Entrance



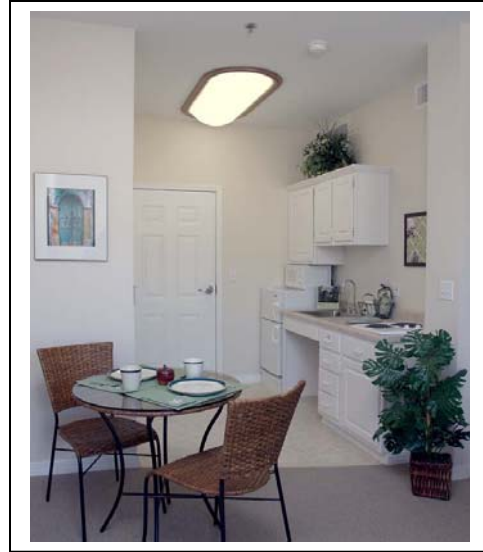
Court Yard – Back of Property



Residential Unit – Exterior



Residential Unit – Interior



Activity Room



Dining Room



Front Lobby

