

# **INSTRUCTION GUIDE for the ALASKA ASSISTED LIVING FINANCIAL FEASIBILITY MODEL**

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# Introduction to the Operating Proforma and Financial Feasibility Analysis Model

This generic operating proforma and financial feasibility analysis model has been developed as a tool to be used in determining the financial viability of assisted living homes in Alaska. This guide provides step-by-step instructions on how to use the model.

The feasibility model may be used either to make a “first cut” regarding the preliminary feasibility of a project or to conduct a full financial feasibility analysis. Generic operating assumptions for assisted living homes have been built into the model and will generate preliminary financial projections with minimal data input required. Using the model to conduct a full financial feasibility analysis, on the other hand, will require the determination of appropriate estimates for the project’s operating expenses, development costs, and funding sources. A comprehensive understanding of the market for the proposed project is also necessary to generate accurate project assumptions and hence a reliable feasibility analysis.

The assumptions built into the model are designed to estimate costs for a nursing home alternative model of assisted living (i.e., most residents have a level of frailty that could make them eligible for placement in a skilled nursing facility). The services provided in such a model include three meals per day, housekeeping, laundry, activities and socialization, and assistance with self-administered medications, personal care and orientation. Some assistance with routine nursing tasks may also be provided (e.g., blood sugar monitoring, catheter care, ostomy care, dressing changes).

The default assumptions also assume that a number of residents will have difficulty with memory loss and orientation, some of which may have a primary or secondary diagnosis of dementia or Alzheimer’s disease. It is assumed that these residents are integrated with the other residents; that is, there is no special unit for residents who have dementia. It is not appropriate to use this model to conduct a preliminary feasibility analysis for projects that are dementia-specific or have sections of the building dedicated to dementia care without modifying the default assumptions that are built into the model.

It should be noted that the assumptions used in the model are based on “averages” from a variety of assisted living homes and thus may not be appropriate for some specific projects. Therefore, the assumptions provided in the model should be reviewed and modified as appropriate to obtain the most accurate results possible.

The model was developed to accommodate multi-use projects, as these projects are often the most economically viable in smaller communities. Thus, in addition to assisted living units, the model can also generate projections for independent rental units, leased commercial space, and other service programs such as adult day care or senior meal sites.

All of the input cells in the model are colored. Some of these cells include built-in default assumptions, and thus do not require project-specific inputs for a “rough-cut”, preliminary analysis. However, when conducting a full feasibility analysis, all of the assumptions that have been built into the model should be verified and modified as appropriate for your specific project. A summary of the assumptions included on the Expenses and Personnel sheets of the model is provided in the model on the Default Assumptions sheet.

Following is a summary of the input sheets included in the model:

- Input 1 – Summary
- Input 2 – Expenses
- Input 3 – Personnel
- Input 4 – Assisted Living and Service Revenue
- Input 5 – Medicaid
- Input 6 – Independent and Leased Revenue
- Input 7 – Development Costs
- Input 8 – Sources of Funds

Once the required input information has been entered, the model will automatically generate the following output sheets:

- Summary Profit and Loss Projections
- Detailed Profit and Loss Projections
- Default Assumptions for AL Expenses and Personnel Costs

# Instructions for Using the Model

## *I. PROJECT ASSUMPTIONS (“#1 – SUMMARY” SHEET)*

**Project Assumptions.** The section at the top of the “#1 – Summary” sheet requires the input of key assumptions regarding the project. These inputs can be modified at any time as you work with the model.

The vacancy rates and lease-up time projected for your project should be based on expectations for your project and on funder-specific preferences. Funders typically require a vacancy rate of at least five percent, although some lenders may require rates of seven or even ten percent. If a project will be located in a highly competitive market where comparable facilities are less than 95 percent occupied, it may be prudent to use a vacancy rate of seven to ten percent even if a higher rate is not required by the funder.

The “Summary of Project” section of this sheet contains output information that is based on the data entered on the input sheets of the model. It is shown here to provide an overall summary of the project – both the key assumptions and outputs – in one place. This data will obviously not reflect an accurate feasibility analysis until all of the input sheets have been completed.

## *II. EXPENSE ASSUMPTIONS (“#2 – EXPENSES” SHEET)*

Expenses for all aspects of a project’s operations must be estimated to determine the financial viability of the project. Rough approximations of “typical” costs for assisted living homes (i.e. default assumptions) have been built into the model. However, operational expenses can vary greatly between homes. For example, the size of the community in which the building is located, the cost of living, and the local job market can all affect operational expenses. A project’s building design, whether the home is colocated with other programs, and competitive factors may also impact a project’s operational costs.

When conducting a preliminary feasibility analysis, it may be appropriate to utilize the assisted living expense assumptions that have been built into the model with only a cursory review of the cost factors. However, for full feasibility analyses, each expense category should be thoroughly reviewed, with the corresponding cost modified as appropriate in order to provide realistic projections for your project. The assumptions that have been built into the model in the “Assisted Living Cost Per

Month” column may be modified. To refer back to the original default assumptions, go to the “Default Assumptions” sheet in the model.

A brief explanation of each line item on the “Expenses” sheet (as applied to assisted living homes) has been provided in the Appendix, along with an explanation of the primary factors that may impact the project-specific cost of the expense category. Guidelines have also been provided as to how to collect data, conduct research, and estimate project expenses.

If independent rental units, leased commercial space, and/or other service programs will be included in your project, enter estimated expenses for the appropriate line items for each product type (default assumptions have not been built into these cells).

Most of the expense estimates included on the “Expenses” sheet are “fixed” costs in that the total cost per month for that line item will remain constant regardless of the project’s census. Some expenses, on the other hand, will vary depending on the project’s level of occupancy. Whether an expense category is considered fixed or variable is indicated in the “Type of Expense” column. For each variable cost, a “Minimum Cost per Month in Lease-Up” is provided as a default assumption. Modify this assumption as appropriate for your project.

An inflation factor must be used to estimate the percentage that expenses are projected to increase each year. A factor of three percent has been included in the model (in the “% Non-Personnel Expenses to Increase Each Year” cell). However, in some cases it may be appropriate to increase expenses by a different factor (e.g., if recommended or required by a lender). Note that a separate factor will be used to estimate the rate at which personnel costs will increase each year.

### ***III. PERSONNEL ASSUMPTIONS (“#3 – PERSONNEL” SHEET)***

It is important to estimate personnel costs as accurately as possible, as this expense comprises the largest percentage of the operational budget for an assisted living home. For homes with 20 or fewer units, the model will automatically calculate an estimated number of full-time employees (FTEs) for each position. These assumptions, which are based on the assisted living unit and occupant inputs, may suffice for a preliminary feasibility analysis. However, the types of positions needed, the number of hours allocated to each position, and appropriate wages can vary greatly between projects. Thus, all of these factors should be carefully evaluated for each project and modified as appropriate when a full feasibility analysis is conducted.

The default assumptions for assisted living are shown in the “# FTEs - Assisted Living” column on the “#3 – Personnel” sheet. A default assumption may be modified by overriding the assumption (i.e. entering a different value into the cell containing the assumption). A summary of the default assumptions that have been included in the model is provided on the “#9 – Assumptions” sheet in the model.

If independent rental units, leased commercial space, and/or other service programs will be included in your project, the number of FTEs for each revenue center must be estimated and entered in the appropriate column(s). Default assumptions have not been included for these product types.

Based on the information entered for each product type, the model will automatically calculate the total number of FTE's and cost per month for each position. A default assumption has been built into the model for the "Minimum Cost per Month During Lease-Up" for the universal worker position, as this position may not need to be fully staffed during a project's rent-up phase.

Most projects will utilize only a few of the positions included in the "#3 – Personnel" sheet, particularly if universal workers are used. However, the model includes all of the positions that might be utilized in an assisted living facility to facilitate use of the model by as many projects as possible. A description of each position and an overview of those factors that might have an impact on either the number of FTEs or the wage allocated for the position is included in the Appendix.

**Pay Scale.** It is important to ensure that the pay scale entered for each position is reasonable, since even a slight wage increase can significantly increase the operating costs for a home. To assist in determining appropriate wages for your project, local wage information should be obtained for each position. One method of obtaining this information is by conducting wage surveys. Guidelines have been provided in the Appendix as to the types of organizations that might be surveyed for the various positions. When conducting wage surveys, it is helpful to obtain information not only about wages, but also about any available benefits, such as health insurance, paid vacation and sick time, and retirement plans.

In addition to local wage surveys, information regarding wages may often be obtained from third parties. That is, industry organizations (e.g., health care and/or assisted living associations) frequently conduct wage surveys. Other organizations such as economic development agencies, chambers of commerce, and employment divisions may also be able to provide information regarding local wages. In addition, wage information for specific positions may be obtained from help-wanted ads in the local paper(s).

When obtaining wage information, the source of the information should always be considered. For example, hospitals usually have higher wages than are paid in other types of facilities. Similarly, in some areas caregivers are paid more in nursing homes than in assisted living facilities because the acuity level is much greater.

**Benefits, Taxes, etc.** Expense estimates for personnel-related costs such as payroll taxes, workers compensation insurance, health insurance, paid vacations or sick time, and overtime/holiday pay must be determined. Enter into the model an estimated percentage of payroll costs that will be allocated to taxes, worker's compensation insurance, and overtime, holiday and vacation pay. The estimated number of employees that will likely participate in a health insurance benefits program should also be estimated and entered in the appropriate cell, along with the amount the facility will pay per employee per month for health insurance. Enter information about other employee programs or benefits that may be offered in the "Other" row of the "Benefits, Taxes, Etc." section.

**IV. ASSISTED LIVING AND OTHER SERVICE REVENUE  
ASSUMPTIONS (“#4 – AL & SERVICE REVENUE” SHEET)**

The “#4 – AL and Service Revenue” sheet includes the assumptions about revenue on which the assisted living and other service program projections for your project will be based.

**Estimating a Medicaid Rate.** Indicate in the section “To Estimate a Medicaid Rate for Your Project” how you would like the Medicaid revenue for your project calculated. Following is an overview of the four available options:

- When conducting a preliminary feasibility analysis, you can use a “plugged” rate of \$135.00 per day to approximate a cost-based Medicaid reimbursement rate. It is important to note that this rate may not be reflective of what your actual cost-based rate will be, but should provide at least an approximation of this rate.
- Another option is to use the published Medicaid rate for your geographic area. These rates are typically lower than cost-based rates, but do not require submission of a cost breakdown to the Division of Senior and Disabilities Services (DSDS).
- To estimate a cost-based rate for your project, complete the “#5 – Medicaid” sheet in the model. Completion of this sheet requires a breakdown of all costs by Allowable Administrative and General (A&G) costs, Non-Allowable A&G costs, Allowable Direct Service Costs, and Non-Allowable Direct Service Costs (to complete the “Medicaid” sheet you must have already completed the “#2 – Expenses” sheet and the “#3 – Personnel” sheet). Refer to section 07 AAC43.1060 in the State regulations for an explanation of these categories and/or contact the Certification or Medicaid Cost-Based Reimbursement specialist for assisted living homes at DSDS at (800) 478-9996 or (907) 269-3666 for additional information. It is important to note that the rate determined by this method will be an estimate only; actual rates must be determined by DSDS.
- Finally, you may use an actual cost-based reimbursement rate, as determined by DSDS. This option will also require completion of the “#5 – Medicaid” Sheet. Once completed, this sheet should be submitted to DSDS for determination of your cost-based rate. For more information on the cost-based rate process, contact the Certification or Medicaid Cost-Based Reimbursement specialist at the numbers noted above.

You may change the option by which the model calculates your Medicaid rates at any time as you work with the model. When another option is selected, the revenue projections will automatically be recalculated to reflect this change. It is important to note that the State’s published rates and cost-based rate-setting methodology change periodically, so be sure to verify the current system with the Certification or Medicaid Cost-Based Reimbursement Specialist.

**Subsidized Units.** Enter the number of units that you expect will be occupied by Medicaid waiver and General Relief Fund residents in the column titled “# of Units”. If you anticipate that any of these units will be shared by more than one resident (e.g. a spouse or roommate), enter the projected number of second occupants in the “2nd Occupants” column.



A daily service rate for Medicaid reimbursement will have been automatically entered in the row for “Medicaid Waiver Units”, based on your selection of an option in the “To Estimate a Medicaid Rate for Your Project” section. As noted above, this option can be changed at any time, with the model automatically recalculating all revenue projections.

If you plan to have any residents who receive financial assistance through the General Relief Fund, contact the General Relief Office at 1-800-478-9996 or (907) 269-3666 to obtain the current General Relief Fund rate for your geographic area. Enter this rate in the row for “General Relief Fund” units.

**Private-Pay Rates.** If any private-pay units are planned for your project, the number of residents paying privately and the monthly rates projected for these units should be entered in the “Private-Pay Units” section of the “#4 – AL and Service Revenue” sheet). If your project will have only one private-pay level of care, simply enter the total number of private-pay units and any anticipated second occupants in the appropriate cells for Level 1, leaving Levels 2 and 3 blank. If your home will have only two levels of care, enter figures in the appropriate cells for Levels 1 and 2, leaving Level 3 blank. If you will have three levels of care, enter data for Levels 1, 2, and 3.

The private-pay rates entered in the model should include charges for room, board and services. To determine appropriate private-pay rates for your project, you may want to obtain rate information for comparable facilities located in your market area (or in the surrounding areas if there are no comparable facilities in the primary market area). Guidelines for determining private-pay rates are included in the Appendix.

The model is designed for private-pay rates to be based on monthly fees. If you plan to base your private-pay rates on daily fees, multiply each daily rate by 30.4 to convert the daily rate into an estimated monthly fee.

**Rental Subsidies.** In some cases, rental subsidies may be available to supplement the room and board payments made by residents. If such a subsidy will be available, enter the estimated amount of the subsidy and the projected number of residents who would be eligible for the subsidy in the appropriate cells in this section.

**Revenue Inflation Factor.** For each of the assisted living payor types that you plan to include in your home, estimate the percentage increase in rates that may be anticipated.

**Other Service Programs.** If other service programs such as adult day care or a senior nutrition site will be included in your project, the type of program should be specified in the “Other Service Programs” section. The number of clients that are likely to be served through each program should then be entered, along with the projected monthly revenue per client, the anticipated vacancy rate, and the percent annual rate increase expected for each program. Also enter for each program the census projected for the first month of operation and the number of months the program will likely take to reach full census.

## ***V. MEDICAID RATE WORKSHEET (“#5 – MEDICAID” SHEET)***

The “#5 – Medicaid” sheet is a worksheet that may be used to calculate a preliminary cost-based Medicaid reimbursement rate. An actual rate must be obtained from the Division of Senior and Disabilities Services (DSDS).

Completion of this sheet requires a breakdown of all costs by Allowable Administrative and General (A&G) costs, Non-Allowable A&G costs, Allowable Direct Service Costs, and Non-Allowable Direct Service Costs. To complete this sheet you must have already completed the “#2 – Expenses” and “#3 – Personnel” sheets. Refer to section 07 AAC43.1060 in the State regulations (Alaska Administrative Code) for an explanation of these categories and/or contact the Certification or Medicaid Cost-Based Reimbursement specialist for assisted living homes at DSDS at (800) 478-9996 or (907) 269-3666 for additional information. For your convenience, a direct link to these regulations is provided on the “Medicaid” sheet of the model.

Once a cost breakdown into the four categories has been completed, the model will automatically calculate an estimated cost-based Medicaid rate. It is important to note that this rate will be an estimate only; actual rates must be determined by DSDS.

To obtain an actual cost-based rate for your project, submit the completed “#5 – Medicaid” sheet to DSDS. Once obtained, this rate should be entered on the “#4 – AL and Service Revenue” sheet. For more information on the cost-based rate process, contact the Certification or Medicaid Cost-Based Reimbursement specialist at the numbers noted above.

It is important to note that the cost-based rate-setting methodology changes periodically, so be sure to verify the current system with the Cost-Based Rate Unit at DSDS.

## ***VI. INDEPENDENT AND LEASED REVENUE WORKSHEET (“#6 – IND. & LEASED REVENUE” SHEET)***

**Independent Rental Units.** If your project will include independent rental units, enter the number of each unit type in the “# of Units” column on this sheet. Units should be entered as “Subsidized for 50% of the Median Income” or “Subsidized for 60% of the Median Income” only if required by a funder for the project. That is, specific equity or debt programs may require that a certain percentage of the units be set aside for residents with incomes below a specified level. If this will be the case for your project, check with the funder for the specific requirements and enter the numbers of units for each income level accordingly. If your project will not be bound by income or rent restrictions, enter all of the units as market rate units.

For each unit type that will be included in your project, enter the projected rental rates that will be charged. The maximum rent that may be charged for subsidized units (i.e. units set aside for residents with incomes at 50% or 60% of the area median income) will be determined by the program(s) providing the subsidy. Verify these rent limits with the specific subsidy program(s) that you will be using.

**Leased Commercial Space.** If your project will include any leased commercial space, indicate the type of space in the “Leased Commercial Space” section of this sheet. Also enter the anticipated monthly revenue that will be generated from each use, along with a projected vacancy factor and rate at which you anticipate the revenue will increase each year.

## ***VII. DEVELOPMENT COST ASSUMPTIONS (“#7 – DEV COSTS” SHEET)***

The “#7 – Dev Costs” sheet is designed to calculate the total costs involved in the development of a project. The first part of this sheet, “Preliminary Estimate of Development Costs,” will provide a cursory estimate of a project’s potential development costs and thus should be used only for preliminary feasibility analyses. Completion of the “Detailed Development Budget” section, on the other hand, will result in a thorough estimate of a project’s anticipated development costs. A detailed development budget must be completed when a full feasibility analysis is conducted.

**Preliminary Estimate of Development Costs.** To estimate a project’s development costs for a preliminary feasibility analysis, you will need to obtain several estimates of construction costs from contractors experienced with local building costs for similar projects. These estimates should include all costs related to construction, including building costs, site costs, off-site costs, and a ten percent construction contingency fee. Enter this figure in the “Estimated Construction Costs per Square Foot” cell. Based on this input, an estimate for the “Total Estimated Construction Costs” will be generated. This calculation assumes a total square footage for the project based on an average of 650 square feet for per unit (including the per-unit share of common areas). This square footage factor is based on the experience drawn from many assisted living projects, but will obviously provide only a rough estimate of what the actual square footage and corresponding construction costs may be for your specific project.

After an amount has been entered into the “Estimated Land Costs” cell, the amount of funds that will be allocated to soft costs will be calculated. A factor of 30 percent has been included in the model as a default assumption, again based on the development experience of many assisted living projects. This estimate allows for typical nonconstruction costs associated with development, such as governmental fees, consultant fees, financing charges, reserve funds, legal fees, and insurance.

Sometimes specific information is available that indicates that the percent allocated to soft costs will likely be greater than 30 percent. For example, if higher-than-normal nonconstruction costs (e.g., high operating reserves) are anticipated, it may be appropriate to allocate 35 or 40 percent of the total development costs to soft costs. If the percent budgeted for soft costs is expected to differ from 30 percent, enter the new percentage in the “Percent Soft Costs of Total Development Costs” cell.

These inputs will result in the calculation of the preliminary “Total Estimated Development Costs.”

**Detailed Development Budget.** As stated previously, a detailed development budget must be completed for a full feasibility analysis (and to meet the application requirements of most funders). To complete this budget, enter the appropriate amount for each line item. The model will then generate subtotals for each category and a grand total for the entire development budget. Per-unit con-

struction and development costs are then calculated and displayed at the bottom of the “#7 – Development Costs” Sheet.

### **VIII. SOURCES OF FUNDS (“#8 – SOURCES” SHEET)**

The “#8 – Sources” sheet calculates how much debt a project can support, and compares the project’s total sources of funds to the estimated development costs to determine whether sufficient funds are available for the project.

**Debt Service.** The “Debt Service” section of this sheet must be completed if the project will carry debt. If debt will not be used to fund the project, proceed to the “Summary – Sources of Funds” section of this sheet.

If debt will be carried by the project, enter the debt coverage ratio that will be required by the loan in the first position. The model will then calculate, based on the project’s projected net-operating income, the amount per year available for debt service and the corresponding amount of debt the project will support. If you would like the project to carry a smaller amount of debt than that shown, enter the amount of debt you prefer in the appropriate cell. Next, enter the term and interest rate anticipated for the first loan. The model will then automatically calculate the estimated amount of the first loan and the project’s corresponding cash flow after the debt service payment for this loan.

If additional sources of debt will be utilized, answer the questions in the “Loan in the Second Position” and “Loan in the Third Position” sections. Based on the information you enter, the model will calculate the amount of debt the project will support and the projected cash flow remaining after debt.

**Summary – Sources of Funds.** If you indicated in the section of this sheet for “Debt Service Calculation” that your project will carry debt, the amount of debt from each loan will automatically be shown in the “Summary – Sources of Funds” table. The other possible sources of funds for the project must be entered manually. Be sure to mark an “X” in the appropriate column to indicate whether a commitment has been received from any funding source listed. Also indicate the specific source of any grant or “other” funds that will be utilized. The total sources of funds will then be calculated.

**Project Gap or Excess.** The model will automatically calculate whether the project has more or less money than is needed to cover all anticipated development costs, and will specify the amount of the gap or excess funds.

## Output Sheets

Based on all of the information entered into the input sheets of the model, detailed and summary profit and loss projections will be automatically generated. Monthly projections are shown for the first two years of operation, with annual projections generated for the first ten years. These outputs will be recalculated when any of the inputs are modified, which allows you to perform a variety of scenario analyses to determine the impact that different assumptions have on the viability of your project.

Revenue and expenses are increased on an annual basis, beginning with month 13, based on the inputs on each of the applicable sheets. The vacancy factor is based on a summary of each of the vacancy rates for the various revenue sources entered on the input sheets.

A review of the profit and loss projections will indicate the preliminary viability of a project under the assumptions you have entered. Remember that you may vary any of the inputs to see how various assumptions will affect the financial feasibility of the project.

# APPENDIX 1

## Determining Private Pay Rates

A determination of the most appropriate private-pay rates for an assisted living home can best be made by evaluating rates for comparable facilities in the proposed project's primary market area (or in the surrounding areas if there are no comparable facilities in the primary market area). This determination would typically be made when a market feasibility study for a proposed project is conducted. However, in some cases (e.g. for a preliminary feasibility analysis), a market study may not yet be available. This Appendix will provide some general guidelines on how to best determine your project's primary market area and private-pay rate structure.

**Determining a Project's Primary Market Area.** The primary market area for an assisted living home is that geographical area from which the majority of residents relocate. It is typically comprised of a fairly homogenous geographic region from which potential residents are willing to travel to receive services. It is important to note that the boundaries of a primary market area may change over time, as forces both within and outside of the market area act to redefine the boundary lines.

To properly identify a primary market area, a variety of factors must be analyzed. Geographic boundaries such as rivers, mountains, and creeks may serve as natural barriers, limiting the accessibility of an area. Transportation corridors such as freeways, railroad tracks and other major arteries may also make it difficult to travel from one area to another.

In addition, psychological barriers may exist. That is, there may be defined lines in a community that prospective residents would not cross to obtain senior living services. Often one part of a city or town is perceived as substantially different from another for reasons not always evident to individuals unfamiliar with the community. County lines, state lines and city limits may also form psychological barriers.

The distance that people in a local area are willing to travel to access needed services is also an important factor to consider when determining a primary market area. For instance, in rural communities people often travel relatively long distances to obtain services (e.g., 10 to 15 miles) and in more remote locations they may travel up to 20 or 30 miles to access services. On the other hand, in urban markets individuals may not be willing to travel more than a few miles to obtain needed services.

**Identifying Comparable Facilities.** After determining an appropriate market area for the proposed project, those facilities located within this area that could be considered comparable to the proposed project must be identified. Competitive facilities may be defined as those facilities offering a physical plant and services that are comparable to the proposed project. Typically, for facilities to be considered as direct competition to a proposed assisted living home, a full spectrum of personal care services must be available. If there are no assisted living homes currently located within your project's primary market area, expand the geographic area to include those assisted living homes that are located the closest to your proposed project.

**Determining Current Rates for Comparable Facilities.** To determine the private-pay rates for comparable facilities, these facilities should be contacted and appropriate information obtained. It is important to determine the rates for all levels of care offered and for all available unit sizes. Information should also be obtained regarding the services included in the various care levels.

**Estimating Appropriate Private-Pay Rates.** Once the rates for comparable facilities have been obtained, appropriate rates for the proposed project may be determined. A decision must be made about how to best position the proposed project within the marketplace. Some affordable project sponsors want facilities to serve the lower end of the private-pay market by providing the most affordable rates possible. Other affordable facilities position the majority of their units in the middle or perhaps even upper end of the private-pay market (if their market area will support the rates). They do this to create an internal subsidy to help offset losses associated with Medicaid units when the Medicaid rate is insufficient to cover costs.

## APPENDIX II

# Operating Expense Overview

A brief explanation of each line item on the “#2 – Expenses” sheet has been provided in this section, along with an explanation of the primary factors that may impact the projectspecific cost of the expense category. Guidelines have also been provided as to how to collect data, conduct research, and estimate project expenses.

### *A. ADMINISTRATIVE EXPENSES*

**Office Supplies.** This line item represents all office and administrative supplies needed to operate an assisted living home.

**Postage.** This category includes postage and any overnight mail charges. If your project will utilize a third-party management company located out of the immediate area, the amount budgeted for this line item should cover the cost of any regular correspondence to and from the management company’s office.

**Telephone.** Telephone costs can vary greatly depending upon the local phone company’s billing policies, the number of phone lines in the building, and whether long-distance calls are required on an ongoing basis (e.g., the management company for the building is located out of the area). Thus, the default assumption provided for this line item should be modified as appropriate.

**Pagers/Cellular Telephones.** The administrator and/or nurse typically are required to be available on an on-call basis via the use of pagers or cell phones. Pagers are less expensive to use but typically are less efficient than cell phones. On the other hand, some areas do not receive adequate (or any) cell phone coverage. Therefore, the amount that has been allocated for this line item may need to be modified depending on whether pagers or cell phones are used and/or if more costly calling plans are utilized.

**Internet Access.** This line item reflects the widespread use of the internet by most businesses, with the amount dependent on the monthly provider fees.

**Automobile (Mileage).** Costs in this category would be attributed to mileage incurred by building personnel in conducting facility business.



**Administrative Advertising.** This line item includes those costs associated with personnel recruitment, and can vary greatly depending on the location of the building and the stability of staff. Thus, this number should be modified if the building is located in a metropolitan area with higher advertising costs and/or may have a high turnover of staff necessitating ongoing recruitment efforts.

**Dues/Memberships.** This category accounts for the costs incurred by membership in industry associations, chambers of commerce, and/or subscriptions to industry publications. This number may need to be increased if the building belongs to more than one industry association.

**Education/Training.** The costs associated with the training of staff (e.g. first aid, CPR) or conferences and seminars are included in this category. The figure provided may need to be modified depending on the number and type of conferences/seminars attended and/or the extent to which outside resources are used to conduct staff training.

**Audit Expense.** Some lenders require that audits be performed on a yearly basis. Hence, an estimated cost per month is provided to cover this cost. This amount would obviously not be needed if an audit is not required.

**Accounting Expense.** The cost of performing accounting-related tasks is included in this category (e.g., payroll processing, billing, etc.). This amount would be in addition to any amount allocated for a management fee.

**Legal Fees.** This line item would be used to estimate any legal fees that may be anticipated in conjunction with the operation of the project.

**Licensing Fees.** An estimated cost to cover licensing fees is provided based on the number of units, as per the State's assisted living regulations.

**Pre-Employment Screening.** This category includes those costs associated with any pre-employment screening conducted, such as criminal record clearances, Hepatitis B vaccinations, and State-required health examinations. State regulations require a criminal background check (which costs approximately \$110 per employee) and a TB test (typically about \$10 per employee). Some homes require prospective employees to pay these costs, although in many cases providers absorb the cost to assist in attracting qualified employees.

**Administrative Equipment.** This category would cover the cost associated with purchasing, replacing, and/or servicing office equipment (e.g. computers, printers, copy machines, etc.).

**Miscellaneous Expense.** The miscellaneous expense category includes any administrative-related costs not included in any of the line items outlined above.

## ***B. RESIDENT CARE***

**Care Supplies.** This category includes those items utilized in the provision of personal care and medication assistance for residents (e.g. adult briefs, latex gloves, diabetic supplies, etc.). It should be noted that Medicaid may provide reimbursement for care supplies required for Medicaid-eligible residents.

**Pharmacy.** This expense typically covers the cost for a pharmacy to generate medication records on a monthly basis for residents. An additional fee may also be charged if consulting services are provided.

**Activity Supplies and Entertainment.** This line item includes all costs associated with an assisted living home's activity program.

**Housekeeping Supplies.** This category represents the expense of providing housekeeping and laundry services. The figure provided assumes that residents provide their own linens, towels, and toilet paper. State regulations require facilities to provide these items for residents if residents choose not to provide them.

## ***C. VEHICLE EXPENSES***

The line items included in this category would apply if a home has a vehicle that is used to transport residents, and include Gas/Oil, Vehicle Lease/ Purchase Payment, and Vehicle Maintenance. It is assumed that the cost of insurance for the vehicle is included in the expense category for Property and Liability Insurance.

## ***D. MARKETING***

**Advertising.** The amount of money spent on advertising will vary depending upon the competitiveness of the marketplace, the advertising options available in the market area, and the effectiveness of other marketing strategies employed. Another major factor affecting this line item is the location of the facility. That is, advertising costs in small, rural communities are typically minimal, whereas these costs in metropolitan areas can be significant and often are cost-prohibitive. It should be noted that network marketing (establishing and maintaining relationships with key community contacts) is typically the most effective marketing strategy and requires no direct expenditure of funds.

**Referral Agency Fees.** In some communities, referral agencies play a significant role in the community's local referral network. In such a case, an amount should be budgeted for referral agency fees. If a building is located in an area that does not utilize such agencies or if the building does not require the use of agencies to maintain occupancy, funds would not need to be allocated for these fees. No funds have been allocated for this line item in the financial model.

**Printing.** An amount should be budgeted for the costs associated with printing marketing materials such as brochures, business cards and stationary. The cost estimate provided in the model may be low if more elaborate materials are envisioned (e.g., four-color printing, etc.).

**Miscellaneous Marketing Expense.** This line item covers any marketing expenses not associated with those categories outlined above.

### ***E. DIETARY/KITCHEN EXPENSES***

**Raw Food.** The cost of raw food is typically budgeted on a per-resident (per meal or per day) basis. The default assumption provided in the financial model is \$10.00 per resident/per day. This factor assumes that one main entrée is served for each meal with alternatives provided as desired by residents. If a “select” menu is used, which provides more than one entrée for each meal, it may be appropriate to increase the cost factor for this line item by 15 to 20 percent.

**Kitchen Supplies.** This category includes supplies used in the kitchen for food preparation or service (e.g., foil wrap, paper cups, place mats, etc.).

**Smallwares and Minor Equipment.** Included in this line item is the cost to purchase or replace smallwares (e.g., silverware, dishes, etc.) or small equipment items.

**Dietary Consultant.** A monthly fee may be paid to a dietary consultant for the preparation of menus and recipes. Consultants may also perform kitchen inspections on a regular basis (e.g. quarterly) to ensure compliance with all sanitation standards and regulations.

### ***F. MAINTENANCE***

**Repair Expense.** This line item is comprised of those costs related to maintaining a home in good condition providing repairs to the building and/or equipment as needed.

**Elevator Expense.** This category would be utilized for multi-story buildings, and will be automatically calculated if “Yes” is entered in response to “Will the building include an elevator?” on the “#1 – Summary” sheet. This cost covers the monthly fee for a maintenance contract for the elevator(s) and may vary depending on the building’s location and number of elevators.

**HVAC Expense.** This line item applies to maintenance provided to a building’s heating, ventilating and air-conditioning (HVAC) system, and is based on the project’s number of units. This line item would not apply if a building does not have air conditioning, and may be less than the amount provided if only the building’s common areas are air-conditioned.

**Grounds Contract/Snow Removal.** This category covers the cost to have the grounds of the facility maintained on a regular basis. The actual amount charged may differ from the estimate provided, depending on the amount and complexity of any landscaping on the grounds and on the size of

the property. It should be noted that for large properties, only a portion of the grounds may need to be maintained. The remainder of the site can often be left in its natural state.

**Pest Control.** This category includes the cost for regular pest control services to be provided. This cost is automatically calculated in the model based on the size of the building, as the cost for this service typically increases slightly with larger buildings.

**Alarm Monitoring.** This line item covers the cost associated with monitoring of the facility's fire alarm system.

**Miscellaneous Maintenance.** This category is available for those maintenance-related charges not associated with any of the above categories.

## ***G. UTILITIES***

The costs for utilities (i.e., electricity, gas/fuel oil, water/sewer, cable TV, and trash removal) may vary significantly depending on the location of the facility. Default assumptions have been provided based on typical costs incurred by other assisted living homes. However, these costs should be researched on a facility-specific basis. Suggestions are provided in this section on how to obtain estimates for these costs.

**Electricity and Gas.** The utility companies providing electricity and gas to the building will typically provide estimates of cost based on the number of units in the building and comparable facilities in the area.

**Water and Sewer.** The monthly expense for water and sewer is typically based on the number of units in the building. The companies providing these services will usually provide an estimated monthly cost for a proposed project.

**Cable TV.** The cable TV vendor servicing the area in which the building is located should be able to provide estimates of cost based on the number of units in the building. Typically, the facility will include the cost of basic cable in residents' monthly fees, with extended cable paid for by each resident directly if it is preferred. When using a cost-based Medicaid rate, the cost of cable in the common areas is an allowed expense, but the cost to provide cable in resident units is a non-allowable expense.

**Trash Removal.** The cost for trash removal will vary depending upon the location of the facility and the number of residents. Estimated costs for this expense may typically be obtained from the service provider if information is provided regarding the number of units planned for the project.

## ***H. PROPERTY COSTS***

**Property and Professional Liability Insurance.** The cost for professional liability insurance has fluctuated significantly in recent years. The estimate included in the model is based on an average

cost for homes in Alaska. However, this cost may vary based on a number of factors. Thus, actual estimates should be obtained from local insurance brokers providing this type of insurance.

**Property Taxes.** The property tax treatment and costs for your project (for-profit or nonprofit) need to be researched carefully since property taxes can be a major expense. Not-for-profit facilities typically are not required to pay property taxes, although in certain cases property taxes may be required. A determination as to whether a non-profit organization should budget for property taxes may best be made by a tax attorney or other professional with specific expertise in this area. When applicable, property taxes should be estimated. The appropriate factor to apply to the building's value may be obtained from the county assessor's office

**Repair and Replacement Reserve.** Funds should typically be placed in a repair and replacement reserve on a monthly basis. An amount of \$350.00 per year per unit is included in the model (as recommended by the Alaska Housing Finance Corporation). However, other funders may prefer that another factor be used to calculate this reserve amount.

**Monthly Rental Charge Abatement.** This line item should reflect any rent discount provided to the project's administrator if he/she is living on-site at the project.

**Lease Payment.** If you will be leasing the building in which your project will be located from another entity, the monthly lease amount should be entered in this line item.

**Management Fee.** A management fee is typically paid to a management company to oversee the ongoing operations of a facility. This fee is usually based on five percent of the facility's gross revenue, although in some cases another percentage may be used. A five percent fee is provided as a default assumption for this expense category. A minimum monthly fee is usually included in a management contract to provide sufficient compensation to the management agent during the facility's lease-up period. The amount of this fee will usually vary depending on the size of the building.

**Indirect Rate.** A line item has been included for an indirect rate, which is calculated as a percentage of all other expenses. It should be noted that this category should not include any costs that have already been entered in any other line item.

## APPENDIX III

### Personnel Overview

Most projects will utilize only a few of the positions included in the “#3 – Personnel” sheet, particularly if universal workers are used. However, the model includes all of the positions that might be utilized to facilitate efficient use of the model by as many projects as possible. A description of each position and an overview of those factors that might have an impact on either the number of hours or the wage allocated for the position is provided in this section.

**Administrator.** A full-time, salaried administrator is included in the default assumptions built into the model. This individual typically oversees all of the day-to-day operations of the facility, including staffing, resident care, marketing, and business management. The salary for this position will vary greatly depending upon the location of the facility, the number of units, and whether housing is provided for the position, but typically ranges from \$35,000 to \$50,000 per year. Estimates for appropriate administrator salaries for your area may best be obtained by networking with other assisted living providers in the State.

**Assistant Administrator.** The position of assistant administrator may be used in larger homes, with smaller homes typically not having a need for this position. In larger projects, some of the duties that would usually be performed by the administrator are delegated to the assistant administrator (e.g., marketing, business functions, and/or staff scheduling). An appropriate wage for this position may best be estimated via those avenues outlined for the administrator position.

**Universal Worker.** Universal workers are typically responsible for assisting residents with a variety of needed services, including personal care, medication assistance, redirection and orientation, and meal service. They also are responsible for maintaining appropriate documentation in resident records and may perform housekeeping functions in the common areas of the building and/or in resident units. Depending on the size of the home, universal workers may also perform cooking and kitchen clean-up tasks.

The appropriate number of universal workers will depend on the acuity of resident needs. That is, homes with a higher level of care should have a higher staffing ratio than homes with a lower level of care. The financial model assumes a high level of care, typical of a nursing home alternative model of assisted living.

Typically a building will have more staff on the day and evening shifts than on the night shift, as resident care needs are usually not as great at night. Shifts for universal workers typically range from approximately 7:00 a.m. to 3:30 p.m. for the day shift, from 3:00 p.m. to 11:30 p.m. for the evening shift, and from 11:00 p.m. to 7:30 a.m. for the night shift. However, there are many variations in staffing patterns and shifts, all of which can work equally well depending on the needs of a particular home. Regardless of the specific shifts allocated, the hours budgeted and the resulting staffing expense will be the same.

It should be noted that staffing needs may vary for buildings with the same number of units, depending on the design of the building. That is, a multi-story building should ideally have at least one resident assistant available per floor per shift, even if this would result in more staff than would otherwise be budgeted. The same would be true if a building has distinct wings or sections. The model assumes a one-story building without distinct wings or sections. If a building will have multiple floors and/or distinct sections, it would be advisable to work closely with an operations consultant during the design phase of the project to minimize any impact the design could have on staffing levels.

The ramp-up minimum for this position is based on projections of one universal worker for each shift, seven days a week, at the wage entered under “Pay Scale” on the “#3 – Personnel” sheet.

The wages for universal workers can vary significantly between geographic areas, depending upon the local cost of living and job market. Wage surveys for this position should typically (as available) include other assisted living homes, nursing homes, hospitals and home health agencies. Help-wanted ads and web-based job postings may provide additional information. When conducting wage surveys for this position, it is helpful to determine if any differential is paid for certified aides versus those who are not certified and/or for aides who work the swing or night shifts.

As noted earlier, hospitals typically have higher wage structures than do other types of facilities. In addition, home health aides are often paid more than resident assistants in assisted living homes, as these aides usually are not guaranteed regular hours and have to provide their own transportation between clients.

**Receptionist.** A receptionist/administrative assistant is typically not needed for smaller homes. When this position is utilized (generally in larger facilities), duties may include answering the phone, greeting visitors, and performing clerical duties. To estimate the hourly wage for this position, comparable wages for receptionist/clerical positions in several different industries should be obtained. Often this can be accomplished by looking at local help-wanted ads and/or job posting sites on the internet.

**Activity Director.** The activity director is responsible for planning and implementing social and recreational activities for residents. In small homes, these functions are typically conducted by the universal workers, whereas larger facilities usually have dedicated activity director positions. Comparable wages may be obtained from wage surveys of currently operating assisted living projects or nursing homes and from help-wanted ads or job postings.

**Vehicle Driver.** If a van or other vehicle will be utilized by a home for transporting residents to doctor appointments, shopping and/or on outings, the cost to employ a driver should be budgeted. Small homes will typically utilize other positions (e.g. universal workers or the maintenance person) to carry out this function. If a dedicated vehicle driver is employed, this position is typically budgeted at approximately the same wage that is paid to the home's universal workers.

**Registered Nurse or LVN/LPN.** The role of a nurse in assisted living facilities is typically to oversee resident care, train and supervise resident assistants, and interface with other health-care providers (e.g., resident physicians, home health agencies, etc.). Although not required by State regulation, it is very helpful to have a nurse on staff, particularly if a high level of care is planned.

Alaska has a nurse delegation act that permits RNs to delegate to unlicensed staff at assisted living homes, nursing tasks that would otherwise need to be performed by a licensed nurse. Thus, use of an RN can significantly increase the ability of a home to provide a higher level of care more efficiently and at a decreased cost.

The number of nursing hours needed depends on the size of the facility and the level of acuity in the building. The financial model utilizes a factor of .75 hours of nursing time per resident per week, and assumes that the average acuity level in the project will be high – the level typical for a nursing home alternative model. A nursing home alternative model is used because this is the model that is required by the state Medicaid waiver program. If you expect to use a different source of service reimbursement with lower acuity thresholds, the estimated hours of nursing time built into the model can be modified to reflect a lower level of anticipated care needs.

Comparable wages for the nurse position may be found by surveying other assisted living facilities, nursing homes, hospitals, and home health agencies. Other sources of wage information may be industry surveys, help-wanted ads and web-based job postings.

**Nurse On-Call.** Nurses in assisted living homes are typically expected to be available on an on-call basis for questions by staff regarding resident care. An additional fee may be paid to the nurse as compensation for on-call time. This fee may range from \$100 to \$250 per month, depending on the size of the facility.

**Lead Cook/Food Services Director.** In larger facilities, a lead cook/food services director is typically employed to oversee the day-to-day operations of the kitchen, including ordering food, ensuring the cleanliness of the kitchen, and maintaining food costs within budgetary guidelines. Depending on the size of the building, this individual may also be responsible for overseeing all kitchen personnel (e.g., hiring, scheduling, supervising, etc.). The person in the lead cook/food service director position typically also performs cooking duties and is usually budgeted at 40 hours per week. This position may not be utilized at all in small homes if the home's universal workers are involved in meal preparation and service tasks.

The wage for the lead cook/food service director will vary depending upon the size of the building and the location of the facility. Wage surveys may include other assisted living facilities, nursing



homes, hospitals, schools and/or restaurants. Help-wanted ads and job postings may also provide useful information.

**Cooks.** Depending on the size of the facility, one or more cooks may be required in addition to the lead cook/food service director, although in small homes universal workers typically perform all cooking tasks. When dedicated cooking personnel are used, homes with less than 50 residents can typically be staffed with 10 cook hours per day, supplemented as appropriate with assistance from dietary aides.

The lead cook/food service director typically performs cooking tasks in addition to the administrative duties within the 40 hours a week budgeted for this position. In larger buildings, the food service director may need more hours for administrative duties, and thus may not be able to allocate the full 40 hours to cooking-related tasks. This has been factored into the cooking hours budgeted for the model.

As with the lead cook/food service director, wage surveys should include other assisted living facilities, nursing homes and hospitals, utilizing schools and restaurants if appropriate. Help-wanted ads and job postings may also provide useful information.

**Dietary Aide/Kitchen Assistant.** In larger homes, dietary aides/kitchen assistants may be utilized to provide assistance to the cooks. Duties may include food prep tasks, dish washing, cleaning of food preparation areas, and dining room set-up/clean-up. The hours needed for this position will vary depending on the size of the building and the number of cook hours budgeted. An appropriate wage for this position may be obtained by surveying nursing homes, hospitals and restaurants.

**Server.** Most smaller assisted living homes and facilities designed to provide affordable assisted living will utilize universal workers to serve meals to residents. However, dedicated servers may be desirable in larger facilities with a high percentage of private pay units, especially those with a higher-end rate structure. In some markets, the use of dedicated servers has become a standard and is used to enhance the dining experience for residents. In such a case, it may be helpful to utilize dedicated servers to compete effectively in the marketplace.

**Housekeeper.** In small homes, universal workers are usually responsible for the routine cleaning of resident units and common areas. Larger facilities, however, typically utilize dedicated housekeepers for the regular cleaning of resident apartments. Housekeepers may also be used by smaller homes to provide deep cleaning tasks. If a dedicated housekeeper is used, the number of hours required for this position will depend on the number of units in the project. A factor of 0.8 hours per week for each unit is often used to budget the number of housekeeping hours needed.

The wage for a housekeeper is typically similar to that paid to universal workers. Wage surveys for this position may include competing assisted living facilities, nursing homes, and motels.

**Maintenance Person.** Maintenance personnel are needed to keep the building in good condition and perform preventative maintenance tasks as appropriate, even for new buildings. For larger facilities, 0.5 hours per week per unit is generally an appropriate estimate of the time needed for

this position. Smaller homes will typically require a greater per-unit, per-week factor, as these homes are not able to benefit from the economies of scale present in larger facilities. Older buildings and/or buildings that have not been well maintained may require additional maintenance time.

The wage for a maintenance person will vary depending upon the location and size of the facility. Wage surveys for this position can be conducted with other assisted living facilities, nursing homes, and hospitals. Help-wanted ads and job postings may also provide helpful information.

**Other Project-Specific Personnel.** Some facilities have special needs that require additional staffing not included in this model. For example, a project located in a high crime or urban setting may need to employ security personnel, while a special-needs project that serves only hearing-impaired individuals might require the services of a translator to facilitate communication with residents.