

SAN MATEO



LOCAL AGENCY FORMATION COMMISSION

455 COUNTY CENTER, 2ND FLOOR • REDWOOD CITY, CA 94063-1663 • PHONE (650) 363-4224 • FAX (650) 363-4849

November 9, 2017

To: LAFCo Commissioners

From: Martha Poyatos, Executive Officer

Subject: LAFCo File 17-16—Proposed Activation of the Service of Operating a 124-unit Assisted Living and Memory Care Facility at 1600 Trousdale Drive, Burlingame, by the Peninsula Health Care District as Authorized by Health Care District Enabling Legislation and Pursuant to Government Code Section 56824.12

Summary

This application was submitted by resolution of the Board of Directors of Peninsula Health Care District (PHCD) and requests San Mateo Local Agency Formation Commission (LAFCo) approval of activation of service of operating an assisted living and memory care facility. The facility, known as The Trousdale, is under construction with a projected completion date of Spring 2018. LAFCo approval would apply to operation of other similar facilities. Staff recommends approval.

Background

When independent special district members were added to San Mateo LAFCo in 1996, the Commission was required to adopt “Rules and Regulations Affecting Special Districts,” which established the “active” and “latent” (or inactive) powers for each of the special districts under its purview. Active powers were defined as those powers actually being provided by the special district at that time; latent powers were those powers authorized to the district by its respective principal act but which were not actually being provided at the time. Government Code Section 56824.12 requires that districts apply to LAFCo to add an inactive service or function.

The Peninsula Health Care District was formed in 1947 and Peninsula Hospital was opened in 1954. In 1985, the District leased Peninsula Hospital to Mills-Peninsula Health Services. In 1994, with the passage of Senate Bill 1169, hospital districts were renamed “health care districts,” to reflect the increasing trend toward health care being provided outside of the hospital setting. In 1994, the legislature also established seismic safety standards for hospitals requiring compliance by 2013 and, in most cases, the replacement of existing hospitals.

Subsequently, the District entered into a master agreement with Mills-Peninsula Health Services, in which Mills-Peninsula would build a new hospital compliant with California seismic

COMMISSIONERS: DON HORSLEY, CHAIR, County ▪ MIKE O’NEILL, VICE CHAIR, City ▪ JOSHUA COSGROVE, Special District ▪ ANN DRAPER, Public
RICH GARBARINO, City ▪ JOE SHERIDAN, Special District ▪ WARREN SLOCUM, County

ALTERNATES: KATI MARTIN, Special District ▪ HARVEY RARBACK, City ▪ SEPI RICHARDSON, Public ▪ DAVE PINE, County

STAFF: MARTHA POYATOS, EXECUTIVE OFFICER ▪ REBECCA ARCHER, LEGAL COUNSEL ▪ JEAN BROOK, COMMISSION CLERK

standards and enter into a long-term ground lease with the District. The master agreement required Mills-Peninsula Health Services to maintain the following core clinical services: intensive care, surgical, obstetrics and newborn, general acute care, laboratory, and mental health services. According to the master agreement, while Mills-Peninsula Health Services may terminate core clinical services that are determined to be financially infeasible, the District has the right to require Mills-Peninsula Health Services to continue core clinical services subsidized by the District. The master agreement was approved by the voters in 2006, and the new hospital opened in 2011. Under the agreement, PHCD acts as landlord and real estate manager but does not operate the hospital. Having divested itself of hospital ownership and operation, the District established a program of community health grants and planning for future health needs, including those of an aging population.

In the course of preparing the 2017 Municipal Service Review and Sphere Update for Peninsula Health Care District and Sequoia Healthcare District, it was determined that the District's operation of an assisted living and memory care facility constitutes activation of a new or different service subject to Government Code Section 56824.12. Peninsula Health Care District subsequently submitted LAFCo File No. 17-16 requesting LAFCo approval to activate the service of operating an assisted living and memory care facility as allowed by Health and Safety Code Section 6512. The activation anticipates that the service will be provided at the building currently under construction at 1600 Trousdale Drive, Burlingame and would allow operation of similar facilities.

Discussion

On September 28, 2017, the Board of Directors of PHCD adopted Resolution No. 2017-03 requesting that LAFCo take the actions necessary to expand the District's authorized function/service to include operating the assisted living and memory care facility as authorized by health care district enabling legislation and pursuant to Government Code Section 56824.12.

The application was submitted to LAFCo for processing on October 2, 2017. The application materials and related documents that are provided as attachments to this report include:

1. District application that includes PHCD Resolution No. 2017-03 and Plan for Services with the following exhibits:
 - A. Minutes of Burlingame City Council meeting dated November 3, 2014 showing:
 - i. Adoption of an amendment of the City zoning ordinance
 - ii. Approval of the mitigated negative declaration, design review, and conditional use permit
 - B. Notice of Determination filed with the County Clerk on November 13, 2014
 - C. "Peninsula Health Care District Sources and Uses of Funds – 2014 & 2017 Certificates of Participation, WAB Investments, Inc. (Western Alliance)"

D. Table of Contents and Pages 40-42 of “Final Municipal Service Review for Sequoia Healthcare District and Peninsula Health Care District,” prepared by Harvey M. Rose Associates, LLC, for San Mateo LAFCo, May 24, 2017

The application materials submitted by the District outline its request to activate the service of operating the assisted living and memory care facility. The facility location is within the service area of PHCD for the benefit of District residents. The Plan for Services and application comply with Government Code Sections 56824.12 and 56668 and include a description of the scope and level of services proposed to be provided.

Planned Services

The request from PHCD for activation of the service of operating an assisted living and memory care facility identifies the following services:

1. Construct a 124-unit District-owned assisted living and memory care facility on District-owned land.
2. Operate a high-quality assisted living and memory care community for residents 65 and over through an operating/management agreement with Eskaton Senior Residences and Services, a non-profit senior housing provider with more than 40 years of experience in providing senior housing and supportive services in California for independent senior apartments, assisted living and memory care units, and skilled nursing facilities.
3. Provide a 24-hour on-site nurse, medication management, assistance with everyday tasks such as bathing, dressing, walking, eating, etc., housekeeping and laundry service, doctor visits in the on-site clinic, access to the therapy gym, and transportation services for medical appointments, shopping, and resident social events.
4. Provide ancillary services, including direct access to physicians, therapy, acupuncture, massage, and aromatherapy; exercise and group fitness opportunities through classes such as t'ai chi and yoga; access to lifelong learning opportunities through lectures, classes, social engagement, art, music, and spiritual opportunities; and personal amenities such as a hair and nail salon and pet care.
5. Ten units will be offered at a below-market rate with a plan to increase the number of below-market-rate units once the operations are stabilized and all costs, debt service, and the capital replacement reserves target are met.

Demand for Assisted Living Facilities

The following excerpt from the District's application details the reasons and foundation for operation of an assisted living and memory care facility:

During the preparation for the PHCD Strategic Plan in 2007, the demographic profile of its residents showed that the elderly population would have the greatest rate of growth in the next 25 years with 14% of the 65-plus living alone. Subsequent Lewin Group studies for the County, reports by the County's Aging & Adult Services, two PHCD commissioned studies by

Gerontological Services Inc. in 2013 and redone in 2015, and LAFCo's most recent study conducted by Harvey M. Rose Consulting reaffirmed the 2007 projections. All confirm that the growth in the number of residents age 65 and over will be the fastest growing segment of the population served by PHCD.

The District land to be used for this project is located in the heart of the projected senior growth and ideally located for senior living, i.e., close to health services, basic retail such as food, pharmacies, cleaners, hair/nail salons, transportation, and located at the base of Trousdale where walking to the various services is on flat, well-lighted sidewalks with traffic controlled pedestrian crossings.

There are also a number of notable health care trends that informed the PHCD Board's decision: seniors are more active and independent than prior generations; seniors are living longer (the greatest percentage of growth in San Mateo County will be in the 85 years of age and older); seniors are living with an average of 4 chronic health conditions (e.g., diabetes, Congestive Heart Failure, Chronic Lung Disease, etc.); hospital stays are getting shorter due to a combination of the development of technologies and pharmacology and increased acuity criteria reducing hospital days covered by Medicare; one in five 85 year olds will have dementia or Alzheimer's Disease; healthcare services are moving to more community-based care, assisted living companies around the country are experiencing greater supportive health needs by their residents; and, socialization has been identified as the most impactful element to the quality of life in the later years.

Two other key drivers of the PHCD Board's decision were to ensure that any District-owned development project could be funded by PHCD without any additional burden to the tax payer and that the projects operating structure could be sustainable. The assisted living/memory care model [which] includes Below Market Rate units met those criteria.

The financial capacity of PHCD and the projected financial performance of the assisted living/memory care project were thoroughly reviewed and documented in LAFCo's commissioned 2017 Harvey M. Rose Consulting report; the findings were incorporated into LAFCo's action taken at its September 20th meeting, at which the healthcare districts' 2017 MSR and Sphere of Influence Reviews and Staff Recommendations were accepted.

Project Funding

The District set up the Peninsula Health Care Development Corporation as a nonprofit corporation to develop the senior assisted living and memory care project, and established a separate fund to account for project costs. After further evaluation, the Board decided to rebid the project through the District's public works bidding process. The District also set up the Peninsula Health Care District Financing Corporation in FY 2013-14 to finance the project's construction.

The following excerpt from the District's application details the financial arrangements for construction and operation of services extended to the affected territory, and whether the territory will be subject to any special taxes, charges, or fees:

\$40M in tax-exempt Certificates of Participation was secured through Western Alliance Bank in February 2014. The first round of public works bidding for the project in 2015 came in significantly higher than original estimates. The Board conducted refreshed market demand studies to confirm the need existed and continued to grow; charged the construction team to carry out an aggressive value engineering review to lower total costs and then determined to go forward. An additional \$10M in tax-exempt Certificates of Participation were secured in May 2016 through Western Alliance Bank, and the equity commitment from PHCD reserves increased to a total of \$38M.

*A "Source and Use of Funds" summary, prepared by PHCD's financial advisor is provided in Exhibit C. The relevant sections from the Harvey M. Rose Associates MSR are Exhibit D. The territory **will not** be subject to any special taxes, charges, or fees.*

Financing and Costs of Senior Assisted Living and Memory Care Project

The project's financing sources and cost breakdown are shown in the following table from Exhibit D of the application.

	Total Sources	2015 and Prior	2016	2017	2018
Sources					
2014 Loan	\$40,000,000	\$40,000,000			
2017 Loan	10,000,000			10,000,000	
Equity	30,821,000	3,000,000	3,000,000	13,500,000	11,321,000
Total Sources	\$80,821,000	\$43,000,000	\$3,000,000	\$23,500,000	\$11,321,000
Uses					
<u>Project Costs</u>					
Construction	\$57,300,000			\$40,000,000	\$17,300,000
Soft Costs	8,240,000	3,860,000	2,500,000	880,000	1,000,000
Marketing	1,140,000	200,000	400,000	400,000	140,000
Pre-operating	800,000				800,000
Operating	4,000,000				4,000,000
Contingencies	2,150,000		250,000	1,000,000	900,000
Subtotal Project Costs	\$73,630,000	\$4,060,000	\$3,150,000	\$42,280,000	\$24,140,000
<u>Loan Costs</u>					
<u>Loan Financing Costs</u>					
2014 Loan	\$630,000	\$630,000			
2017 Loan	200,000				200,000
<u>Loan Interest Payments</u>					
2014 Interest	2,650,000	950,000	1,570,000	130,000	0
2017 Interest	117,000	0	0	0	117,000
Principal/Interest	3,594,000	0	0	2,080,000	1,514,000
Subtotal Loan Costs	\$7,191,000	\$1,580,000	\$1,570,000	\$2,210,000	\$1,831,000
Total Uses	\$80,821,000	\$5,640,000	\$4,720,000	\$44,490,000	\$25,971,000

Source: Hendrickson Consulting Financial Forecast, March 14, 2016

Projected Cash Flow for Senior Assisted Living and Memory Care Project 2018 to 2022

The project will consist of 124 residential units for senior assisted living and memory care. The financial projections for the project are based on most units being rented at market rate. Rent subsidies for affordable units equal approximately one percent of total market rate rents under the financial projections.¹ The project’s financial projections are shown in the following table from Exhibit D of the application.

	2018	2019	2020	2021	2022
Revenues	\$2,900,000	\$7,970,000	\$10,808,000	\$12,704,000	\$13,085,000
Expenses	(3,633,000)	(6,357,000)	(7,341,000)	(8,414,000)	(8,666,000)
Net Revenues	(\$733,000)	\$1,613,000	\$3,467,000	\$4,290,000	\$4,419,000
Capital Expenditures	\$0	(\$80,000)	(\$108,000)	(\$127,000)	(\$131,000)
Debt Service	(1,145,000)	(2,894,000)	(3,184,000)	(3,186,000)	(3,192,000)
Operating Deficit ^a	2,500,000	1,500,000			
Net	\$1,355,000	(\$1,474,000)	(\$3,292,000)	(\$3,313,000)	(\$3,323,000)
NET CASH FLOW	622,000	139,000	175,000	977,000	1,096,000

Source: Hendrickson Consulting Financial Forecast, March 14, 2016
^a The pro forma projections assume a \$4 million operating subsidy in the first two years, funded from the \$80.8 million capital budget (this funding is listed in Figure 23 above as “Project Costs, Operating”).

The projections in the above table are based on 92 percent occupancy of the residential units. If occupancy falls below 92 percent or operating expenses are higher than projected, the senior assisted living and memory care project may have reduced or even negative net cash flow. According to management’s discussion in the audited financial statement for the year ending June 30, 2016:

¹ The projected subsidy is calculated at \$750 per month for ten units. This subsidy of \$750 per month would result in per-unit costs to the resident of more than \$5,000 per month or \$60,000 per year based on the information in the March 2016 Financial Forecast by Hendrickson Consulting.

“2015 and 2016 demographic studies of the local senior market reaffirm the rapid aging of this area and the current and future demand for supportive housing such as assisted living. As a result, three senior for-profit housing companies have entered the market and opened facilities [Sunrise,² Atria, and Kensington].³ This could slow occupancy for the District’s facility and prolong the financial stabilization. To recognize this challenge, the pro forma and financial projections were revised before the decision to go forward was determined.”

The cash flow projections assume a \$4 million operating subsidy in the first two years, funded from the District’s \$80.8 million capital budget. If operating costs and revenues do not meet projections in future years, it will be necessary for the District to continue an offset from either reserves or annual property tax or other revenues. As noted in the Harvey Rose MSR/SOI Report, the District’s conservative budget practices result in annual budget surpluses and increases in cash balances. The Hendrickson Consulting Financial forecasts (May 11, 2016) indicate budget surpluses through Fiscal Year 2021-22 that would allow continuing a subsidy to the facility if necessary.⁴

Below Market Rate Units

Since 2013, the District has had a policy to provide a minimum of 10 units at a below-market rate and to reevaluate the number and level of discount after the facility is stabilized – meaning covering its operating, capital, and debt service costs. This plan was incorporated into the management contract with Eskaton and financial pro formas used for the business plan and financing. In June 2017, a draft “Below Market Unit Allocation” policy went to the Board’s Long Term Planning and Finance Committees. Following the Committees’ input, the policy was revised and adopted at the Board’s September 28th meeting.

Comment from the City of Burlingame

The land use designation is Commercial Uses – Office Use. The area is not subject to rezoning and is not subject to taxation for any existing bonded indebtedness, contractual obligation, or special taxes/standby charges. The proposed service of the facility is compatible with City general and specific plans. The North Burlingame/Rollins Road Specific Plan designates the area as Mixed Use – Office/Residential. The proposed service would have no effect on existing or potential service problems.

² Sunrise of Burlingame, a 97-bed assisted living facility, opened in 2015 at 1818 Trousdale Drive, one block from The Trousdale.

³ According to California Department of Social Services data, the total number of assisted living beds in San Mateo County was 5,131 (the County had a net increase in assisted living beds between 2012 and 2016 of 58 beds). San Mateo County has a larger number of beds per adults 65 years and older (4.8 percent) than the two other California counties with the same level of high income: Marin (4.1 percent) and San Francisco (2.9 percent).

⁴ Municipal Service Review for Sequoia Healthcare District and Peninsula Health Care District, Page 49

Executive Officer's Report

Government Code Section 56668

The following information provides analysis of the factors required to be considered for approval of an application pursuant to Government Code Section 56668:

- a) The area proposed for activation of the service of operating an assisted living and memory care facility encompasses the District's boundaries. The current project consists of the one acre property located at 1600 Trousdale Drive, Burlingame, an area with institutional and recreational uses.
- b) There is a demonstrated need for the services to be provided by the facility based on assessments that show a growing number of adults in the area aged 65 and older.
- c) The assisted living and memory care facility will further PHCD's goals to address the current and projected increase in the need for assisted living and memory care facilities for residents living within the District's boundary and throughout San Mateo County.
- d) The application for activation of the service of operating an assisted living and memory care facility does not affect patterns of urban development and the proposed services to be provided to the facility are compatible with City general and specific plans and adopted plans for extending services, including capital projects.
- e) The application does not affect agricultural lands.
- f) As an application for activation of service (versus annexation) the proposal does not affect the boundaries of affected local agencies.
- g) The application has no effect on regional transportation planning.
- h) The application is consistent with the City General and North Burlingame/Rollins Road Specific Plan.
- i) The application has no effect on the sphere of influence of any agency.
- j) The Comments of any affected local agency or other public agency. The only comments received were the land use related comments from the City of Burlingame Planning Department.
- k) The application does not propose formation of a new agency or changes in city or district boundaries .
- l) In regard to timely availability of water supplies adequate for the projected needs as specified in Government Code Section 65342.5, the increased water demand resulting from the proposed project would not result in the need for new or expanded water supply entitlements.
- m) The proposal assists the City of Burlingame in meeting the City's regional housing needs allocation (RHNA) by contributing 124 assisting living units to the City's allocation.

- n) No comments have been received from landowners, registered voters, or ratepayers.
- o) The land use in the project area is designated Mixed Use Residential in the North Burlingame/Rollins Road Specific Plan.
- p) The proposal promotes environmental justice to the extent that it responds to identified needs of aging residents in the District.

Government Code Section 56824.14

As required by Government Code Section 56824.14, the Commission shall not approve an application for activation of new or different services unless it determines that PHCD will have sufficient revenues to provide the service. The Plan for Services submitted with the application estimates the cost to construct the facilities for The Trousdale to be \$81 million. This will be financed with \$50 million of tax-exempt Certificates of Participation and \$30,819,000 of District reserves. As noted above, cash flow projections assume a \$4 million operating subsidy by the District in the first two years, funded from the District's \$80.8 million capital budget. If operating costs and revenues do not meet projections in future years, it will be necessary for the District to continue an offset from either reserves or annual property tax or other revenues. The District's conservative budget practices result in annual budget surpluses and increases in cash balances. The Hendrickson Consulting Financial forecasts (May 11, 2016) indicate budget surpluses through Fiscal Year 2021-22 that would allow continuing a subsidy to the facility if necessary.

Environmental Review

The application requests LAFCo approval to add to the District's services the operation of assisted living and memory care facilities. Activation of service would permit the District to operate the 1600 Trousdale facility currently under construction or any future facility. LAFCo consideration of activation of service is exempt from the California Environmental Quality Act (CEQA) under General Rule Exemption [CEQA General Rule Exemption 15061(b)(3)] since it can be seen with certainty that the activity of operating an assisted living and memory care facility will not have a significant effect on the environment. Construction of such facilities are subject to CEQA and under the responsibility of land use jurisdiction where such facilities are to be located.

Recommended Action

LAFCo File No. 17-16 requesting activation of the service of operating an assisted living and memory care or similar facility by the Peninsula Health Care District is supported by Health Care District Enabling Legislation, which authorizes a broad spectrum of health-related services and facilities. The application responds to the need to provide residential care alternatives for the Peninsula's growing senior population. Staff supports the service activation as described.

If approved by the Commission, a Certificate of Completion would be recorded following the required 30-day waiting period. It is therefore respectfully recommended that the Commission

approve the proposed request for activation of the new service of operating an assisted living and memory care facility.

Recommendation

By Motion:

Certify that the activation of the new service of operating assisted living and memory care facilities is exempt from the California Environmental Quality Act (CEQA) under General Rule Exemption 15061(b)(3).

By Resolution:

Approve LAFCo File 17-16—Proposed Activation of the Service of Operating an Assisted Living and Memory Care Facility as Authorized by Health Care District Enabling Legislation and Pursuant to Government Code Section 56824.12.

cc: Cheryl Fama, CEO, Peninsula Health Care District

Attachments: PHCD Resolution 2017-03
PHCD application and Exhibits A-D

**RESOLUTION NO. 2017-03
PENINSULA HEALTH CARE DISTRICT
COUNTY OF SAN MATEO, STATE OF CALIFORNIA

**RESOLUTION OF APPLICATION TO REQUEST THAT THE LOCAL AGENCY FORMATION
COMMISSION AUTHORIZE ACTIVATION OF SERVICE FOR PENINSULA HEALTH CARE DISTRICT
TO OPERATE AN ASSISTED LIVING/MEMORY CARE FACILITY**

WHEREAS, Peninsula Health Care District (the District) is an independent special district formed in 1947 operating pursuant to Health and Safety Code Section 32000 et seq. and;

WHEREAS, Health and Safety Code Section 32121 sets for the services the District is authorized to provide; and

WHEREAS, provisions of California Government Code Sections 56824.12 through 56824.14 require that the District apply to LAFCo for approval prior to activating a new or different service that is authorized by Health and Safety Code Section 32121; and

WHEREAS, in the course of preparing the Municipal Service Review and Sphere of Influence Update for the District, it has been determined by LAFCo and the District that the District's planned construction, ownership and operation (via contract with Eskaton) of the 124-unit assisted living and memory care facility, The Trousdale, (Facility) located on District-owned property at 1600 Trousdale Drive, Burlingame is a new or different service subject to Government Code Sections 56814.12 through 56824.14; and

WHEREAS, the Facility will include access to ancillary services, lifelong learning classes and social events, and transportation to shopping and appointments described in more detail in the Plan for Providing Services; and

WHEREAS, LAFCo's proceedings to activate new or different services may be initiated by a Resolution of Application approved by the Peninsula Health Care District's Board of Directors as the governing authority for the District; and

WHEREAS, Peninsula Health Care District's Board of Directors, in accordance with Government Code Section 56824.12(c)(I), held a duly noticed public hearing on this Resolution of Application to consider public comment on the proposed application to authorized activation of the service to be provided within the boundaries of the District to include:

1. Operation of an assisted living/memory care facility to include 124-units with studio, one- and two-bedroom floor plan options with kitchenettes. The facility will include a range of health-related and supportive services, access to ancillary services, lifelong learning classes and social events, walkways and patios, and transportation to shopping and appointments.
2. The total project cost is projected to be \$81M. This will be financed with \$50M of tax-exempt Certificates of Participation and \$31M of PHCD reserves.
3. The operating pro forma projects occupancy stabilization within 24 months and a negative cash flow for the first two years of operation. This negative flow will be off-set by PHCD operating support of \$4M which is included in the total \$81M cost projection for the project.

NOW, THEREFORE, BE IT RESOLVED AND ORDERED by the Peninsula Health Care District's Board of Directors as follows:

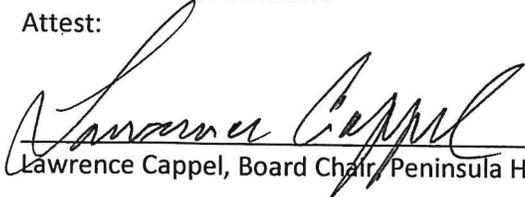
- SECTION 1. This proposal is made pursuant to Sections 56824.10 and 56824.12 of the California Government Code.
- SECTION 2. This proposal is for Peninsula Health Care District to activate service to operate an assisted living/memory care facility consisting of a 124-resident units described in more detail in the Municipal Service Review and attached Plan for Providing Service. The Plan for Services was prepared pursuant to Section 56653 attached hereto as Exhibit A.
- SECTION 3. The boundaries of the District shall not be affected.
- SECTION 4. The reason for this proposal is to meet the need of the growing population of adults aged 65 and older for supportive housing and services such as assisted living.
- SECTION 5. The Board hereby requests that LAFCo undertake proceedings for this proposal in accordance with Government Code Section 56824.14.
- SECTION 6. This proposal does not affect the boundaries of any city or district.
- SECTION 7. The District CEO is directed to file a certified copy of this Resolution with the Executive Officer of LAFCo.

PASSED AND ADOPTED by the District Board of the Peninsula Health Care District at a regular scheduled meeting thereof held on the 28th day of September, 2017, by the following votes:

Ayes: Cappel, Galligan, Navano, Zell, Pagliaro
Noes: X
Absent: X
Abstain: X

District Board of Directors

Attest:


Lawrence Cappel, Board Chair, Peninsula Health Care District

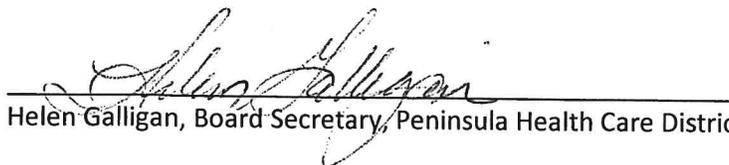

Helen Galligan, Board Secretary, Peninsula Health Care District

Exhibit A: Plan for Services

1. The services to be provided within the District are to construct, own, and operate a 124-unit assisted living and memory care facility on District-owned land. The facility will be called The Trousdale.
2. The level and range of services to be provided include the operation of a high quality assisted living and memory care community for residents 65 and over through an operating/management agreement with Eskaton – a non-profit senior housing provider with more than 40 years of experience in providing senior housing and supportive services in California for independent senior apartments, assisted living and memory care units, and skilled nursing facilities.
3. The services to be provided at The Trousdale include: 24-hour/day nurse on premises, medication management, assistance with everyday tasks such as bathing, dressing, walking, eating, etc., housekeeping and laundry service, doctor visits in the onsite clinic, access to the therapy gym, and transportation services for medical appointments, shopping, and resident social events.
4. Ancillary services include direct access to physicians, therapy, acupuncture, massage, and aromatherapy and exercise and Group Fitness opportunities through classes such as Tai Chi and yoga, access to lifelong learning opportunities through lectures, classes, social engagement, art, music and spiritual opportunities, and personal amenities such as hair and nail salon and pet care.
5. There will be ten units offered at a below market rate with the plan to increase the number once the operations are stabilized and all costs, debt service, and capital replacement reserves target is met.

**APPLICATION FOR A CHANGE OF ORGANIZATION OR REORGANIZATION
TO THE SAN MATEO LOCAL AGENCY FORMATION COMMISSION**

A. GENERAL INFORMATION

1. Briefly describe the nature of the proposed change of organization or reorganization.

Peninsula Health Care District (PHCD) is filing this application to activate the service of operating a 124 unit assisted living and memory care facility as authorized by Health Care District enabling legislation and pursuant to Government Code Section 56824.12.

2. An application for a change of organization or reorganization may be submitted by individuals in the form of a petition or by an affected public agency in the form of a certified resolution. This application is submitted by (check one):

Landowners or registered voters, by petition
 An affected public agency, by resolution

(If this application is submitted by petition of landowners or registered voters in the affected territory, complete the petition form.)

3. What are the reasons for the proposal?

There are three key reasons for this proposal:

- 1) to address the current and projected increase in the need for assisted living and memory care facilities for residents living within the district's boundary and throughout San Mateo County;
- 2) to ensure that the 1 acre of PHCD-owned real estate immediately across the street from the District's land on which Mills-Peninsula Medical Center sits, will be used for health and community benefit.
- 3) to comply with Government Code Section 56824.12.

4. Does this application have 100% consent of landowners in the affected area?

Yes No

This answer is supported by public comments expressed at PHCD town hall meetings and throughout the public EIR, Burlingame Planning Commission, and City Council approval processes and the current collaboration with Sutter leadership on continuum of care programs.

5. Estimated acreage: 44,086 square feet

B. SERVICES

1. List the name or names of all existing cities and special districts whose service area or service responsibility would be altered by the proposed change of organization or reorganization.
The Peninsula Health Care District.

2. List all changes to the pattern of delivery of local services to the affected area. For each service affected by the proposed change(s) of organization, list the present source of service (state “none” if service is not now provided), the proposed source of service and the source of funding for construction of necessary facilities (if any) and operation. Example is given on the first two lines of the space provided for your response.

SERVICE	PRESENT SOURCE	PROPOSED SOURCE	FUNDING SOURCE	
			CONSTRUCTION	OPERATING
Operation of an assisted living and memory care facility	None	Peninsula Health Care District is the developer and owner PHCD has entered into a management agreement with Eskaton, senior living to operate the facility.	1)\$50M Certificates of Participation tax-exempt financing through Western Alliance Bank 2)\$30M PHCD reserves	1) PHCD reserves during launching and stabilization. 2) Operating pro forma projects sufficient project revenues to cover ongoing operations, capital needs, and facility maintenance.

C. PROJECT PROPOSAL INFORMATION

1. Please describe the general location of the territory which is the subject of this proposal. Refer to major highways, roads and topographical features.

The facility is located on the northwest corner of Trousdale Drive and Magnolia Avenue in Burlingame. The site is situated west of Highway 101, approximately 1 mile southwest of the BART//Cal Train Hub, 1 mile east down the Trousdale exit off Highway 280, and one block west of El Camino Real.

2. Describe the present land use(s) in the subject territory.

Prior to demolition of the previous building, the parcel was used as general and healthcare related offices.

3. How are adjacent lands used?

North: Dharma Realm Buddhist Association Building
 South: Sutter’s Mills Peninsula Medical Center and Plum Health’s Peninsula Subacute Care Facility
 West: Red Cross immediately to the west, then residential
 East: Commercial/Retail-Burlingame Plaza

4. Will the proposed change of organization result in additional development? If so, how is the subject territory to be developed?

Yes – Assisted living/memory care project construction started in May 2016.

S

5. What is the general plan designation of the subject territory?

Mixed Office and Residential

6. What is the existing zoning designation of the subject territory?

Trousdale West Zoning District (TW), Multi-family, offices including health services.

7. What rezoning, environmental review or development approvals have already been obtained for development in the subject territory?

The project was approved by Burlingame on November 3, 2014 [Exhibit A] and filed with the County on November 13, 2014. [Attached Exhibit B] Please note that both the city approval and the Notice of Determination indicates “132 units”; the revised (value engineered) project is 124-units as stated in this application.

Also obtained from Burlingame was an amendment to Title 25 of the Burlingame Municipal Code (Zoning ordinance) Section 25.40.060 Building Heights, within the Trousdale West Zoning District to allow the project to add a partial 6th floor on the western half of the building going up Trousdale Drive. Trousdale is zoned for a 75-ft height limit and Magnolia only 60 ft. This approval allowed for 17 additional units on the 6th floor. This action was taken on November 3, 2014 and included in content of Exhibit A.

8. What additional approvals will be required to proceed?

LAFCo, Fire Marshall for Occupancy, and State Licensing to Confirm successful completion of requirements to be a Residential Care Facility for the Elderly (RCFE) – application filed in August 2017 and accepted by State.

9. Does any portion of the subject territory contain any of the following --agricultural preserves, sewer or other service moratorium or wetlands subject to the State Lands Commission jurisdiction?

No

10. If no specific development projects are associated with this proposal, will the proposal increase the potential for development of the property? If so, how?

Development of the property is underway.

* * * * *

LAFCo will consider the person signing this application as the proponent of the proposed action(s). Notice and other communications regarding this application (including fee payment) will be directed to the proponent at:

NAME: Peninsula Health Care District

ADDRESS: 1819 Trousdale Drive, Burlingame, 94010 TELEPHONE: 650-697--6900

ATTN: Cheryl A. Fama, CEO


Signature of Proponent

AFFECTED PUBLIC AGENCIES

Please complete this section if this application is submitted by resolution of one or more affected public agencies. Certified copies of resolutions listed be low must accompany this application.

- The names and resolutions of agencies applying for the change of organization or reorganization described above are as follows:

AFFECTED AGENCY	RESOLUTION NO.	DATE ADOPTED
Peninsula Health Care District	2017-03	September 28, 2017

- Does this application have 100% consent of landowners in the affected area?

 X Yes No (If Yes, include proof of consent.)
City Council Minutes from 11/3/14 attached

E. PLAN FOR PROVIDING SERVICES

- Enumerate and describe the services to be extended to the affected territory.

Residents living in one of the 101 assisted living and 23 memory care residential units will receive a range of services determined by their personal needs and requests. All resident units are equipped for monitoring residents through state-of-the art technology sensors in each unit that will transmit resident activity levels to a central care station and mobile staff-held devices for continuous monitoring. All residents will also receive three meals a day, housekeeping and laundry services, doctor appointment scheduling and transportation to appointments. As needed, individuals will receive medication management, assistance with everyday tasks such as grooming, bathing, dressing, eating, and help with mobility to meals and activities. There will also be Ancillary health services available such as direct access to doctors, physical therapy, acupuncture, massage, and aromatherapy; and a broad range of prevention and quality of life services such as an Exercise and Group Fitness Center including classes such as yoga and Tai Chi and Lifelong learning opportunities through lectures, classes, social engagement, art, music and spiritual opportunities.

2. Describe the level and range of those services.

Prior to acceptance for residency, every applicant must have a signed form from their private MD and undergo a detailed interview with the facility nurse. The information gathered will be used to complete a weighted scoring form. From that scoring process, each resident's Level of Care from 1 to 4 will be determined – 1 being most independent and 4 being most dependent. The level and intensity of supportive services to be provided will be determined prior to admission and reassessed periodically. The range of services are detailed in response to question #1 above.

3. Indicate when those services can feasibly be extended to the affected territory.

The facility is currently under construction and anticipated to be ready for occupancy in the spring of 2018.

4. Indicate any improvements or upgrading of structures, roads, sewer or water facilities, or other conditions to be imposed or required within the affected territory.

The improvements include a six story post tension cast in place concrete structure with the state of the art technology improvements. The building will have all new utilities such as new sewer systems, water services and code compliant fire sprinkler and fire alarm systems. Reconfiguration of the corner of Magnolia and Trousdale streets will be constructed to help better flow of traffic along with traffic light signal modifications. The structure is currently designed to the latest seismic building code requirements along with new code compliant electrical, mechanical and plumbing systems.

5. Describe financial arrangements for construction and operation of services extended to the affected territory. (Attach proposed operations budget if available) Will the territory be subject to any special taxes, charges or fees? (If so, please specify.)

\$40M in tax-exempt Certificates of Participation was secured through Western Alliance Bank in February 2014. The first round of public works bidding for the project in 2015 came in significantly higher than original estimates. The Board conducted refreshed market demand studies to confirm the need existed and continued to grow; charged the construction team to carry out an aggressive value engineering review to lower total costs and then determined to go forward. An additional \$10M in tax-exempt Certificates of Participation were secured in May 2016 through Western Alliance Bank, and the equity commitment from PHCD reserves increased to a total of \$38M.

A "Source and Use of Funds" summary, prepared by PHCD's financial advisor is provided in Exhibit C.

The relevant sections from the Harvey M. Rose Associates MSR are Exhibit D.

The territory **will not** be subject to any special taxes, charges, or fees.

6. In as much detail as required to give a clear explanation, explain why this proposal is necessary at this time.

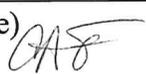
During the preparation for the PHCD Strategic Plan in 2007, the demographic profile of its residents showed that the elderly population would have the greatest rate of growth in the next 25 years with 14% of the 65-plus living alone. Subsequent Lewin Group studies for the County, reports by the County's Aging & Adult Services, two PHCD commissioned studies by Gerontological Service Inc. in 2013 and redone in 2015, and LAFCo's most recent study conducted by Harvey M. Rose Consulting reaffirmed the 2007 projections. All confirm that the growth in the number of residents age 65 and over will be the fastest growing segment of the population served by the PHCD.

The District land to be used for this project is located in the heart of the projected senior growth and ideally located for senior living; I.e.- close to health services, basic retail such as food, pharmacies, cleaners, hair/nail salons, transportation, and located at the base of Trousdale where walking to the various services is on flat, well-lighted sidewalks with traffic controlled pedestrian crossings.

There are also a number of notable healthcare trends that informed the PHCD Board's decision: seniors are more active and independent than prior generations; seniors are living longer (the greatest percentage of growth in San Mateo County will be in the 85 years of age and older); seniors are living with an average of 4 chronic health conditions (E.g. diabetes, Congestive Heart Failure, Chronic Lung disease, etc.); hospital stays are getting shorter due to a combination of the development of technologies and pharmacology and increased acuity criteria reducing 'covered' hospital days by Medicare; one in five 85 year olds will have dementia or Alzheimer's Disease; healthcare services are moving to more community-based care, assisted living companies around the country are experiencing greater supportive health needs by their residents; and, socialization has been identified as the most impactful element to the quality of life in the later years.

Two other key drivers of the PHCD Board's decision were to ensure that any District-owned development project could be funded by PHCD without any additional burden to the tax payer, and the projects operating structure could be sustainable. The assisted living/memory care model includes Below Market Rate units met those criteria.

The financial capacity of the PHCD and the projected financial performance of the assisted living/memory care project was thoroughly reviewed and documented in LAFCo's commissioned 2017 Harvey M. Rose Consulting report; the finding were incorporated into LAFCo's action taken at its September 20th meeting at which the healthcare districts' 2017MSR and Sphere of Influence Reviews and Staff Recommendations were accepted.

This section completed by Cheryl A. Fama PHCD Chief Executive Officer
(Name)  (Title)

Applica_blk.doc
(10/6/2000)

- e. ADOPTION OF AN ORDINANCE AMENDING TITLE 25 OF THE BURLINGAME MUNICIPAL CODE (ZONING ORDINANCE) SECTION 25.040.060 BUILDING HEIGHTS RELATED TO BUILDING HEIGHTS WITHIN THE TROUSDALE WEST (TW) ZONING DISTRICT

CDD Meeker requested Council adopt Ordinance No. 1905.

9. PUBLIC HEARINGS

- a. CONSIDERATION OF APPLICATIONS FOR APPROVAL OF A MITIGATED NEGATIVE DECLARATION, DESIGN REVIEW AND CONDITIONAL USE PERMIT RELATED TO CONSTRUCTION OF A FIVE AND SIX STORY, 132-UNIT ASSISTED LIVING AND MEMORY CARE FACILITY AT 1600 TROUSDALE DRIVE

Councilmember Root recused himself from this item due to the fact that he currently serves on the Mills-Peninsula Health Services Board.

CDD Meeker spoke and advised that all the design refinements to the project requested by Council at the October 20, 2014 meeting were noted in the staff report. Mr. Meeker further advised that the applicant would make a presentation with those refinements.

Cheryl Fama, Chief Executive Officer of the Peninsula Healthcare District spoke and gave some background on the facility and the type of care that will be provided. Ms. Fama also reviewed the public benefits to be derived from the project. Ms. Fama introduced Design Consultant Joel Roos who reviewed the Council's requested design changes. Betsy Donovan of Eskaton reviewed the costs associated with an assisted living facility.

Council comments and questions followed and they requested that the Peninsula Healthcare District continue to be diligent with public outreach.

Mayor Brownrigg opened the public hearing and there were no comments.

Vice Mayor Nagel made a motion to adopt item Resolution No. 96-2014 adding that, while she doesn't question the integrity of the board and staff of the district, it is her personal opinion that the district should ask the taxpayers if they wish to change the district's mission to financing real estate projects.; seconded by Councilmember Keighran. The motion was approved by voice vote, 4-0-1 (Root recused). Vice Mayor Nagel made a motion to adopt item Resolution No. 97-2014, and add the findings of the City Arborist; seconded by Councilmember Keighran. The motion was approved by voice vote, 4-0-1 (Root recused).

10. STAFF REPORTS AND COMMUNICATIONS

- a. CONSIDERATION OF APPOINTMENTS TO THE STORM DRAIN MEASURE OVERSIGHT COMMITTEE

DPW Murtuza advised there are two vacancies on the Storm Drain Measure Oversight Committee due to expired terms. The vacancy was publicized, and notification letters were sent to past Committee applicants. Three applications were received by the deadline of September 30, 2014 and two applicants were interviewed by the full Council on October 27, 2014. The third applicant was not available.

NOTICE OF DETERMINATION

TO: Office of Planning and Research
P.O Box 3044
Sacramento, California 95812-3044

FROM: CITY OF BURLINGAME
Community Development Dept.
Planning Division
501 Primrose Road
Burlingame, CA 94010

FILED
ENDORSED
IN THE OFFICE OF THE
COUNTY CLERK RECORDER OF
SAN MATEO COUNTY CALIF

County Clerk
County of San Mateo
401 County Center, Sixth Floor
Redwood City, California 94063

NOV 13 2014

By MARK CHURCH, County Clerk
VERONICA MADRID
DEPUTY CLERK

SUBJECT: Filing of Notice of Determination in compliance with Section 21152 of the Public Resources Code.

ND-575-P – 1600 Trousdale Drive – New 132-Unit Assisted Living and Memory Care Facility

Project Title

State Clearinghouse Number (If submitted to Clearinghouse)	Contact Person	Area Code/Telephone
	Ruben Hurin	(650) 558-7250

1600 Trousdale Drive, City of Burlingame, San Mateo County

Project Location (include County)

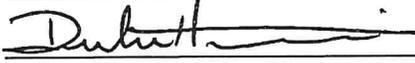
Project Description: The proposal is to construct a new 132-Unit Assisted Living and Memory Care facility on a one-acre lot at 1600 Trousdale Drive, located on the corner of Trousdale Drive and Magnolia Avenue in Burlingame, California. The approximate 150,300 gross square foot building would include a subterranean parking for 44 vehicles and storage area, five full above-grade levels and a partial sixth floor. The proposed project would provide 132 units, consisting of 107 assisted living units and 25 memory care units. The proposed project would also include a lobby, common living and dining rooms, the facility kitchen, learning center, clinic/exam rooms, café, fitness center, lounge and spa rooms and administrative services. Outdoor courtyards and a patio are also proposed. The project would remove an existing single story office building on the PHCD-owned property currently housing PHCD office uses.

A Conditional Use Permit is required for the new 132-unit assisted living and memory care facility (group residential facility for the elderly). Design Review is required for the new assisted living and memory care facility building. A Conditional Use Permit is also required for building height exceeding 35'-0" from average top of curb (69'-11" proposed as measured from Magnolia Avenue and 67'-8" proposed as measured from Trousdale Drive). Lastly, an amendment to the TW Zoning Regulations is required to clarify measurement of building heights on corner properties along Magnolia Avenue, Ogden Drive and Trousdale Drive.

This is to advise that the City of Burlingame, the Lead Agency, has approved the above-described project on November 3, 2014 and has made the following determinations regarding the above described project:

- The project [will will not] have a significant effect on the environment.
- An Environmental Impact Report was prepared for this project pursuant to the provisions of CEQA.
 A Negative Declaration was prepared for this project pursuant to the provisions of CEQA.
The EIR or Negative Declaration and record of project approval may be examined at:
City of Burlingame, Community Development Department, Planning Division, 501 Primrose Road, Burlingame CA 94010.
- Mitigation measures [were were not] made a condition of approval of the project.
- A statement of Overriding Considerations [was was not] adopted for this project.
- Findings [were were not] made pursuant to the provisions of CEQA.

This is to certify that the final EIR or Negative Declaration with comments and responses and record of project approval is available to the General Public at: City of Burlingame, Community Development Department, Planning Division, 501 Primrose Road, Burlingame, CA 94010.


Ruben Hurin, Senior Planner

November 13, 2014

Date

**PENINSULA HEALTH CARE DISTRICT
SOURCES AND USES OF FUNDS - 2014 & 2017 CERTIFICATES OF PARTICIPATION
WAB INVESTMENTS, INC. (WESTERN ALLIANCE)**

SUMMARY USES OF FUNDS:

I.	Construction Costs (includes \$4,245,000 contractor's contingency)	\$ 57,300,000.00	
II.	Soft Costs (architect, engineer, consultants, permits, ff&e, etc.)	8,240,000.00	
III.	Pre-opening costs	800,000.00	
IV.	Owner's Contingency	<u>2,150,000.00</u>	
	Funds Needed to Construct & Equip the Assisted Living Facility (as of 3/11/16)		\$ 68,490,000.00
V.	Capitalized Interest Funded with the 2014 COPs		2,650,000.00
	Capitalized Interest & Financing Costs During Construction		3,709,000.00
VI.	Working Capital & Start Up Expenses		4,000,000.00
VII.	Marketing Costs		<u>1,140,000.00</u>
	Total Needed exclusive of COI		79,989,000.00
VIII.	Costs of Issuance & Administration Fee (2014 COPs)		630,000.00
	Costs of Issuance & Administration Fee (2017 COPs)		<u>200,000.00</u>
	Total Funds Required from 2014 & 2017 Certificate of Participation Proceeds		<u>\$ 80,819,000.00</u>

TOTAL SOURCES OF FUNDS:

2014 Certificate of Participation Proceeds from WAB Investments, Inc.	\$ 40,000,000.00
2017 Certificate of Participation Proceeds from WAB Investments, Inc.	10,000,000.00
Equity Contribution from Peninsula Health Care District	<u>30,819,000.00</u>

Total Sources

\$ 80,819,000.00

TOTAL USES OF FUNDS:

Project Fund Relating to Facility Improvements
Marketing, Working Capital & Capitalized Interest
Costs of Issuance & Adm. Fee (paid to attorneys, FA, Trustee, etc.)

\$ 68,490,000.00
11,499,000.00
830,000.00

Total Uses

\$ 80,819,000.00

**Final Municipal Service Review for
Sequoia Healthcare District and
Peninsula Health Care District**

Prepared for:

San Mateo Local Agency Formation Commission

Harvey M. Rose Associates, LLC

<http://www.harveyrose.com>

May 24, 2017

Table of Contents

Introduction	1
Healthcare Districts in California	3
San Mateo County, LAFCo, and the Healthcare Districts	5
Population Growth and Disadvantaged Communities in San Mateo County	8
Healthcare Services and Needs in San Mateo County.....	13
Sequoia Healthcare District	22
Peninsula Health Care District	37
Municipal Service Review Determinations	52
Addendum: Responses to Comments on the Circulation Draft Report	59

Appendices:

Appendix I: Overview of San Mateo Medical Center and San Mateo County Health Programs in study area (*prepared by LAFCo*)

Appendix II: Government Code Provisions

Appendix III: Disadvantaged Communities in San Mateo County

Appendix IV: Health Professional Shortage Areas

Appendix V: Medically Underserved Areas and Populations

Appendix VI: Poverty and Age by MSSA

Appendix VII: Community Health Needs Assessment

Appendix VIII: Sequoia Healthcare District Programs and Grants

Appendix IX: Peninsula Health Care District Programs and Grants

Appendix X: District Websites

The District's Assisted Living and Memory Care Project

The District's Assisted Living and Memory Care project on District-owned property at 1600 Trousdale Drive²² is under construction with a completion date in 2018. According to the District's website, the completed Assisted Living and Memory Care facility will be operated by the non-profit provider Eskaton through a contract with the district.

The District set up the Peninsula Health Care Development Corporation as a non-profit corporation to develop the senior assisted living and memory care project, and established a separate fund to account for project costs. After further evaluation, the Board decided to rebid the project through the District's Public Works Bidding process. The District also set up the Peninsula Health Care District Financing Corporation in FY 2013-14 to finance the construction of the senior assisted living and memory care project.

Project costs of \$80.8 million are funded by District equity contributions of \$30.8 million and debt issuance of \$50 million. The District issued \$40 million in Certificates of Participation (COPS) in 2014 to finance the project with the

²² 1600 Trousdale Drive was used as District offices, which were moved to 1819 Trousdale Drive, purchased by the District in FY 2014-15 for \$2.1 million, in order to make 1600 Trousdale Drive available for the projects.

intention to issue an additional \$10 million in debt in 2017. Project financing and costs are shown in Figure 23 below.

Figure 23: Financing and Costs of Senior Assisted Living and Memory Care Project

	Total Sources	2015 and Prior	2016	2017	2018
Sources					
2014 Loan	\$40,000,000	\$40,000,000			
2017 Loan	10,000,000			10,000,000	
Equity	30,821,000	3,000,000	3,000,000	13,500,000	11,321,000
Total Sources	\$80,821,000	\$43,000,000	\$3,000,000	\$23,500,000	\$11,321,000
Uses					
<u>Project Costs</u>					
Construction	\$57,300,000			\$40,000,000	\$17,300,000
Soft Costs	8,240,000	3,860,000	2,500,000	880,000	1,000,000
Marketing	1,140,000	200,000	400,000	400,000	140,000
Pre-operating	800,000				800,000
Operating	4,000,000				4,000,000
Contingencies	2,150,000		250,000	1,000,000	900,000
Subtotal Project Costs	\$73,630,000	\$4,060,000	\$3,150,000	\$42,280,000	\$24,140,000
<u>Loan Costs</u>					
<i>Loan Financing Costs</i>					
2014 Loan	\$630,000	\$630,000			
2017 Loan	200,000				200,000
<i>Loan Interest Payments</i>					
2014 Interest	2,650,000	950,000	1,570,000	130,000	0
2017 Interest	117,000	0	0	0	117,000
Principal/Interest	3,594,000	0	0	2,080,000	1,514,000
Subtotal Loan Costs	\$7,191,000	\$1,580,000	\$1,570,000	\$2,210,000	\$1,831,000
Total Uses	\$80,821,000	\$5,640,000	\$4,720,000	\$44,490,000	\$25,971,000

Source: Hendrickson Consulting Financial Forecast, March 14, 2016

When the project was planned in 2013, the estimated project cost was \$55.5 million, which increased by \$25.3 million to \$80.8 million in 2017. The increase in project costs is to be funded by (a) an increase in the District's equity contribution by \$15.3 million, from \$15.5 million to \$30.8 million; and (b) an increase in total debt by \$10 million, from \$40 million to \$50 million.

The project will consist of 124 residential units for senior assisted living and memory care. The financial projections for the project are based on most units being rented at market rate. Rent subsidies for affordable units equal

approximately one percent of total market rate rents under the financial projections.²³ The project's financial projections are shown in Figure 24 below.

Figure 24: Projected Cash Flow for Senior Assisted Living and Memory Care Project 2018 to 2022

	2018	2019	2020	2021	2022
Revenues	\$2,900,000	\$7,970,000	\$10,808,000	\$12,704,000	\$13,085,000
Expenses	(3,633,000)	(6,357,000)	(7,341,000)	(8,414,000)	(8,666,000)
Net Revenues	(\$733,000)	\$1,613,000	\$3,467,000	\$4,290,000	\$4,419,000
Capital Expenditures	\$0	(\$80,000)	(\$108,000)	(\$127,000)	(\$131,000)
Debt Service	(1,145,000)	(2,894,000)	(3,184,000)	(3,186,000)	(3,192,000)
Operating Deficit ^a	2,500,000	1,500,000			
Net	\$1,355,000	(\$1,474,000)	(\$3,292,000)	(\$3,313,000)	(\$3,323,000)
NET CASH FLOW	622,000	139,000	175,000	977,000	1,096,000

Source: Hendrickson Consulting Financial Forecast, March 14, 2016

^a The pro forma projections assume a \$4 million operating subsidy in the first two years, funded from the \$80.8 million capital budget (this funding is listed in Figure 23 above as "Project Costs, Operating").

The projections in Figure 24 above are based on 92 percent occupancy of the residential units. If occupancy falls below 92 percent or operating expenses are higher than projected, the senior assisted living and memory care project may have reduced or even negative net cash flow. According to management's discussion in the audited financial statement for the year ending June 30, 2016:

"2015 and 2016 demographic studies of the local senior market reaffirm the rapid aging of this area and the current and future demand for supportive housing such as assisted living. As a result, three senior for-profit housing companies have entered the market and opened facilities [Sunrise, Atria, and Kensington]. This could slow occupancy for the District's facility and prolong the financial stabilization. To recognize this challenge, the pro forma and financial projections were revised before the decision to go forward was determined."

Sunrise opened a 97-bed assisted living facility in 2015, one block from the District's new facility at 1600 Trousdale Drive.²⁴

²³ The projected subsidy is calculated at \$750 per month for ten units. This subsidy of \$750 per month would still result in per unit costs to the resident of more than \$5,000 per month or \$60,000 per year based on the information in the March 2016 Financial Forecast by Hendrickson Consulting.