

FINANCIAL GUIDELINES & COMPARATIVE DATA

FOR THE OPERATION of VERMONT ASSISTED LIVING RESIDENCES

Developed for:

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INTRODUCTION

This report provides guidelines and comparative data for operating projections developed for Vermont-based assisted living residences (ALRs). The guidelines included in the report are designed to provide one approach to the operation of ALRs, with the realization that there are many other approaches that may be equally as effective. As part of the report, three scenario analyses are presented to provide hypothetical revenue and expense projections for 18-, 28-, and 40-unit residences.

To facilitate the preparation of the scenario analyses, selected financial data was obtained from the assisted living residences that are currently operating in Vermont. All six of these properties provided unit mix and private-pay rate information. Five of the ALRs also provided wage information for selected positions and cost data for expenses that tend to vary by geographic area. This information is provided in a summary format so as not to disclose potentially proprietary information about specific residences.

National assisted living operating information obtained from two large-scale surveys, “The State of Seniors Housing 2006¹” and the “2006 Assisted Living Overview”², is also included in this report. The Vermont-specific data and the projections developed for the scenario analyses are compared to this information to provide a broader context and point of comparison for the more detailed guidelines and projections.

¹ The “State of Seniors Housing 2006” was developed by the American Seniors Housing Association (ASHA), the National Investment Center for the Seniors Housing and Care Industry (NIC), PricewaterhouseCoopers, and the American Association of Homes and Services for the Aging (AAHSA) in 2006.

² “The 2006 Overview of Assisted Living” was produced by ASHA, AAHSA, NIC, the Assisted Living Federation of America (ALFA), and the National Center for Assisted Living (NCAL) in 2006.

REVENUE PROJECTIONS

The amount of revenue that may be generated by an assisted living residence is impacted by a number of different factors. The unit mix of the residence, the private-pay rate structure, the percentage of private-pay versus Medicaid residents, the level of care breakdown for both Medicaid and private-pay residents, and the occupancy rate achieved by the residence can all potentially affect the profitability and financial viability of a residence.

Unit Composition. The unit mix of a residence can have an impact both on the occupancy rates that may be achieved and on the revenue that is generated by the residence. Overall, national trends in the assisted living industry have been toward larger units with an increasing number of one-bedroom (and in some residences, two-bedroom) units. Following is a summary of the unit composition of the assisted living residences (ALRs) currently operating in Vermont:

Table 1 - Unit Composition For Vermont Assisted Living Residences*							
	Vernon Home	Valley Terrace	Woodstock Terrace	Meadows at East Mountain	Cathedral Square	Village at Cedar Hill	Average
Studio / Room	87%	15%	15%	100%	0%	0%	36%
One-Bedroom	13%	85%	79%	0%	100%	90%	61%
Two-Bedroom	0%	0%	6%	0%	0%	10%	3%
* Excluding dedicated memory-care units.							

As may be seen from these figures, there is a wide variation in the unit mix at different residences. When compared to national data, Vermont ALRs have a slightly higher percentage of one-bedroom units than is seen nationally, as reported in “The 2006 Overview of Assisted Living”³. This study found that of all of the assisted living

³ “The 2006 Overview of Assisted Living”, page 22.

properties surveyed, 45% of the units were of a studio design, 46% were one-bedroom units, 5.3% were two-bedroom units and 3.3% were of an “other” design (this data also does not include dementia-specific units).

The average unit composition of Vermont ALRs, as shown in Table 1, forms the basis for the unit mix included in the scenario analyses located in Appendix B.

Private-Pay Rates. The current private-pay rates for all of the assisted living residences currently operating in Vermont are presented in Tables 2 through 5 below:

Table 2 - Studio Unit Rates At Vermont Assisted Living Residences (as of 7/07)							
Level of Care:	Vernon Home	Valley Terrace	Woodstock Terrace	Meadows at East Mountain	Cathedral Square	Village at Cedar Hill	Average
Basic	2,160	4,550	4,550	3,863	n/a	n/a	3,781
Tier 1	3,529	5,000	5,000	5,202	n/a	n/a	4,683
Tier 2	3,985	5,450	5,450	5,536	n/a	n/a	5,105
Tier 3	n/a	5,900	5,900	6,419	n/a	n/a	6,073
*The Meadows offer rooms, not apartments.							

Table 3 - One-Bedroom Unit Rates At Vermont Assisted Living Residences							
Level of Care:	Vernon Home	Valley Terrace	Woodstock Terrace	Meadows at East Mountain	Cathedral Square	Village at Cedar Hill	Average
Basic	2,210	5,300	5,500	n/a	2,103	3,840	3,790
Tier 1	3,579	5,750	5,950	n/a	3,453	4,296	4,606
Tier 2	4,035	6,200	6,400	n/a	3,753	4,904	5,058
Tier 3	n/a	6,650	6,850	n/a	n/a	5,361	6,287

Table 4 - Two-Bedroom Unit Rates At Vermont Assisted Living Residences							
Level of Care:	Vernon Home	Valley Terrace	Woodstock Terrace	Meadows at East Mountain	Cathedral Square	Village at Cedar Hill	Average
Basic	n/a	n/a	n/a	n/a	n/a	4,915	4,915
Tier 1	n/a	n/a	n/a	n/a	n/a	5,371	5,371
Tier 2	n/a	n/a	n/a	n/a	n/a	5,979	5,979
Tier 3	n/a	n/a	n/a	n/a	n/a	6,436	6,436

Table 5 - Memory-Care Rates At Vermont Assisted Living Residences							
Level of Care:	Vernon Home	Valley Terrace	Woodstock Terrace	Meadows at East Mountain	Cathedral Square	Village at Cedar Hill	Average
Basic	n/a	6,300	6,300	5,536	n/a	n/a	6,045
Tier 1	n/a	6,750	6,750	n/a	n/a	n/a	6,750
Tier 2	n/a	7,200	7,200	n/a	n/a	n/a	7,200
Tier 3	n/a	7,650	7,650	n/a	n/a	n/a	7,650

As can be seen from the information in these tables, there is significant variation in rates between the various properties. For example, a studio unit at a basic level of care ranges from \$2,160 at the Vernon Home to \$4,550 at Valley Terrace and Woodstock Terrace. Similarly, one-bedroom units at a basic level of care range from \$2,210 at the Vernon Home to \$5,500 at Woodstock Terrace.

The rates charged at these assisted living residences are higher on average than those seen nationally, according to information reported in “The 2006 Overview of Assisted Living”⁴ and shown in Table 6 below:

⁴ “The 2006 Overview of Assisted Living”, page 22.

Table 6 - Average Monthly Rates For Assisted Living Residences				
	<u>Vt. Average Basic Rate</u>	<u>National Averages*</u>		
		<u>Lower quartile</u>	<u>Median</u>	<u>Upper Quartile</u>
Studio Units	\$3,781	\$2,120	\$2,625	\$3,271
One-Bedroom Units	\$3,790	\$2,311	\$2,891	\$3,644
Two-Bedroom Units	\$4,915	\$2,430	\$3,253	\$4,200

*According to the “2006 Overview of Assisted Living”, based on the rates for non-dementia care AL, increased by 5% so as to be comparable to the current (2007) Vermont rates.

The private-pay rates proposed for an assisted living residence should be based on the demographic composition of the market area in which the residence will be located, the rates charged at any currently operating ALRs or residential care homes in the area, and the mission of the residence’s sponsor.

Medicaid Rates. Vermont has two programs that can provide Medicaid assistance to residents of assisted living residences. To be eligible for Medicaid assistance for Enhanced Residential Care (ERC) through the Choices for Care program, individuals must be assessed at a nursing-home level of care. Assistance for individuals who have personal care needs but do not meet nursing home eligibility criteria is available through the Assistive Community Care Services (ACCS) program. Individuals must meet financial eligibility criteria to receive Medicaid assistance through either of these programs.

Three different ERC payment rates are available through the Choices for Care program, depending on the tier at which the individual is assessed, while payment for ACCS residents is based on a flat daily rate. In addition to receiving ERC or ACCS service payments, assisted living providers also receive monthly room and board payment for Medicaid residents. These payments are paid to providers directly by residents (or their family members / responsible parties). A summary of these rates is presented in Table 7 below:

Table 7 - 2007 Medicaid Payment Rates* For Vermont Assisted Living Residences				
	<u>Daily Rate</u>	<u>Est. Monthly Calculation</u>	<u>Est. Room & Board Payment**</u>	<u>Total Est. Monthly Payment</u>
ACCS	\$33.25	\$1,011	\$623	\$1,634
ERC Tier 1	\$52.00	\$1,582	\$623	\$2,205
ERC Tier 2	\$58.50	\$1,780	\$623	\$2,403
ERC Tier 3	\$65.00	\$1,977	\$623	\$2,600
* For current Medicaid rate information, contact DAIL at 802-241-1228. ** Allowable room and board payments vary slightly based on income.				

Payor Mix. The percentage of private-pay versus Medicaid residents for a proposed residence should be based on the estimated number of households in the market area at various income levels who would be appropriate for assisted living. The mission of the residence’s sponsor and the financial viability of the residence with varying levels of Medicaid funding should also be considered. The scenario analyses show 25% Medicaid residents for each of the 18, 28, and 40-unit hypothetical residences.

Level of Care Breakdown. The level of care breakdown for private-pay residents should be based on the desire of the residence’s sponsor to support an aging-in-place environment and on the prior operating experience of the firm planning to provide day-to-day management of the residence. The private-pay level of care breakdown shown in the scenario analyses assumes that 25% of all residents are at a Basic level of care, 40% of residents are at Tier 1, 30% are at Tier 2, and 5% are at Tier 3.

The percentage of Medicaid residents at the various tiers should be based on the findings of the market study conducted for the residence. That is, the study should ideally provide an estimate of the number of households that would meet the income and need criteria for the various tiers available through the Choices for Care and/or ACCS programs in the market area for the proposed residence. These projections should also reflect the State’s current guidelines for funding residents at Tier 1 (at this time Tier 1 residents residing in another location may be admitted to an ALR; however funding for new clients at the Tier 1 level of care is not currently available – if accepted into an ALR, the provider would

need to accept the ACCS payment rate). The scenario analyses show 20% of Medicaid residents at Tier 1, 55% at Tier 2, and 25% at Tier 3. No residents are shown at the ACCS level of care due to the lower reimbursement rate available for this level of care.

Vacancy Factor. A 7.0% vacancy rate was used in the scenario analyses for all three sized residences. Vacancy rates were not obtained for Vermont ALRs, but occupancy data is available from the national studies. This information is summarized in the following table:

Table 8 - Occupancy Rates For Assisted Living Residences						
		<i>National Survey Data</i>				
	<i>Scenario</i>	<i>Lower</i>	<i>Lower</i>		<i>Upper</i>	<i>Upper</i>
	<i>Analyses</i>	<i>Decile</i>	<i>Quartile</i>	<i>Median</i>	<i>Quartile</i>	<i>Decile</i>
From the "State of Seniors Housing 2006", p. 32*	93.0%	78.9%	87.5%	91.4%	94.7%	100.0%
From the "2006 Overview of AL, p. 23"	n/a	n/a	85.0%	94.7%	100.0%	n/a
* Based on AL properties with < 41 beds						

Based on this information, the vacancy factor of 7.0% used in the scenario analyses appears reasonable. A more conservative factor might be appropriate for residences located in extremely competitive markets or in locations where the demand for assisted living may be limited.

PERSONNEL COSTS

A variety of staffing patterns may be utilized in assisted living residences, depending on the size of the residences, the target population served, the level of care provided, and the experience and preferences of the operator. These variations can result in residence-to-residence differences in the number of FTEs utilized for each position, by department, and/or for the property as a whole.

Rule-of-thumb guidelines for staffing ALRs are provided in Appendix A. These guidelines, which take into account the Vermont Assisted Living Residence regulations, represent one approach to staffing ALRs, with suggested staffing patterns provided for different sized buildings. For some positions, the number of full-time employees (FTEs) suggested increases in direct proportion to the number of units, whereas for other positions the suggested number of FTEs increases incrementally as the size of the residence increases. The staffing guidelines in Appendix A form the basis for the FTE calculations shown in the scenario-based analysis provided in Appendix B.

To provide a larger context for the suggested staffing guidelines, the number of FTEs for each department shown in the scenario analyses is compared to the number of FTEs reported in the national surveys. The combination of the staffing guidelines and the national data will hopefully provide a point of comparison from which the staffing levels at proposed ALRs may be evaluated.

Suggested Staffing Guidelines:

Following is a summary of the positions most frequently utilized in assisted living residences, along with any Vermont-specific staffing requirements and suggestions for determining the number of FTEs that might be needed.

Administrator / Manager. Vermont requires assisted living residences to employ a manager or administrator to work in the facility an average of 32 hours per week, including any time worked providing care or services and any vacation or sick time. Typically, a full-time administrator / manager will be utilized regardless of the size of the

residence, although the salary paid for this position is typically less at smaller facilities. In the scenario analyses, 1.0 FTE is included for this position for all three sized buildings, with the estimated wage ranging from \$50,000 for 18 units to \$72,800 for 40 units, based on the wage information obtained from the ALRs in Vermont.

Assistant Administrator. The position of assistant administrator may be used in larger assisted living residences, with smaller facilities typically not having a need for this position. When this position is utilized, some of the duties that would otherwise be performed by the administrator are typically delegated to the assistant administrator. This position is not included in the scenario analyses.

Marketing. Marketing is an integral part of any assisted living residence, with dedicated marketing personnel utilized in larger residences. However, in smaller buildings marketing activities are typically performed by the administrator (and/or other personnel as designated by the administrator). Therefore, no marketing FTEs are included in the 18-, 28- or 40-unit residence scenarios. Suggested FTEs for dedicated marketing personnel for larger buildings are included in the staffing guidelines.

Receptionist / Administrative Support. In larger assisted living residences, a receptionist / administrative support person is typically used to answer the phone, greet visitors, and perform clerical duties. Smaller residences, however, usually cannot support this position, with these tasks instead completed by personnel in other positions. The estimated number of hours per week suggested in the staffing guidelines for a receptionist / administrative support position increases incrementally with the size of the building. That is, no FTEs are included in the 18-unit scenario, 0.5 FTEs are shown in the 28-unit scenario, and 0.75 FTEs are projected for the 40-unit residence. Buildings over about 70 units typically have a receptionist working approximately ten hours per day due to the volume of phone calls and visitors that tend to occur in larger buildings.

Activity Director. Activity directors are responsible for planning and implementing social and recreational activities for residents. In small facilities, these functions may be performed at least in part by personal care assistants, whereas larger facilities usually have dedicated activity director positions. Economies of scale are typically realized in

larger buildings as many activities take the same time to plan and implement regardless of the number of residents attending. The scenario analyses include 0.5 FTEs for 18 units, 0.7 FTEs for 28 units, and a full-time activity director for 40 units.

Vehicle Driver. Vermont regulations require assisted living residences to provide transportation for residents up to 20 miles, round-trip without charge, not to exceed four roundtrips per month. Larger buildings generally have facility vehicles with dedicated drivers. Smaller buildings, on the other hand, often transport residents in personal vehicles and/or utilize community-based transportation options. Smaller buildings typically do not have dedicated drivers, with these tasks performed instead by employees in other positions such as the activity director or personal care assistants. The availability of a vehicle driver at a residence generally increases with the size of the building. A provision for a driver is included in all three scenario analyses, with six hours per week allocated for 18 units, 10 hours per week budgeted for 28 units, and 12 hours per week included in the 40-unit scenario.

Registered Nurse. Vermont regulations require RNs in assisted living residences to oversee the implementation of service plans, conduct nursing assessments, and provide health services. Vermont's nurse delegation act permits RNs to delegate specified nursing tasks to unlicensed staff, with the RN providing training, supervision and oversight. The use of nurse delegation allows assisted living residences to provide a higher level of care more efficiently and at a decreased cost than if nurse delegation was not allowed.

The number of nursing hours needed depends on the size of the residence and the level of acuity in the building. For facilities using nurse delegation, an estimate of .75 to .80 hours of nursing time per resident per week is generally sufficient. The number of FTEs suggested in the scenario analyses is based on .80 nursing hours per resident per week.

Nurse On-Call. Nurses in assisted living facilities are typically required to be on-call should staff have questions regarding resident care. An additional fee may be paid to the nurse as compensation for on-call time, as is seen in the scenario analyses, or on-call time may be included in the hours budgeted for the RN.

Personal Care Assistants. Vermont regulations require ALRs to employ sufficient staff to meet the needs of each resident, with at least one personal care assistant on duty at all times. The number of personal care assistants that may be needed in a residence will vary depending on the number of residents and on the level of care provided. However, between 1.50 to 1.70 personal care assistant hours per day per resident is a rough guideline that may be used to estimate the number of FTEs needed in this position. A factor of 1.70 personal care assistant hours per resident per day is used in the three scenario analyses, reflective of the higher level of care that may be provided in Vermont assisted living residences. Smaller buildings may require an increased number of personal care assistants to ensure adequate staffing 24 hours per day. Persons in this position often serve as universal workers, in that they may perform a variety of tasks including some laundry, housekeeping, and meal preparation / service functions as needed.

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.

Lead Cook / Food Services Director. In most assisted living residences, a lead cook / food services director oversees 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.). Typically, the person in this position also performs meal preparation and service tasks. A full-time employee is usually allocated in this

position, although in smaller buildings the wage for the position would usually be more comparable to a cook's wage. All three scenario analyses include 1.0 FTEs as a lead cook / food services director.

Cooks. Depending on the size of the residence, one or more cooks are usually required in addition to the lead cook / food service director, although in buildings with fewer than approximately 18 units, some meals may be prepared by personal care assistants. In such a case, the cook would generally perform the majority of the meal preparation tasks, with the personal care assistants finishing and serving the meal.

The guidelines for food service staff included in Appendix A assume that in buildings with between 20 and 60 units all three meals per day are prepared by one cook during a 10-hour shift, supplemented as needed by dietary aides. Facilities with 60 or more units are assumed to utilize two 8-hour cooking shifts per day. The scenario analyses assume no cook hours (aside from the lead cook) for 18 units.

Dietary Aides. Dietary aides may be utilized in assisted living residences to assist the cooking staff with meal preparation, dish washing, dining room set-up, meal service, and kitchen cleaning tasks. The hours needed for this position usually vary depending on the size of the building and the number of cook hours budgeted, as may be seen from the guidelines provided in Appendix A. The scenario analyses assume no dietary aides for the 18-unit residence, with just over two hours per day budgeted for 28-units (typically to clean up after the evening meal), and approximately six hours per day allocated for 40 units.

Servers. Many assisted living residences utilize personal care assistants, supplemented by dietary aides as available, to provide meal service. However, residences that target upper-income residents often have dedicated servers in order to provide a dining experience more similar to that found in restaurants. Therefore, the number of serving staff (if any) utilized in a residence typically depends both on the clientele served and on the size of the residence. All three scenario analyses assume no dedicated servers.

Housekeepers. In very small facilities, universal workers may be responsible for the routine cleaning of resident units and common areas. Most assisted living residences, however, utilize dedicated housekeepers to clean resident apartments. The number of hours required for this position usually depends on the number and size of the units in the residence, with between 0.8 to 1.0 hours per unit per week suggested in the staffing guidelines in Appendix A. Common area housekeeping tasks can generally be completed by personal care assistants on the night shift.

Dedicated laundry personnel are not utilized in most assisted living facilities. Typically, housekeeping staff change the linen in resident units and transport residents' laundry to the laundry room, with the laundry completed by personal care assistants during the evening and night shifts.

Maintenance. A rule-of-thumb that may be used to budget maintenance personnel for assisted living residences is 0.5 hours per week per unit, as is shown in the guidelines in Appendix A. Smaller facilities may require slightly more hours per week, as the small scale of these homes usually don't provide the economies of scale available in larger facilities. Older buildings and/or buildings that have not been well maintained may also require additional maintenance time.

Other. Some facilities have special needs that require additional staffing not included in the positions outlined above. For example, a residence located in a high-crime area or an urban setting might employ security personnel, while a facility that serves only hearing-impaired residents might require the services of a translator.

Comparative Staffing Data:

The FTEs included in the sample analyses for 18-, 28-, and 40-unit residences are compared in Table 9 (below) to data obtained from the two national surveys mentioned previously in this report. Because the two reports utilized different survey samples, the results are slightly different but provide a general perspective and point of comparison for the staffing patterns typically used in assisted living facilities. To facilitate ease of comparison to national data, the FTEs shown in the scenario analyses were converted to per-resident figures (based on the total number of FTEs for each department divided by

the projected number of residents for each scenario at the projected occupancy rate).
 This data is summarized in the following table:

Table 9 - Full-Time Employees (FTEs) by Resident For Assisted Living Residence Departments*											
	<i>From the</i>				<i>2006 State of Seniors Housing**</i>				<i>2006 Overview of AL**</i>		
	<i>Scenario Analyses</i>				<i>Lower</i>		<i>Upper</i>		<i>Lower</i>		<i>Upper</i>
<u>Department</u>	<u>18</u>	<u>28</u>	<u>40</u>		<u>Quartile</u>	<u>Median</u>	<u>Quartile</u>		<u>Quartile</u>	<u>Median</u>	<u>Quartile</u>
Administrative	0.06	0.06	0.04		0.02	0.04	0.05		0.03	0.05	0.07
Dietary	0.06	0.08	0.07		0.06	0.09	0.13		0.05	0.08	0.11
Housekeeping	0.03	0.03	0.03		0.02	0.03	0.05		0.03	0.04	0.06
Maintenance	0.01	0.01	0.01		0.01	0.01	0.02		0.01	0.02	0.03
AL Labor	0.33	0.32	0.32		0.23	0.32	0.38		0.19	0.28	0.39
Nursing Labor	0.02	0.02	0.02		0.02	0.06	0.23		0.02	0.04	0.07
Marketing	0.00	0.00	0.00		0.01	0.02	0.02		0.01	0.02	0.03
Other Depts	<u>0.04</u>	<u>0.04</u>	<u>0.03</u>		<u>0.01</u>	<u>0.02</u>	<u>0.05</u>		<u>0.02</u>	<u>0.03</u>	<u>0.05</u>
Total	0.56	0.55	0.53		0.43	0.52	0.68		0.37	0.54	0.79
* For non-dementia specific assisted living residences ** Because each line item from the national surveys was derived from separately sorted rows, the total number of FTEs in a column may not equal the sum of the FTEs for that column.											

As can be seen from this table, the suggested FTEs for the scenario analyses fall for the most part around the median of the data obtained from the national reports. Following are several observations regarding these comparisons:

- The administrative FTEs for the 18- and 28-units scenarios are slightly higher than the median for the national data, likely because of the lack of economies of scale that is inherent with smaller buildings.
- The dietary FTEs shown in the scenario analyses are on the low end of the spectrum for the national data. These analyses are based on 10-hour cook days, with one cook preparing three meals a day instead of having two cooks scheduled each day. When allowed by state labor law (as is the case in Vermont), the 10-hour cook day can

result in a more efficient kitchen operation without impacting on the quality of the meals. Use of this staffing pattern can result in a lower number of FTEs.

In addition, the scenarios presented assume that meals are served by personal care assistants and dietary aides (as available based on the size of the residence). Some facilities (and most higher-end properties) utilize dedicated servers in the dining room, which would result in a higher number of FTEs per resident for the dietary department than is shown in the scenario analyses.

- The number of FTEs allocated to housekeeping in the scenario analyses is on the lower end of the data reported in the “2006 Overview of Assisted Living” (although this number is the same as the median from the “State of Seniors Housing 2006” data). The assumptions on which the scenarios are based assume that the night-shift personal care assistants perform common-area housecleaning tasks and laundry-related tasks. This staffing pattern results in fewer housekeeping FTEs than are utilized in properties with dedicated housekeeping staff cleaning the common areas and performing laundry duties.
- The “assisted living labor” FTEs (i.e. personal care assistants) for the scenario analyses is comparable to the median from the “State of Seniors Housing 2006” report and slightly higher than the median from the “2006 Overview of AL” report.
- The FTEs allocated to nursing in the scenario analyses are at the lower end of the spectrum for the national surveys. This may be because Vermont’s nurse practice act allows RNs to delegate assistance with medications and nursing tasks to unlicensed staff, whereas in many states licensed nurses are required to perform these functions. The use of nurse delegation significantly reduces the amount of time that a licensed nurse must be on-site at a facility.
- No FTEs are allocated for marketing in the scenario analyses. As was stated earlier, in smaller buildings marketing duties are typically performed by the administrator or

other designated staff members. Because the survey samples are comprised of a variety of property sizes, the number of FTEs dedicated to marketing would thus be expected to be greater for the national samples.

- The FTEs allocated to “Other Departments” is slightly higher on average for the scenario analyses than the median numbers reported for the national surveys. This may reflect the lack of economies of scale realized in smaller buildings for positions such as activity directors and vehicle drivers.

The total number of FTEs allocated for the three scenarios is slightly higher than the median number of FTEs reported in the “State of Seniors Housing” report and is about comparable to the median number reported in the “2006 AL Overview”.

Benefit Allocations:

The amount allocated to payroll taxes and benefits in the three scenarios is based on 35% of the total labor costs, and is intended to include payroll taxes, workers compensation insurance, health insurance, 401-Ks or other retirement funds, vacation and sick time, holiday pay, and overtime. Applying this percentage to the labor costs for the scenarios results in a significantly lower amount spent on benefits per resident than is reported in the “State of the Seniors Housing 2006” report. That is, this report shows the median amount spent on employee benefits per FTE in assisted living facilities to be \$2,557 annually, or \$213 per FTE per month, as compared to the over \$700 per FTE per month allocated in the scenario analyses. This comparison is shown in the following table:

Table 10						
Payroll Taxes and Employee Benefits						
	<u>Scenario Analyses</u>				<u>From a National Survey*</u>	
	<u>18</u>	<u>28</u>	<u>40</u>		<u>Lower Quartile</u>	<u>Upper Quartile</u>
Benefits Per FTE	\$793	\$768	\$768		\$145	\$309
**The State of Seniors Housing 2006”, page 44.						

The significant variation in the amount allocated to employee benefits may be due to a difference in the items included in this expense category. That is, as stated above, the allocation included in the scenario analyses is intended to include items such as payroll taxes, workers compensation, replacement staff for vacation time, holiday pay, sick pay, and overtime pay, in addition to benefits such as health insurance or retirement funding. Many companies include these calculations in the actual labor costs (i.e. as FTEs) instead of as part of the taxes and benefits allocation. If this were to account for this difference in the amount expended on benefits, the FTE projections for the scenario analyses would be higher than is currently shown relative to the FTEs reported in the national surveys.

Salaries and Wages:

The wages on which personnel projections are based can make a significant difference in projected labor costs. Wages for specific residences should be based on wage surveys conducted for the area in which the residence is located, and may vary significantly between residences.

The wages utilized in the scenario analyses were based on the average or median wages reported for selected positions by the five Vermont assisted living residences that provided information for this report. Following is a summary of these wages:

Table 11				
Wages for Vermont Assisted Living Residences*				
<u>Position:</u>	<u>Average</u>	<u>Median</u>	<u>Minimum</u>	<u>Maximum</u>
Administrator	\$ 31.43	\$ 35.00	\$ 18.54	\$ 41.66
Bookkeeper/Admin Asst.	\$ 15.12	\$ 16.00	\$ 10.33	\$ 18.14
LPN	\$ 19.50	\$ 19.50	\$ 19.50	\$ 19.50
RN	\$ 24.82	\$ 24.00	\$ 21.12	\$ 28.00
Food Service Director	\$ 18.08	\$ 19.00	\$ 16.25	\$ 19.00
Cook	\$ 12.23	\$ 12.00	\$ 9.50	\$ 14.00
Personal Care Assistant	\$ 10.39	\$ 10.50	\$ 8.75	\$ 12.80
Maintenance	\$ 15.71	\$ 15.06	\$ 15.00	\$ 17.70
Housekeeper	\$ 9.76	\$ 10.00	\$ 7.26	\$ 11.77
* Per information obtained from five of Vermont's six operating ALRs.				

This data is included to show how the wages used in the scenario analyses were determined. The wages included in the projections for actual proposed residences should be based on current wage surveys specific to the geographic areas in which the residences will be located.

NON-LABOR RELATED EXPENSES

The scenario analyses included in Appendix B of this report provide cost estimates by line item for the non-labor related expenses typically incurred by assisted living residences. Different providers often have unique classification systems for non-labor related expenses. Therefore, the line items included in the scenario analyses provide just one example of how these expenses may be delineated. The dollar amounts associated with many of the detailed line items are not significant. However, some individual costs do comprise a significant proportion of a property's total operating expenses, and thus should be more carefully evaluated. These costs typically include raw food, utilities, and property and liability insurance. Other costs, such as maintenance-related expenses, can often be evaluated more easily by department than by individual line item.

Some expenses often vary significantly by geographic area. Actual operating data for these expenses was obtained from the five Vermont ALRs that provided information for this report. Following is a summary of these costs:

Table 12				
Selected Per-Unit, Per-Month Costs				
For Vermont Assisted Living Residences*				
	<i>Minimum</i>	<i>Median</i>	<i>Mean</i>	<i>Maximum</i>
Electricity	\$ 57.18	\$ 68.97	\$ 70.79	\$ 95.24
Water and Sewer	14.10	27.30	29.47	47.62
Natural Gas and Fuel Oil	57.47	70.00	77.38	119.05
Garbage Disposal	5.79	6.67	9.20	15.80
Telephone	6.29	11.60	12.09	19.05
Cable/Satellite Television	0.00	5.83	5.33	14.76
Property and Liability Ins.	26.67	55.14	64.52	107.76
Electricity, Water/Sewer, & Natural Gas/Fuel Oil	124.36	134.17	148.71	214.29
*As per information provided by five of the six ALRs operating in Vermont				

As is true with the national surveys, the data for each line item in this table was sorted separately and thus cannot be added by column. Therefore, Table 12 includes the minimum, median, mean and maximum values by both line item and by the sum of the costs for electricity, water/sewer and natural gas/fuel oil.

As can be seen from the data in Table 12, there is wide variation in some of the expense categories. For this reason, it is important that proposed residences carefully research those costs that can vary by geographic area. Local electric, gas, fuel oil, and water/sewer companies will often provide estimates of costs for a proposed residence, based on the number of units planned and selected design features. If needed, historical usage estimates can often be obtained from operating facilities of a similar design and size. The utility companies can then provide cost estimates based on that usage. Similar estimates can also generally be obtained for cable television service. Finally, proposed residences should obtain residence-specific property and liability insurance estimates from agents who serve the assisted living industry.

The expense estimates utilized in the scenario analyses are compared to departmental expense data obtained from “The State of Seniors Housing 2006” report in Table 13 (below). As with the personnel expenses, the figures from the national survey for each line item were derived from separately sorted rows; thus, the costs shown in any one column cannot be totaled. Following in Table 13 is the comparative non-labor related expense data:

Table 13
Assisted Living Non-Labor Expenses

	<i>Based on the</i>			<i>From a National Survey*</i>				
	<i>Scenario Analyses</i>			<i>Lower</i>	<i>Lower</i>		<i>Upper</i>	<i>Upper</i>
	<i>18</i>	<i>28</i>	<i>40</i>	<i>Decile</i>	<i>Quartile</i>	<i>Median</i>	<i>Quartile</i>	<i>Decile</i>
Property Taxes	0	0	0	42	59	88	122	175
Property/Liability Ins.	68	68	68	33	38	67	96	125
Raw Food	147	152	154	113	129	142	168	200
Utilities	204	204	204	86	105	123	153	193
Marketing/Advertising	30	30	30	23	38	59	99	122
Repairs and Maint.	53	53	57	30	40	50	67	130
Housekeeping	16	16	16	9	12	16	20	25
Total Mngt. Fees	201	210	211	83	114	137	183	263
All Other Op. Expenses	153	140	133	115	146	190	286	692
Corp./Other OH Exp.	0	0	0	23	27	290	349	389
* Based on data from the "State of Seniors Housing 2006", page 29, with the figures obtained from the survey increased by 5.0% to be comparable to the estimates utilized in the scenarios.								

As may be seen from the data in this table, the cost estimates utilized in the scenario analyses fall for the most part between the median and upper quartile figures from the national survey results. Following are comments about some of the line items that are out of this range:

- Property taxes were not included in the scenario analyses as these costs can vary significantly between properties, depending on the tax rate of the local jurisdiction, the tax status of the sponsoring entity, and the assessed value of the property. It is recommended that proposed assisted living residences obtain property tax estimates from the assessor's office for the area in which the residence will be located.

- The utility costs utilized in the scenario analyses are very high compared to the costs obtained from the national survey. As is reflected in the summary of the costs reported by Vermont ALRs and presented in Table 12 above, there is a wide variation in the utility costs for these properties. Therefore, proposed residences should carefully research their potential utility costs and where possible incorporate energy-

saving features into the design of the building. Efficiency Vermont, www.encyvermont.com, is a critical resource for energy efficient design.

- The marketing and advertising costs included in the scenario analyses are much less than those reflected in the national data. Facilities in smaller communities such as those typical of Vermont typically need to rely much less on paid advertising than do facilities in highly competitive and/or metropolitan markets. In addition, the cost to advertise in smaller markets is often a fraction of the cost that might be expended in more urban settings.
- The management fees included in the scenario analyses are slightly higher on a per-resident basis than are comparable fees from the national data. This is likely due in large part to the higher revenue generated per unit in the hypothetical scenarios, since management fees are usually based on a percentage of net revenue. The “State of Seniors Housing Report 2006” reports 5.0% assisted living management fees for the lower quartile and median, with fees of 6.1% reported for the upper quartile. The scenario analyses also utilize management fees of 5.0%.
- The costs included in the “All Other Operating Expenses” category are lower on average than those reported by the national study. As an itemized breakdown of these costs was not provided for the national sample, it is difficult to determine what factors might contribute to this variation. This difference may simply be due to variations in cost reporting methodology between operators participating in the national survey and the format on which the scenario analyses are based.
- No estimates for “Corporate / Other Overhead Expenses” were included in the scenario-based analyses, based on the assumption that most Vermont ALRs are not likely to be part of larger, multi-facility corporations.

The national survey unfortunately did not provide totals for non-labor related expenses, and since each line item is calculated separately, it is not possible to base a total on the

sum of the categories for each column. Therefore, comparisons must be made for non-labor costs on the basis of the department / major category totals in Table 13.

INFLATION FACTORS

The inflation factors for both revenue and expenses can significantly impact the projected financial performance of an assisted living residence. Although these factors can vary greatly over time, by geographic area, and on the policies of specific residences, historical data obtained from operating properties can provide helpful information as to the rate at which revenue and expenses might be expected to increase on an annual basis.

% Annual Change in Revenue. Following is information from the “State of Seniors Housing 2006” report on the changes in rents reported by participating assisted living facilities:

Table 14 – % Annual Change in Rates For Assisted Living Residences			
	<u>Lower</u>		<u>Upper</u>
	<u>Quartile</u>	<u>Median</u>	<u>Quartile</u>
Annual Changes in In-House Rates*	4.2%	5.0%	6.0%
Annual Changes in Market or "Street" Rents*	3.5%	5.0%	5.0%
*For 2004 to 2005, as per the "State of Seniors Housing 2006" survey, p. 39			

% Annual Change in Expenses. Information as to the rate at which expenses increased was also reported by the “State of Seniors Housing 2006”. This data was derived from those properties that participated in the survey for two consecutive years, which allowed for better comparisons of year-to-year changes in reported data. Following are the results of this comparison for the assisted living facilities that reported data for both 2004 and 2005:

<u>Median Change In:</u>	<u>% Change</u>
Total Operating Expenses	5.8%
Total Labor Expenses	7.3%
Total Non-Labor Expenses w/o Corp. Overhead	2.7%
Raw Food Expense	6.4%
Insurance	3.2%
Employee Benefits	22.5%
*From 2004 -2005, as reported by the "State of Seniors Housing 2006", p 40.	

As can be seen from this table, total operating expenses increased for this sample of facilities an estimated 5.8% annually for the specified reporting time period. This is just slightly higher than the median rate increase of 5.0% reported by the entire national sample of assisted living facilities, as shown in Table 14. It appears that employees benefits accounted for a large portion of the overall cost increase, with this expense increasing an estimated 22.5% over a one-year period.

CONCLUSION

This report is intended to provide an overview of those items that comprise operating projections for assisted living residences and to present guidelines for evaluating the potential costs of various sized residences. The scenario analyses included in Appendix B provide detailed revenue and expense estimates for hypothetical 18-, 28-, and 40-unit residences. These estimates are then compared to Vermont ALRs currently operating data, as well as national assisted living facility data, to provide a larger context and point of comparison for the cost estimates.

The staffing guidelines and suggested cost factors presented in this report are based on actual assisted living operating experience for an aging-in-place model of care. The FTE estimates and projected expenses also assume an efficient staffing model that should support the inclusion of some (i.e. 25%) Medicaid-funded units. The guidelines and suggestions presented are designed to be used in conjunction with residence-specific research and data obtained for each local market area.

**APPENDIX A:
STAFFING GUIDELINES FOR ASSISTED LIVING RESIDENCES**

The following guidelines, which meet the regulatory requirements for Vermont Assisted Living Residences, are based on the national experience of Vista Senior Living. The guidelines are provided as suggestions only, with the recognition that other staffing patterns can be equally as effective.

<u>Position</u>	<u>Guidelines</u>
Administrator	1 FTE
Lead Cook/Food Service Director	1 FTE
RN	.8 hrs per resident/week
Resident Assistant	1.5 - 1.7 hrs per resident/day
Housekeeper	.8 – 1.0 hr per unit/wk, depending on the size of the units
Maintenance	.5 hrs per unit per week
Assistant Administrator	If < 55 units, 0 hrs/wk; if < 60 units, 20 hrs/wk, if < 70 units, 30 hrs/wk; if < 75, 35 hrs/wk, otherwise 40 hrs/wk
Marketing	If < 50 units, 0 FTEs; if < 75, .5 FTEs; otherwise 1 FTE
Receptionist / Administrative Support	If < 20 units, 0 hrs/wk; if < 30 units, 20 hrs/wk; if < 40 units, 30 hrs/wk; if < 50 hrs/wk, 40 hrs/wk; if < 60, 50 hrs/wk; if < 70, 60 hrs/wk; otherwise 70 hrs/wk
Activities Director	If < 20 units, 0 hrs/wk; if < 30 units, 20 hrs/wk; if < 35 units, 25 hrs/wk; if < 40units, 35 hrs/wk, if < 50 units, 40 hrs/wk; if < 60, 50 hrs/wk; otherwise 60 hrs/wk
Van Driver	If < 20 units, 0 hrs/wk; if < 30 units, 12 hrs/wk; if < 45 units, 15 hrs/wk, if < 60, 20 hrs/wk; otherwise 25 hrs/wk
Cook	If < 18 units, 0 hrs/wk; if < 60 units, 30 hrs/wk; if < 75 units, 58 hrs/wk, otherwise 72 hrs/wk
Dietary Aide	If < 30 units, 2 hrs/day; if < 40 units, 6 hrs/day; if < 50 units, 8 hrs/day; if < 60 units, 10 hrs/day; otherwise 12 hrs/day
Server	No dedicated servers unless a higher end building; otherwise meals are served by resident assistants and dietary aides
Other	If needed for special situations, such as a concierge for high-end buildings or security for high-risk areas