Health and Housing Innovation

Doug Shoemaker, Mercy Housing

Who is Mercy Housing?

• Founded in 1981, Mercy develops, owns, and operates service-enriched housing for families, seniors, veterans, and people with special needs.

• Currently own and manage over 16,000 homes in 23 states, with offices in California, Washington, Georgia and Chicago.

• One of the largest supportive housing provider in the country with over 2,200 units for formerly homeless people
What challenges is this model trying to meet?

1) Shortage of supportive and affordable housing
Despite success of supportive housing and senior housing, there is no indication that public funding for affordable housing is increasing at the scale needed to address the homelessness crisis and the shortage of senior housing.

2) Health Care Cost Continue to Grow
The United States continues to lead the world in health care spending. To reverse the growth, health care payers are very focused on a subset of high-cost individuals that includes chronically homeless individuals, seniors and the disabled.

Opportunity to lower health care costs through non-medical spending on health
Case Study:
Mission Creek Senior Community
San Francisco

- Service-enriched independent living alternative to nursing home beds at Laguna Honda
- 50 of 140 units direct referral of SF Dept of Public Health from skilled nursing, hospitals and shelters
- SF DPH pays $700/month operating subsidy for exclusive access to those units.

Study Findings:
San Francisco Department of Public Health

- Medicaid/Medicare costs of the 50 original DPH referrals shrank from $1.7 million per year to $253,000
- Per capita, $29,000 annual savings, Medicaid and Medicare
- Savings: reduced hospitalizations and skilled nursing stays
How can we add more homes faster?

• Despite success of supportive housing, there is not enough funding and the timelines are too slow to end chronic homelessness if we don’t diversify our approach.

• Although less glamorous, acquisitions are faster and cheaper than new construction or major rehab projects.

<table>
<thead>
<tr>
<th>Type</th>
<th>Cost</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Publicly Subsidized Affordable Housing</td>
<td>$350-$400k per unit</td>
<td>3-5 years</td>
</tr>
<tr>
<td>Privately funded Acquisition</td>
<td>$120-$140k per unit</td>
<td>6-9 months</td>
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</tbody>
</table>

However there are significant barriers

**Acquisitions require:**

1) Access to capital
2) Willingness to take risk
3) Capacity to execute fast

**Challenges w/ public funding model**

Market-rate buyers have access to equity markets and can pay more than affordable

Most affordable housing developers lack risk capital

Public agencies are risk averse and slow decision makers
Welcome to the session

- Supportive Housing Accelerator

#OFNCONF

1) LA DHS will contract with Mercy to deliver supportive housing units for formerly homeless individuals
   - Monthly fee of $1500 to cover real estate, operations, and services
   - Term of contract: 15 years subject to annual appropriations

2) Mercy will use this contract to finance the acquisition and modest rehab of existing rental properties

3) Mercy to deliver supportive housing to LA DHS in 6-9 months.

4) LA DHS will have exclusive referral rights to these units subject to an overarching agreement around eligibility/suitability

5) LA DHS will provide medical services or access to medical services to any resident referred into the program
Frequent users of health care services who are homeless and need affordable housing and wrap-around case management services.

**Sample Sources & Uses**

<table>
<thead>
<tr>
<th>Development Cost</th>
<th>Per Unit</th>
<th>Per SF</th>
<th>Notes</th>
<th>Capital Sources</th>
<th>% of Capital</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition</td>
<td>$3,960,000</td>
<td>$48,148</td>
<td>$80.07</td>
<td>Loan A</td>
<td>70%</td>
<td>4.50%</td>
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<tr>
<td>Rehabilitation</td>
<td>$2,683,000</td>
<td>$32,800</td>
<td>$48.02</td>
<td>Loan B</td>
<td>0%</td>
<td>0%</td>
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<tr>
<td>Design &amp; Engineering</td>
<td>$2,200,000</td>
<td>$2,669</td>
<td>$4.82</td>
<td>Loan C</td>
<td>0%</td>
<td>0%</td>
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<tr>
<td>Relocation</td>
<td>$280,000</td>
<td>$3,480</td>
<td>$6.40</td>
<td>Investor Equity</td>
<td>25%</td>
<td>5% pref</td>
</tr>
<tr>
<td>Rehabilitation</td>
<td>$189,577</td>
<td>$2,340</td>
<td>$4.28</td>
<td>Owner Equity</td>
<td>5%</td>
<td>5% pref</td>
</tr>
<tr>
<td>Financing &amp; Closing Fee</td>
<td>$131,454</td>
<td>$1,623</td>
<td>$2.97</td>
<td>Loan A</td>
<td>4%</td>
<td>4.50%</td>
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<tr>
<td>Transition Reserve</td>
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<td>$1,250</td>
<td>$2.29</td>
<td>Loan B</td>
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<tr>
<td>Construction Res. Reserve</td>
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<td>$2.09</td>
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<tr>
<td>Working Capital</td>
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<tr>
<td>Other</td>
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<td>$2,160</td>
<td>$3.95</td>
<td>Owner Equity</td>
<td>5%</td>
<td>5% pref</td>
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</table>

*Analyses shows sufficient cash to reposition asset for refi or sale in event of contract cancellation (Tabs 10, 11, 12)

**Total Development Cost** | $8,053,080 | $99,421 | $181.86

**Total Sources** | $8,053,080 | 100%
Independent Long Term Care: Creating Consumer Choice and Cost Savings
Opportunity: Small number of “high cost” individuals driving health care costs

- High-cost Medicaid enrollees (over $25,000 annual spending) are 4% of all enrollees, 49% of all spending
- 49% are elderly and 43% are disabled.
- Nursing homes or other long-term care represent 77% of cost attributable to elderly “high-cost enrollees” of Medicaid

Cost-Savings from Health Care Can Create the Revenue for a New Model

1. Reduced hospitalizations and ER visits (average price per hospitalization is $18,000)
2. Helping seniors avoid unnecessary nursing home stays ($65k-$95k/year cost to Medicaid)
3. More efficient delivery of community-based services
   a) IHSS
   b) Adult Day Health
   c) Wellness/health promotion services
Proposed Independent Long-Term Care

- Unlicensed independent living with support services that do not reach the level of care and supervision of assisted living or skilled nursing

- Mercy Housing would provide the independent living units for a monthly fee that would include use of the rental unit, property management, and resident services/care management.

- A Home Care Agency would provide 12-18 hours per day of home and community-based support on a voluntary basis to individuals that qualify for In-Home Support Services.

How else might we understand pricing?

Residential Care Options

<table>
<thead>
<tr>
<th>Low</th>
<th>Average</th>
<th>High</th>
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<tr>
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<tr>
<td>2,885</td>
<td>3,518</td>
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<tr>
<td>4,195</td>
<td>5,418</td>
<td>5,418</td>
</tr>
</tbody>
</table>

Mercy LTC Model: RCFE base rate - Los Angeles
RCFE Base Rate + Add. Services
ALWPP Rate
Skilled Nursing Facility: LA
Skilled Nursing Facility: Statewide