The Healthy Living Campus

Evaluation of Development Strategy: Executive Summary

June 12, 2020

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Overview

- The District plans to redevelop its 11-acre campus in Redondo Beach as the Healthy Living Campus. Plans for the Healthy Living Campus include a variety of senior living, post-acute care, and ancillary health programs and services to promote wellness and active living
- The District has been working with a team of consultants for several years to evaluate ideas and concepts and create preliminary development plans
- Earlier this year, the District engaged Cain Brothers to review and comment on the work that has been completed, specifically:
  - Review MDS Market Study
  - Analyze of Seismic Retrofitting Development Strategy
  - Evaluate Proposed Assisted Living/Memory Care ("AL/MC") Project
  - Identify Viable Alternative Senior Living Programs to Compliment or Replace Proposed AL/MC Project
- Cain Brothers' objective was to confirm the feasibility of the proposed AL/MC project for purposes of the EIR given preliminary development assumptions (construction budget and schedule, pricing and operating costs, financing terms and equity funding)

Observations

- **Review MDS Market Study**
  - MDS is nationally recognized as a leading market research and feasibility firm specializing in senior living
  - MDS completed the preliminary market research which established the estimated demand for senior living programs within the District's primary market area based on demographic and economic data and identified monthly service fee pricing ranges used to prepare preliminary operating cash flow projections
  - Cain Brothers read the MDS Market Study to determine whether the methodology was consistent with other similar studies, if the assumptions reflected industry standards and if the conclusions and demand estimates were reasonable
  - ***Based on this analysis, the MDS Market Study utilizes industry standard methodology, reasonable assumptions and the conclusions are supported by the analysis, research and data presented in the report***
- **Analyze Seismic Retrofitting Development Strategy**
  - District Management and CBRE/Manhattan Realty previously evaluated the costs and considerations of retrofitting the 514 Building and concluded that is not a financially feasible strategy
  - ***Cain Brothers independently analyzed the costs of considerations of retrofitting the 514 Building and came to the same conclusion that retrofitting the 514 Building is not financially feasible.*** Specifically:
    - The District would need to charge a minimum of $6.11 – $7.47/sf for monthly rental rates (depending on how much space in the retrofitted building will be occupied by District activities) to fund debt service and support other District programs currently subsidized by the rental activity of 514 Building. Current monthly rental rates are only $2.65/sf.
    - Additionally, the District would use $9.0 - $10.4 million of its cash reserves to fund this strategy leaving it with very little remaining cash reserves

Observations

- **Evaluate Proposed AL/MC Project**
  - Cain Brothers used construction estimates provided by the District and CBRE to determine the debt and equity required to fund the construction of either a 5- or 6-Story AL/MC project
    - As of the date of our findings we used the CBRE project cost estimates of $177,873,379 for 5-Story and $211,041,023 for 6-Story. More recent lower cost estimates have been produced but have not been reviewed by Cain Brothers with District staff nor incorporated in the analysis herein. Future revisions could show minor improvements in cash flows and returns due to such lower cost estimates
  - Using monthly rates near, but slightly below MDS's 2019 study, along with Industry average expense to revenue ratios, Cain Brothers prepared operating cash flows reflecting stabilized operations for each of two building scenarios
  - Cain Brothers also calculated the estimated internal rate of return both for the project itself as well as for the JV investor on both an 80/20% and 75/25% JV split – actual JV ownership percentages will be negotiated going forward
  - ***Cain Brothers came to the conclusion that the proposed AL/MC project is financially feasible, and recommends pursuing the 6-Story option due to its potential higher profitability and internal rate of return both for itself and for a potential JV investor/developer/operator***.
  - While a 120 bed MC unit exceeds industry bed tally norms, Silverado's existing occupied 120 bed MC unit on the campus at premium rates provides evidence of MC demand.
  - While financially challenging, the area's high income, low penetration rate, extremely high unmet demand, and overall desirability should draw industry interest from a number of leading assisted living and memory care providers and investors. Specific equity requirements will depend on the general lending environment at the time of financing.
  - Unknown is the level of equity, post COVID 19, needed to leverage debt financing as previously 75% LTV was considered standard – typically, in recessionary periods equity requirements increase

Observations

- **Identify Viable Alternative Senior Living Programs to Compliment or Replace Proposed AL/MC Project**
  - Cain Brothers identified two additional programs for consideration in the development of the Healthy Living Campus:
    - A Continuing Care Retirement Community ("CCRC") is compromised of multiple licensed levels of care and generous resident amenities including dining options, fitness and wellness spaces and programs and other lifestyle features with the majority of campus being residential apartments
      - While CCRC residential apartments mimic the look / feel of comparable condominiums, all CCRC units (residential, AL/MC, skilled nursing) are licensed by the state of CA as a Residential Care Facility for the Elderly
      - Resident payment structures typically involve an initial entrance fee and then ongoing monthly service fees
      - CCRCs are financed through a combination of short and long term debt. The short-term debt is referred to as Entrance Fee bonds which are paid off with the entrance fees from the initial residents. Future net entrance fee turn-over proceeds and resident monthly fees pay for any residual 30-35 year long term debt
      - Preliminary analysis indicates that CCRC development options for the Healthy Living Campus are feasible.
      - Further considerations include: potential real estate and/or income tax expenses, parking requirements (CCRC residents have cars more often than AL/MC residents), if the square footage required for a right-sized, profitable facility exceeds what is available for development, and others
    - PACE – Program for All-Inclusive Care for the Elderly is a program designed to maintain an individual's ability to live in their home and minimize medical costs while increasing quality of life through active support of social determinants of health, activities of daily living and early medical intervention and wellness programs through adult day center and primary care clinic
      - Would require approximately 14,000 sf with minimal parking to serve an estimated 400 members as members are transported from home to day center
      - Opportunity for strong cash flow and community benefit

Recommendations

Cain Brothers recommends that the District pursue the 6-Story AL/MC option for the following reasons:

1. Allows for the most affordable units
2. Provides the best financial return on JV equity
3. Serves more seniors in need
4. Carries the cost of new District Offices
5. More units allows for expanded on-site programming and a greater variety of activities

Cain Brothers recommends that the District pursue the PACE program for the following reasons:

1. Allows frail seniors to remain in their own homes until end of life
2. Provides a proven and more desirable, consumer friendly alternative to a skilled nursing facility
3. Is affordable for all seniors, specifically low income seniors
4. Provides positive cash-flow for the District to fund other activities
5. Has proven to be a highly flexible service delivery model during the COVID 19 pandemic as it allows for caring in a senior's home or day center
6. Extends and broadens the continuum of services and programs offered and the income levels of residents served by the District

The Healthy Living Campus

Evaluation of Development Strategy: Seismic Retrofitting Alternative

June 12, 2020

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Situational Background

- The District plans to redevelop its 11-acre campus in Redondo Beach as the Healthy Living Campus. Plans for the Healthy Living Campus include a variety of senior living, post-acute care, and ancillary health programs and services to promote wellness and active living

- The District has been working with a team of consultants for several years to evaluate ideas and concepts and create preliminary redevelopment plans

- One of the early concepts was the retrofitting of the existing 514 N Prospect Building (“514 Building”), which was evaluated by the District and determined to be financially infeasible, a conclusion which the District asks Cain Brothers to review

- One of the challenges facing the District is the need to replace approximately $3.75 million annual net cash flow from the existing 514 Building (which will be retrofitted in the seismic option) and the Lazar Ducot Note Receivable/Note Payable which will be paid off in 2024

- The District has approximately $15 million in cash and reserves which can be used to support or fund the redevelopment of the Healthy Living Campus

Key Assumptions

- The District has evaluated the costs and considerations of retrofitting the 514 Building
- The redevelopment strategy would involve:
  - Estimated $93 million construction costs ($2023)
  - 18 month construction period
  - 143,000 sf net rentable space
  - Vacating the building of current tenants
    - $3.3 million annual revenue
    - Monthly rental rate: $2.65/sf (Includes BOE Reimbursement)
    - 104,775 sf currently rented
- The District's evaluation concluded that retrofitting the 514 Building would not be a feasible alternative
- The District also asked CBRE/Manhattan Realty to independently evaluate the opportunity to retrofit the 514 Building
  - CBRE/Manhattan Realty utilized a discounted cash flow approach to evaluate the economics of the retrofitting strategy and came to same conclusion, that retrofitting the 514 Building was not financially feasible strategy (see page 3)

CBRE Analysis - 514 Q&D Rehabilitation Feasibility

- Based on a discounted cash flow methodology, the current value of 514 Building is $85.7 million
- Total cost of retrofitting 514 Building is approximately $119 million, including construction costs, tenant build-out credits and contingency
- If the District does not increase monthly rental rates, the retrofitting strategy produces loss of $33.4 million value
- To produce a $119 million break even value for 514 Building, the District would need to increase monthly rental rates to $5.76/sf
- However, $119 million value does not necessarily provide sufficient annual cash flow to support District activities

CBRE/Manhattan Realty Analysis [1]

	Scenario I (Market Rent)			Scenario II (Break Even)		
Rent	143,371	$4.50	$7,742,029	143,371	$5.76	$9,909,797
Vacancy	15%		$1,161,304	15%		$1,486,469
EGI			$6,580,724			$8,423,327
Expenses	143,371	$13.00	$1,863,822	143,371	$13.00	$1,863,822
NOI			$4,716,903			$6,559,505
Cap Rate			5.50%			5.50%
Stabilized Value			$85,761,866			$119,263,735
Less Rehab			$93,000,000			$93,000,000
Less Tenant Buildout	143,371	$150.00	$21,505,635	143,371	$150.00	$21,505,635
Contingency/Other	$93,000,000	5%	$4,650,000	$93,000,000	5%	$4,650,000
Pre-Absorption Value			($33,393,769)			$108,100

Notes:

- The above does not include any costs associated with lease-up, i.e., downtime, commissions, legal, etc.
- Lease-up could be starting from zero as previous tenants might not come back after relocating to allow the retrofit.
- The depth of the market demand is a concern.
- There doesn't seem to be any discount compared to new construction.
- New construction could be sized to match expected demand.
- Construction of a new MOB could potentially be timed to capture/accommodate the tenant relocations from 514 and possibly 510 as well (which is starting to appear more imminent).

[1] Source: CBRE/Manhattan Realty Analysis dated 03/13/2020

Cain Brothers' Analysis

- Cain Brothers also independently evaluated the financial consequences of retrofitting the 514 Building by analyzing the annual cash flow and monthly rental rates/sf
- Key assumptions include:
  - $93 million retrofitting costs are funded with long-term, fixed rate tax-exempt bonds
  - Resulting in annual debt service of approximately $5.8 million
  - Community Health & Fitness program would be relocated offsite during retrofitting construction
  - District cash reserves would be used to:
    - Fund initial costs to set up offsite Community Health & Fitness space
    - Ongoing incremental "off-site" costs of operating Community Health & Fitness space
    - Replace $2.5 million ongoing net annual rental income from 514 Building
    - Replace $437K ongoing net cash flow related to Lazar Ducot Note Receivable/Note Payable
- Conclusion:
  - The District would need to charge a minimum of $6.11 – $7.47/sf (depending on how much space in the retrofitted building will be occupied by District activities) for monthly rental rates to fund debt service and support other District programs currently subsidized by the rental activity of 514 Building
  - The District would use $9.0 - $10.4 million of its cash reserves to fund this strategy

Analysis of BCHD Projected Cash Flow and Targeted 514 Revenue

	Budget 6/30/2020	Adjustments		Stabilized Operations
Revenues				
Health & Fitness	2,994,398	No change	-	2,994,398
Property Tax	3,930,505	No change	-	3,930,505
Property Lease	4,812,639	Eliminate Building 514	(3,307,428)	1,505,211
		Termination of Lazar Ducot N/R	(1,157,659)	(1,157,659)
Interest	965,861	No change	-	965,861
Limited Partnership	2,162,000	No change	-	2,162,000
Donations & Other	52,315	No change	-	52,315
Total Revenues	**14,917,718**			**10,452,631**
Expenses				
Health & Fitness	3,199,020	No change		3,199,020
Life	4,228,915	No change		4,228,915
Volunteer,	2,065,434	No change		2,065,434
Property	2,410,343	Debt service on retrofitting costs	5,737,000	8,147,343
Support Services	2,295,593	Ducot Notes Payable	(720,000)	1,575,593
Total Expenses	**14,199,305**			**19,216,305**
Operating Income	**718,413**			**(8,763,674)**

Cash Flow Gap (Projected compared to Budget)		9,482,087
NIADS Target with DSCR =	1.30	7,458,100
Revenue Gap		10,484,774
Building 514 Rentable Space After Retrofit		143,000
Target Annual Rent/sf	$	73.32
Target Monthly Rent/sf	$	6.11
Current Monthly Rent/sf (Includes BOE Reimbursement)	$	2.65

Analysis of BCHD Cash Reserves

The District would use between $9.0 - $10.4 million of its cash reserves to replace the 514 Building net cash flow that currently supports other District programs and to fund relocations costs associated with Community Health & Fitness program

	Average	Conservative	Aggressive
Cash Reserves - 12/31/2019	15,000,000	15,000,000	15,000,000
Less 514 Revenue			
Annual Rent (not including BOE)	2,500,000	2,500,000	2,500,000
Years of Demolition	3	3	3
Total 514 Subsidy	7,500,000	7,500,000	7,500,000
Less CHF Relocation Costs			
Initial Set up	360,000	460,000	260,000
Annual Subsidy for Offsite Rent	600,000	800,000	400,000
Years of Relocation	3	3	3
Total Annual CHF Subsidy	1,800,000	2,400,000	1,200,000
Ending Cash Reserves	5,340,000	4,640,000	6,040,000

Notes:

- Aggressive = Lower initial set up cost of CHF offsite location and lower annual offsite location rent subsidy
- Conservative = Higher initial set up cost of CHF offsite location and higher annual offsite location rent subsidy
- Additional funds from cash reserves may be needed to pay for offsite rent for Administrative offices currently at 1200 Del Amo Blvd

Analysis of Retrofitted 514 Building Rental Rates

The targeted monthly rental rate for 514 Building third party tenants depends on the amount of space used by the District for Community Health & Fitness, Community Services, and/or Administrative Space. The more space occupied by the District, the higher the monthly rental rates for third party tenants.

Gross Building Space (sf)	160,000
Net Rentable Space (sf)	143,000
Community Health and Fitness (sf)	12,000
Community Services (sf)	6,000
Administrative Space (sf)	8,000
Targeted 514 Annual Revenue	$ 10,484,774

Net Rentable Space (sf)	Community Health and Fitness (sf)	Community Services (sf)	Administrative Space (sf)	Third Party Tenants (sf)	Third Party Monthly Rent/sf
143,000	12,000	6,000	8,000	117,000	$ 7.47
143,000	12,000	6,000		125,000	$ 6.99
143,000	12,000			131,000	$ 6.67
143,000				143,000	$ 6.11

The Healthy Living Campus

Evaluation of Development Strategy: Review of MDS Market Study

June 12, 2020

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- The District has been working with a team of consultants for several years to evaluate ideas and concepts and create preliminary redevelopment plans
- One of the first planning activities that was completed was a market study to profile the demographic characteristics of the primary market area and to estimate the potential demand for assisted living and memory care facilities
  - April 2016: The initial market study prepared by Moore Diversified Services (“MDS”), a nationally recognized full-service consulting firm focused on the senior living and healthcare market sectors which evaluated the demand for 200 independent living units and 200 assisted living units (the preliminary definition of the Healthy Campus Living project)
  - August 2018: Updated market study prepared by MDS which evaluated the demand for 140 assisted living units and 60 memory care units accommodating 120 beds
  - May 2019: Updated market study prepared by MDS which evaluated demand for Phase I of the Healthy Living Campus project – 102 assisted living units and 60 memory care units accommodating 120 beds
- At the request of the District, Cain Brothers read the MDS May 2019 updated market study for the purpose of commenting on the reasonableness of the market demand assumptions, methodology and conclusions

Key Assumptions

MDS Market Feasibility Study	Cain Brothers' Comment
Primary Market Area (PMA) [1]	

A "mosaic" of zip codes consisting of an approximate 5-mile radius from the Beach Cities Health Center campus which is the subject site location. It has been assumed that approximately 65% to 75% of the unit absorption and support for the proposed new Senior housing units will come from qualified prospects residing in this defined PMA. In the capture rate/demand analysis in Section 1, MDS assumed a PMA absorption factor of 70%.	• The composition of the PMA including targeted zip codes within 5-mile radius is reasonable and expected
	• The PMA for a senior living project is influenced by:
	  • market geography and density (the higher density = tighter PMA definition) and
	  • personal care needs of targeted residents (the more assistance required = tighter PMA definition)

Secondary Market Area (SMA) [1]	
The remaining 25% to 35% of the unit absorption is expected to come from any areas outside of the PMA boundaries – including the greater Los Angeles MSA, other areas in the state of California and in-migration from outside the state.	• The composition of the SMA is not critical element to estimating market demand • Particularly for assisted living and memory care programs, the relocation of seniors to be near adult children is key factor • Overall desirability of South Bay is another factor which will influence potential residents from SMA

[1] MDS Assisted Living and Memory Care Market Feasibility Study for a Site in Redondo Beach, California dated May, 2019 page 3-2

Key Assumptions

MDS Market Feasibility Study	Cain Brothers' Comment
Prospect Characteristics	
Age qualified[1]: Age 75+	• 75 is the standard minimum age for evaluating demographics for a senior living project, especially assisted living and memory care • Although some market studies are completed using a minimum age of 65, the reality is that the average age at move-in to a multi-level retirement community or assisted living/memory care is 80+
Assistance needs[2]: Age 75-79: 20% Age 80-84: 31% Age 85+: 50%	• The estimated need for assistance amongst the various age cohorts has remained constant and is consistent with industry experience and several reliable data sources
Incidence for Alzheimer's Disease/Related Dementia[3]: Age 75-84: 18.7% Age 85+: 47.2%	• The estimated level of incidence for Alzheimer's Disease/Related Dementia amongst the various age cohorts is consistent with industry experience and nationally recognized data sources
Income qualified: $150,000+	• Based on the proposed pricing levels, the minimum income threshold is reasonable

[1] MDS Assisted Living and Memory Care Market Feasibility Study for a Site in Redondo Beach, California dated May, 2019 page 1-18, 1-19 and 1-20

[2] MDS Assisted Living and Memory Care Market Feasibility Study for a Site in Redondo Beach, California dated May, 2019 page 1-21

[3] MDS Assisted Living and Memory Care Market Feasibility Study for a Site in Redondo Beach, California dated May, 2019 page 1-28

Key Assumptions

MDS Market Feasibility Study	Cain Brothers' Comment
Demand Assumptions [1]	
Occupancy Level: 93%	• 93% is a reasonable occupancy assumption for purposes of estimating market demand for both assisted living and memory care and consistent with actual occupancy levels at competitive facilities in the PMA
Annual Unit Turnover: 45%	• 45% is a reasonable unit turnover assumption for purposes of estimating market demand for both assisted living and memory care and reflects industry standard experience

[1] MDS Assisted Living and Memory Care Market Feasibility Study for a Site in Redondo Beach, California dated May, 2019 page 3-2

Key Assumptions

MDS Market Feasibility Study	Cain Brothers' Comment
Proposed Pricing [(1)]	
It is the opinion of MDS that the proposed pricing for the subject new development will be acceptable to the sector of the market who have the affordability to pay for this alternative living arrangement and lifestyle – based on anticipate project design, services, amenities and overall ambience planned for the campus.	• MDS prepared a detailed pricing analysis of existing assisted living and memory care facilities within the PMA to support its recommendation/conclusion regarding monthly pricing for the Project • Cain Brothers further compared the pricing recommendation/conclusion in the MDS analysis with the actual monthly fees at the Silverado memory care facility in the District's 514 Building and the Sunrise Assisted Living facility in Hermosa Beach in which the District is a limited partner and verified the reasonableness of the recommendation/conclusion

[(1)] MDS Assisted Living and Memory Care Market Feasibility Study for a Site in Redondo Beach, California dated May, 2019 page 2-8

Key Assumptions

MDS Market Feasibility Study	Cain Brothers' Comment
Professional Market Feasibility Opinion [1]	
Based upon the detailed quantitative results of this market feasibility study and MDS' significant national experience in evaluating successful Senior housing communities, **it is our specific opinion that there is sufficient size and depth of the qualified target market to prudently introduce the new assisted living unit and memory care beds into the Redondo Beach area – from a quantitative perspective.** This opinion is based on the current pricing established for the project and other assumptions that will be outlined herein. The opinion also considers existing communities and planned/announced competition as well as annual turnover – the refilling of existing occupied units do to natural resident attrition that will occur at mature competitive communities.	• The methodology in the MDS report is consistent with market demand studies for other assisted living and memory care projects • The overall conclusion is reasonable and expected given the estimated demand results and the analysis of the underlying data • Further, Silverado's successful operation of its memory care facility in the space in the District's 514 Prospect building is evidence of market acceptance of pricing and need

[1] MDS Assisted Living and Memory Care Market Feasibility Study for a Site in Redondo Beach, California dated May, 2019 page 1-1

Observations

- The MDS market study utilizes industry standard methodology to estimate market demand for assisted living and memory care and reflects reasonable assumptions regarding:
  - Definition of Primary Market Area and Secondary Market Area;
  - Prospect Characteristics;
    - Age
    - Assistance with Activities of Daily Living
    - Incidence of Alzheimer's Disease/Related Dementia
    - Income
  - Demand Assumptions;
    - Occupancy levels
    - Annual unit turnover
  - Proposed Pricing
- The overall conclusion of the MDS market study is supported by the analysis, research and data presented in the report.

The Healthy Living Campus

Evaluation of Development Strategy: Assisted Living and Memory Care Option

June 12, 2020

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AL / MC Summary

Background

- Based on local community needs, the Beach Cities Health District (the "District") is considering the development of an Assisted Living (AL) and Memory Care (MC) facility as part of the redevelopment of its Healthy Living Campus

- To develop/operate/finance the facility, the District will seek a "best of breed" Joint Venture partner

- The District sought confirmation as to what number and mix of AL/MC units will produce acceptable profitability to attract JV interest and to allow for the inclusion of affordable units

  – 10% of the AL units will be dedicated as "affordable" units at a rental rate of $7,500 per month, compared with the $12,000+ per month rental rate for "market rate " units. Voluntary inclusion of such units reduces monthly revenues by as much as $70,000 or approximately $800,000 in annual revenue for the proposed Project; such loss or subsidy is best off-set with economies of scale and more market rate units within the six-story building option

- The District also wanted confirmation that AL/MC was strongly needed. It hired MDS, a national expert to evaluate local market demand.   MDS found that the District site for the Healthy Living Campus is located in one of the most underserved assisted living areas on the West Coast with many local seniors currently having to leave the area to seek care. The District's observation that Silverado's existing memory care program, maintains full occupancy of an existing 120 bed MC facility, provides additional evidence of very deep local resident need

AL/MC Industry Insights

A Weak National AL/MC Occupancy Market was Just Starting to Rebound Prior to COVID 19

- Challenging the feasibility analysis is that the South Bay's high construction costs may result in per unit development costs exceeding regional appraised values, thus potentially requiring higher equity and/or unit volume to attract a JV partner and attractive construction financing

- Off-setting the steep construction costs are the greater than average monthly fees deemed affordable for the majority of current District residents in the MDS market study, and the current rates collected by Silverado for more than 110 existing residents

- According to Cain Brothers/Key Bank's Real Estate Group and a review of other select coastal urban infill development financings, investor interest remains strong for infill projects such as the District's Healthy Living Campus. Such communities have high unmet demand, good access to health care, convenient commercial/retail offerings and deep product awareness, but due to zoning restrictions provide very high barriers to entry that guard against over-building

- National/regional developer operators have identified the coastal communities lack of supportive senior living, and are partnering with investors that have the capacity to finance worthy projects in these expensive to build areas, as such projects tend to fill rapidly and out-perform long-term

AL / MC Project Analysis

- The District defined two building size scenarios with different unit breakdowns:

Unit Configuration		
	5-Story	6-Story
AL – Premium	**0**	**30**
AL – Regular	**110**	**114**
AL – Affordable	**12**	**16**
AL - Total	**122**	**160**
Memory Care	**60**	**60**

Cain Brothers used the construction estimates provided by the District and CBRE (see next page) to determine the debt and equity required to fund the construction of each of the two potential scenarios

  – As of the date of our findings we used the CBRE project cost estimates of $177,873,379 for 5-Story and $211,041,023 for 6-Story. More recent lower cost estimates have been produced but have not been reviewed by Cain Brothers with District staff nor incorporated in the analysis herein. Future revisions could show minor improvements in cash flows and returns due to such lower cost estimates

  – Cost estimates include the District's Community Services Office. Being non-revenue generating, this space decreases the Project's IRR. Sharing the cost of constructing the District Community Services Office will need to be addressed in any JV partnership negotiations

- Financing Terms: Taxable FHA-insured debt amortized over a 42-year term at an interest rate of 4.00%
  - Includes two year principal moratorium, 24-month Project Fund (level draws; net-funded, earning 1.00%), Capitalized Interest Fund (for 30 months; net-funded, earning 1.00%), Debt Service Reserve Fund ("DSRF") (equal to 50% of maximum annual debt service after two year principal moratorium and before DSRF release at final maturity; gross-funded, earning 1.00%), Cost of Issuance (2.00% of Par Amount)
- Using monthly rates near, but slightly below MDS's 2019 study, along with industry average expense to revenue ratios, Cain Brothers prepared operating cash flow projections reflecting stabilized operations for each of two building scenarios
- Cain Brothers also calculated the estimated internal rate of return both for the project itself as well as for the JV investor on both an 80/20% and 75/25% JV split – actual JV ownership percentages will be negotiated going forward

AL / MC Unit Mix, Financing, and Operations Projections Summary

Unit Mix and Associated Construction Costs

The District provided 2 construction scenarios that are summarized below:

	5 Story	6 Story
Unit Assumptions		
Assisted Living Units	122	160
Assisted Living Cost/Sq. Ft.	$660/SF	$660/SF
Memory Care Units	60	60
Memory Care Cost/Sq. Ft.	$666/SF	$666/SF
Community Services Cost/Sq. Ft.	$530/SF	$530/SF
Per Unit Development Cost	**$977,326**	**$959,277**
Associated Construction Costs		
Assisted Living Units	$111,183,901	$144,351,545
Memory Care Units	48,078,976	48,078,976
Community Services	4,343,038	4,343,038
Phase I Site / Infrastructure	14,267,464	14,267,464
Total Construction Costs	**$177,873,379**	**$211,041,023**

AL / MC Unit Mix, Financing, and Operations Projections Summary

$50MM Cash Equity Contribution Scenarios Preliminary Sources & Uses of Funds (subj. to lending conditions in the future)

	5 Story	6 Story
Sources of Funds		
Par Amount	$147,170,000	$185,480,000
Equity Contribution (Cash)	50,000,000	50,000,000
Equity Contribution (Land Value)[1]	11,996,667	15,438,333
Working Capital Line for Start-Up Losses [2]	3,000,000	3,000,000
Total	**$212,166,667**	**$253,918,333**
Uses of Funds		
Project Fund [3]	$176,184,076	$209,036,720
Capitalized / Construction Interest Fund[3]	14,409,420	18,160,356
Debt Service Reserve Fund[4]	3,628,800	4,573,300
Land Value	11,996,667	15,438,333
Cost of Issuance & Additional Proceeds	2,947,704	3,709,623
Working Capital Line for Start-up Losses[2]	3,000,000	3,000,000
Total	**$212,166,667**	**$253,918,333**

[1] Original appraisal from Manhattan Realty valued land at $11.8MM for 120 units. Above scenarios assume land values increase on pro rata basis by the percentage increase of units

[2] Working Capital Line at $3 million assumed to be in place to cover operating losses during construction and fill. MC losses are assumed to be minimal due to immediate transfers from Silverado. The $3MM line is mostly attributable to assumed losses on Assisted Living.

[3] Net-funded, assumed earnings rate of 1.00%

[4] Gross-funded, assumed earnings rate of 1.00%

AL / MC Unit Mix, Financing, and Operations Projections Summary

AL / MC 10-Year Financial Projections and Internal Rate of Return without Equity Contribution Distinctions

Scenario: 5 Story

Assumptions	
Revenue Growth [1]	4.00%
Expense Growth [1]	3.50%
CapEx Growth [1]	3.50%
TV EBITDA Multiple	13.0

	Inception	Year 1	Year 2 [2]	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	Construction	*Construction*	*Fill*	*Stabilized*	*Stabilized*	*Stabilized*	*Stabilized*	*Stabilized*	*Stabilized*	*Stabilized*	*Stabilized*
Total Revenue	0	0	0	34,839,128	36,232,694	37,682,001	39,189,281	40,756,853	42,387,127	44,082,612	45,845,916
Operating Expenses	0	0	0	22,645,434	23,438,024	24,258,355	25,107,397	25,986,156	26,895,671	27,837,020	28,811,315
Operating Income (w/o debt)	0	0	0	12,193,695	12,794,670	13,423,647	14,081,885	14,770,697	15,491,456	16,245,592	17,034,601
Capital Expenditures	0	0	0	(371,315)	(384,311)	(397,762)	(411,684)	(426,093)	(441,006)	(456,441)	(472,416)
Working Capital Line	0	(50,000)	(100,000)	(150,000)	(150,000)	(3,150,000)	0	0	0	0	0
Debt Service	0	0	0	(7,220,256)	(7,218,712)	(7,217,112)	(7,218,112)	(7,216,512)	(7,217,312)	(7,220,312)	(7,220,312)
Cash Flow to Equity	(61,996,667)	(50,000)	(100,000)	4,452,124	5,041,647	2,658,773	6,452,089	7,128,092	7,833,138	8,568,839	9,341,873
Terminal Value											221,449,811
Debt Repayment											(130,715,000)
Total Cash Flow to Equity	**(61,996,667)**	**(50,000)**	**(100,000)**	**4,452,124**	**5,041,647**	**2,658,773**	**6,452,089**	**7,128,092**	**7,833,138**	**8,568,839**	**100,076,684**

Equity IRR	**9.9%**

[1] For Inception through Year 3, annual inflation for Revenues, Expenses, and CapEx growth was assumed to be 3.00%. Inflation escalation as outlined in the Assumptions table begins from Year 3 to Year 4.

[2] The project will have Revenues and Expenses during the fill period in Year 2 even though these are not reflected in the projections. Operating losses during this period will be covered by the $3MM Working Capital Line.

AL / MC Unit Mix, Financing, and Operations Projections Summary

AL / MC 10-Year Financial Projections and Internal Rate of Return without Equity Contribution Distinctions

Scenario: 6 Story

Assumptions	
Revenue Growth [1]	4.00%
Expense Growth [1]	3.50%
CapEx Growth [1]	3.50%
TV EBITDA Multiple	13.0

	Inception	**Year 1**	**Year 2** [2]	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
	Construction	*Construction*	*Fill*	*Stabilized*	*Stabilized*	*Stabilized*	*Stabilized*	*Stabilized*	*Stabilized*	*Stabilized*	*Stabilized*
Total Revenue	0	0	0	40,922,944	42,559,862	44,262,257	46,032,747	47,874,057	49,789,019	51,780,580	53,851,803
Operating Expenses	0	0	0	26,190,684	27,107,358	28,056,116	29,038,080	30,054,413	31,106,317	32,195,038	33,321,865
Operating Income (w/o debt)	0	0	0	14,732,260	15,452,504	16,206,141	16,994,667	17,819,644	18,682,702	19,585,542	20,529,938
Capital Expenditures	0	0	0	(477,840)	(494,564)	(511,874)	(529,790)	(548,332)	(567,524)	(587,387)	(607,946)
Working Capital Line	0	(50,000)	(100,000)	(150,000)	(150,000)	(3,150,000)	0	0	0	0	0
Debt Service	0	0	0	(9,096,734)	(9,097,067)	(9,099,467)	(9,098,667)	(9,099,667)	(9,097,267)	(9,096,467)	(9,097,067)
Cash Flow to Equity	(65,438,333)	(50,000)	(100,000)	5,007,687	5,710,873	3,444,800	7,366,210	8,171,645	9,017,911	9,901,687	10,824,926
Terminal Value											266,889,199
Debt Repayment											(164,740,000)
Total Cash Flow to Equity	0	0	0	40,922,944	42,559,862	44,262,257	46,032,747	47,874,057	49,789,019	51,780,580	53,851,803

Equity IRR	**10.9%**

[1] For Inception through Year 3, annual inflation for Revenues, Expenses, and CapEx growth was assumed to be 3.00%. Inflation escalation as outlined in the Assumptions table begins from Year 3 to Year 4.

[2] The project will have Revenues and Expenses during the fill period in Year 2 even though these are not reflected in the projections. Operating losses during this period will be covered by the $3MM Working Capital Line.

AL / MC Unit Mix, Financing, and Operations Projections Summary

AL / MC 10-Year Financial Projections and Internal Rate of Return

- Based on the assumptions, the expected annual return to equity, as measured by the project's equity IRR, is approximated in the table below over a 10 year period without equity splits.

Scenario	Project IRR
5 Story	9.9%
6 Story	10.9%

- IRR improves for an investor if their ownership allocation is greater than their equity contribution. For example, if a partner contributes 76% of the total project equity contribution and receives 80% ownership in the JV, their IRR will be greater than the total project IRR. Pre-Covid 19, investors were requiring high single digit IRR returns. Post-Covid 19, Investors may require mid-teens IRR returns.
- The analysis is preliminary and will require further refinement which may significantly change the projected equity return. Specifically, the analysis currently does not incorporate income tax expense (relevant only to for-profit entity that is not structured as a pass-through entity such as a limited liability company or S corporation)
- Return on equity increases with increased leverage, particularly with the low interest rates available today for quality projects backed by strong credit.
  - 6-Story Scenario assumes $65.4 million in equity contributed ($50M cash, $15.4M land) with the JV investor contributing 76% of total required equity contribution – (need to value approved EIR/PUD going forward)
  - Returns are also influenced by the assumed exit or terminal value. Current analysis assumes the AL/MC will be valued at 13.0x EBITDA – which is the top 10-15% of current market sales.

Exit EBITDA Multiple	12.0x	13.0x	14.0x	15.0x
Terminal Value (in millions)	$2,463.6	$2,668.9	$2,874.2	$3,079.5
	9.3%	**10.9%**	**12.2%**	**13.5%**

AL / MC Unit Mix, Financing, and Operations Projections Summary

AL / MC 10-Year Financial Projections and Internal Rate of Return – However, if a JV investor's investment was estimated at 76% of required equity contribution (e.g. $50.0 Million of $65.4 Million total for 6-story scenario) for 80% ownership in the JV, then the IRR for the Investor increases to 11.5%.

Scenario: 6 Story Example Calculation Assuming 80% Ownership

Assumptions	
Revenue Growth [1]	4.00%
Expense Growth [1]	3.50%
CapEx Growth [1]	3.50%
TV EBITDA Multiple	13.0

	Inception	**Year 1**	**Year 2 [2]**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
	Construction	*Construction*	*Fill*	*Stabilized*	*Stabilized*	*Stabilized*	*Stabilized*	*Stabilized*	*Stabilized*	*Stabilized*	*Stabilized*
Total Revenue	0	0	0	32,738,356	34,047,890	35,409,805	36,826,198	38,299,245	39,831,215	41,424,464	43,081,442
Operating Expenses	0	0	0	20,952,548	21,685,887	22,444,893	23,230,464	24,043,530	24,885,054	25,756,031	26,657,492
Operating Income (w/o debt)	0	0	0	11,785,808	12,362,003	12,964,913	13,595,734	14,255,715	14,946,161	15,668,433	16,423,951
Capital Expenditures	0	0	0	(382,272)	(395,651)	(409,499)	(423,832)	(438,666)	(454,019)	(469,910)	(486,357)
Working Capital Line	0	(40,000)	(80,000)	(120,000)	(120,000)	(2,520,000)	0	0	0	0	0
Debt Service	0	0	0	(7,277,387)	(7,277,654)	(7,279,574)	(7,278,934)	(7,279,734)	(7,277,814)	(7,277,174)	(7,277,654)
Cash Flow to Equity	(50,000,000)	(40,000)	(80,000)	4,006,149	4,568,698	2,755,840	5,892,968	6,537,316	7,214,329	7,921,350	8,659,941
Terminal Value											213,511,359
Debt Repayment											(131,792,000)
Total Cash Flow to Equity	**(50,000,000)**	**(40,000)**	**(80,000)**	**4,006,149**	**4,568,698**	**2,755,840**	**5,892,968**	**6,537,316**	**7,214,329**	**7,921,350**	**90,379,300**

Equity IRR: 6 Story	**11.5%**

Scenario	Project IRR	JV Investor IRR @ 80% Ownership	JV Investor IRR @ 75% Ownership
5 Story	9.9%	9.8%	9.0%
6 Story	10.9%	11.5%	10.6%

[1] For Inception through Year 3, annual inflation for Revenues, Expenses, and CapEx growth was assumed to be 3.00%. Inflation escalation as outlined in the Assumptions table begins from Year 3 to Year 4.

[2] The project will have Revenues and Expenses during the fill period in Year 2 even though these are not reflected in the projections. Operating losses during this period will be covered by the $3MM Working Capital Line.

Feasibility Analysis

Cain Brothers recommends that the District pursue the 6 Story option for the following reasons:

1. Allows for the most affordable units
2. Provides the best financial return on JV equity
3. Serves more seniors in need
4. Carries the cost of new District Offices
5. More units allows for expanded on-site programming and a greater variety of activities

- Based on its preliminary review, Cain Brothers (CB) confirms MDS methodology for determining sufficient market demand for a high end AL and MC facility as conservative.
- While a 120 bed MC unit exceeds industry bed tally norms, Silverado's existing occupied 120 bed MC unit on the campus at premium rates provides evidence of MC demand.
- While financially challenging, the area's high income, low penetration rate, extremely high unmet demand, and overall desirability should draw industry interest from a number of high-end service providers and investors. Specific equity requirements will depend on the general lending environment at the time of financing.
- Unknown is the level of equity, post COVID 19, needed to leverage debt financing as previously 75% LTV was considered standard – typically, in recessionary periods equity requirements grow

Possible Feasibility Enhancing Opportunities

The Project assumptions and our analyses, calculations and conclusions are highly preliminary and need additional ongoing research as the District moves forward with JV partner selection and negotiations – areas of additional study include:

1. Can monthly rents be pushed higher while still keeping penetration rates below 10% of needy District age/income qualified residents? (Needs MDS Confirmation)?
2. While a 4% debt interest rate would be typical of the last 5 year period, it is slightly higher than today's very low 3-4% rates
3. The expense to revenue relationship used to determine operational profitability is assumed to include some level of local real estate taxation, but at levels below the State's 1.25% rate
4. While valid for high level EIR discussions, construction cost estimates and related square footage allotments will be refined going forward with additional architectural and engineering input
5. Sub-contracting revenues from an adjacent PACE in the form of meals, housekeeping, security, van transportation might be viewed as advantageous by AL/MC JV partners as they could be charged at "cost-plus" rates to the PACE site
6. Excluding the District's Office space would improve profitability. New construction costs and related debt service for District office space likely exceeds area commercial rents by a considerable amount

Detailed Projections

AL / MC Unit Mix, Financing, and Operations Projections Summary

Preliminary Financial Results at Stabilization

Scenario: 5 Story

The table below provides projected financials at stabilization (in today's dollars) for the BCHD Assisted Living / Memory Care facility. Assuming BCHD is the 20% owner of this facility, and together with PACE revenues to BCHD of $1,296,845 (not including van or in-home subcontracts), total potential revenues to BCHD are $2,151,328. If BCHD is the 25% owner of this facility, and together with PACE revenues to BCHD of $1,591,365, total potential revenues to BCHD are $2,659,469.

Revenue Stream	Available Units/Beds	Occ (%)	Occ (#)	Rate	Monthly Revenue	Annual Revenue
AL – "Regular" Units	110	95	104.5	$12,000	$1,254,000	$15,048,000
AL – "Affordable" Units	12	95	11.4	$7,500	$85,500	$1,026,000
MC (60 Semi-Private Units)	120	95	114.0	$10,000	$1,140,000	$13,680,000
Admission Fees (1/3 of All Occ. Units Turnover)	N/A	N/A	~77 (Turnovers)	$15,000	N/A	$1,149,500
Second Persons (20% of Occ. AL units have couples)	N/A	N/A	~23 (2nd Persons)	$1,500	$34,770	$417,240
Additional Personal Care Service (1/3 of all Residents)	N/A	N/A	~84	$1,500	$126,540	$1,518,480
					Total	**$32,839,220**
					Expenses (65% of Revenues)	**$21,345,493**
					Operating / Net Income	**$11,493,727**
					D/S (after Capl Period Ends)	**$7,221,312**
					Net Income After D/S	**$4,272,415**

BCHD Equity Contributions	20% JV Partner	25% JV Partner
Land Value for AL/MC JV	**$11,996,667**	**$11,996,667**
AL/MC JV Working Capital	**600,000**	**750,000**
PACE JV Working Capital	**800,000**	**1,000,000**
Total	**$13,396,667**	**$13,746,667**

	20% JV Partner	25% JV Partner
AL/MC Revenues to BCHD	**$854,483**	**$1,068,104**
PACE Revenues to BCHD	**$1,296,845**	**$1,591,365**
Total BCHD Revenues	**$2,151,328**	**$2,659,469**

AL / MC Unit Mix, Financing, and Operations Projections Summary

Preliminary Financial Results at Stabilization

Scenario: 6 Story

The table below provides projected financials at stabilization (in today's dollars) for the BCHD Assisted Living / Memory Care facility. Assuming BCHD is the 20% owner of this facility, and together with PACE revenues to BCHD of $1,296,845 (not including van or in-home subcontracts), total potential revenues to BCHD are $2,253,985. If BCHD is the 25% owner of this facility, and together with PACE revenues to BCHD of $1,591,365, total potential revenues to BCHD are $2,787,790.

Revenue Stream	Available Units/Beds	Occ (%)	Occ (#)	Rate	Monthly Revenue	Annual Revenue
AL – "Premium" Units	30	95	28.5	$12,500	$356,250	$4,275,000
AL – "Regular" Units	114	95	108.3	$12,000	$1,299,600	$15,595,200
AL – "Affordable" Units	16	95	15.2	$7,500	$114,000	$1,368,000
MC (60 Semi-Private Units)	120	95	114.0	$10,000	$1,140,000	$13,680,000
Admission Fees (1/3 of All Occ. Units Turnover)	N/A	N/A	~89 (Turnovers)	$15,000	N/A	$1,330,000
Second Persons (20% of Occ. AL units have couples)	N/A	N/A	~30 (2nd Persons)	$1,500	$45,600	$547,200
Additional Personal Care Service (1/3 of all Residents)	N/A	N/A	~99	$1,500	$148,290	$1,778,400
					Total	**$38,573,800**
					Expenses (64% of Revenues)	**$24,687,232**
					Operating / Net Income	**$13,886,568**
					D/S (after Capl Period Ends)	**$9,100,867**
					Net Income After D/S	**$4,785,701**

BCHD Equity Contributions	20% JV Partner	25% JV Partner
Land Value for AL/MC JV	**$15,438,333**	**$15,438,333**
AL/MC JV Working Capital	**600,000**	**750,000**
PACE JV Working Capital	**800,000**	**1,000,000**
Total	**$16,838,333**	**$17,188,333**

	20% JV Partner	25% JV Partner
AL/MC Revenues to BCHD	**$957,140**	**$1,196,425**
PACE Revenues to BCHD	**$1,296,845**	**$1,591,365**
Total BCHD Revenues	**$2,253,985**	**$2,787,790**

The Healthy Living Campus

Evaluation of Development Strategy: PACE Preliminary Discussion Materials

June 12, 2020

CAIN BROTHERS
A division of
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BCHD
A Public Agency
Beach Cities
Health District

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PACE – Moving to a National Growth Model

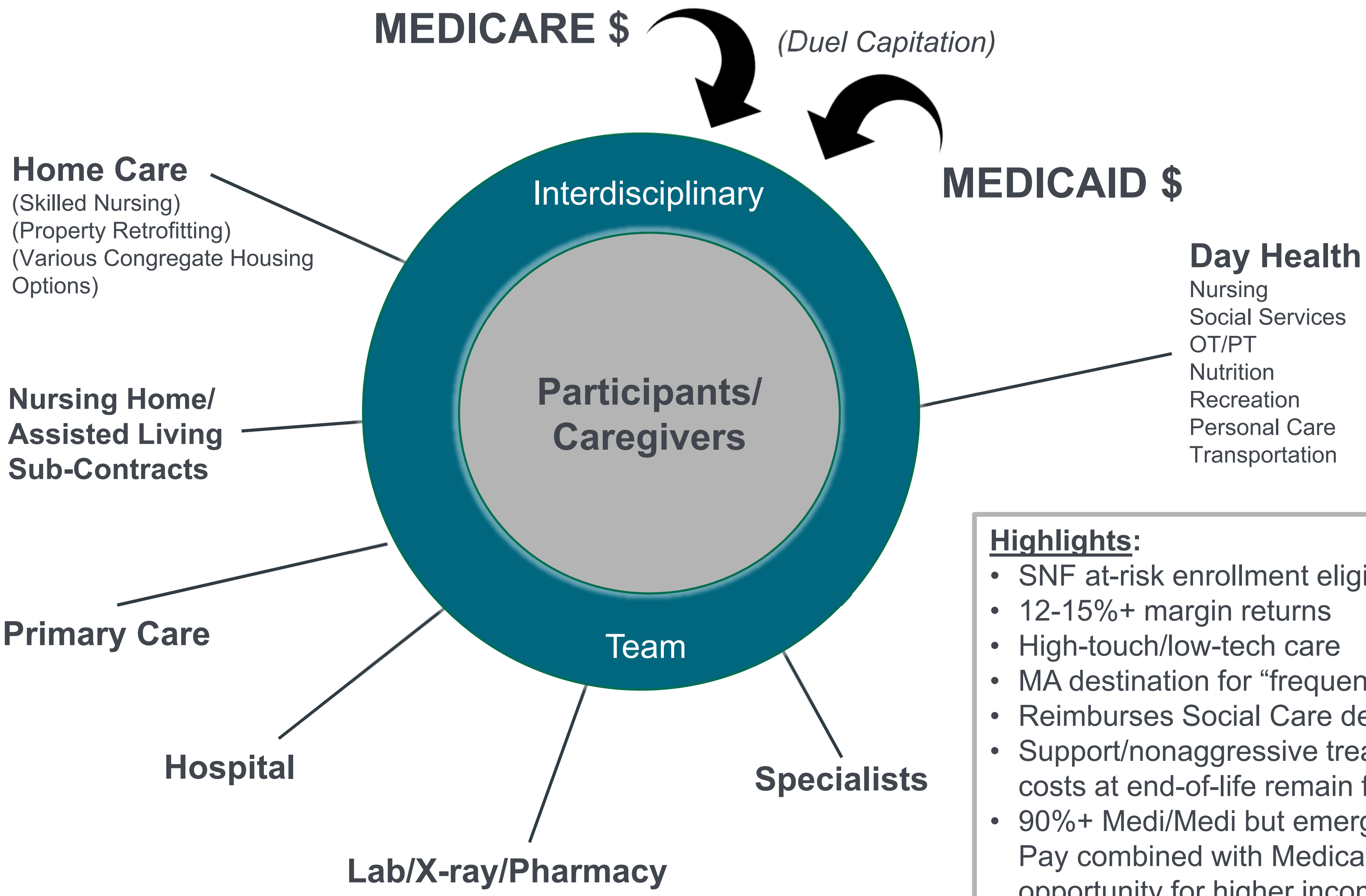
- **Overview:**
  - Program for All-Inclusive Care for the Elderly (PACE) is a capitated program designed to maintain individual's ability to live in their home and minimize medical costs while increasing quality of life through active support of social determinants of health, activities and activities of daily living and early medical intervention and wellness programs through adult day centers and primary care clinic
- **Targeted Population:**
  - Elderly individuals - age 55 and older, although the majority of participants are significantly older – typically at least age 75
  - Frail individuals – nursing home eligible
  - Low income individuals – Medi-Cal beneficiaries

PACE – Moving to a National Growth Model

- **Opportunities:**
  - Leading PACE sites can generate 12-15%+ EBITDA with annual dual Medicare/Medi-Cal capitation revenues that can reach $90K per enrollee/per annum
  - Enrollment scales rapidly and increases profitability incentivizing the need for 14,000 sq. ft. space so as to accommodate up to 200 daily users or the equivalent of 400 PACE enrollees
  - Proprietary sponsorship/investment is accelerating the velocity of new PACE development
  - An alternative to SNF placement for seniors who are “frequent flyers/high cost utilizers” allowing those individuals to remain in their home
  - Prudent program for “highest cost utilizers” out of MA/ACO plans so a potential discharge destination for Kaiser and health systems or large physician groups that have capitated financial risk
  - Partnering with affordable housing and board/care to provide service enrichment and stable living environments
  - Wide range of medical, home care, rehab services and building/maintenance costs can be subcontracted by the District at “cost-plus” rates

PACE and Co-Located Housing

Coordinated Care Model – Can be combined with living at home, ALF or senior apartments



MEDICARE $
(Duel Capitation)
MEDICAID $
Interdisciplinary
Participants/ Caregivers
Team
Home Care
(Skilled Nursing)
(Property Retrofitting)
(Various Congregate Housing Options)
Nursing Home/ Assisted Living Sub-Contracts
Primary Care
Hospital
Lab/X-ray/Pharmacy
Specialists
Day Health
Nursing
Social Services
OT/PT
Nutrition
Recreation
Personal Care
Transportation

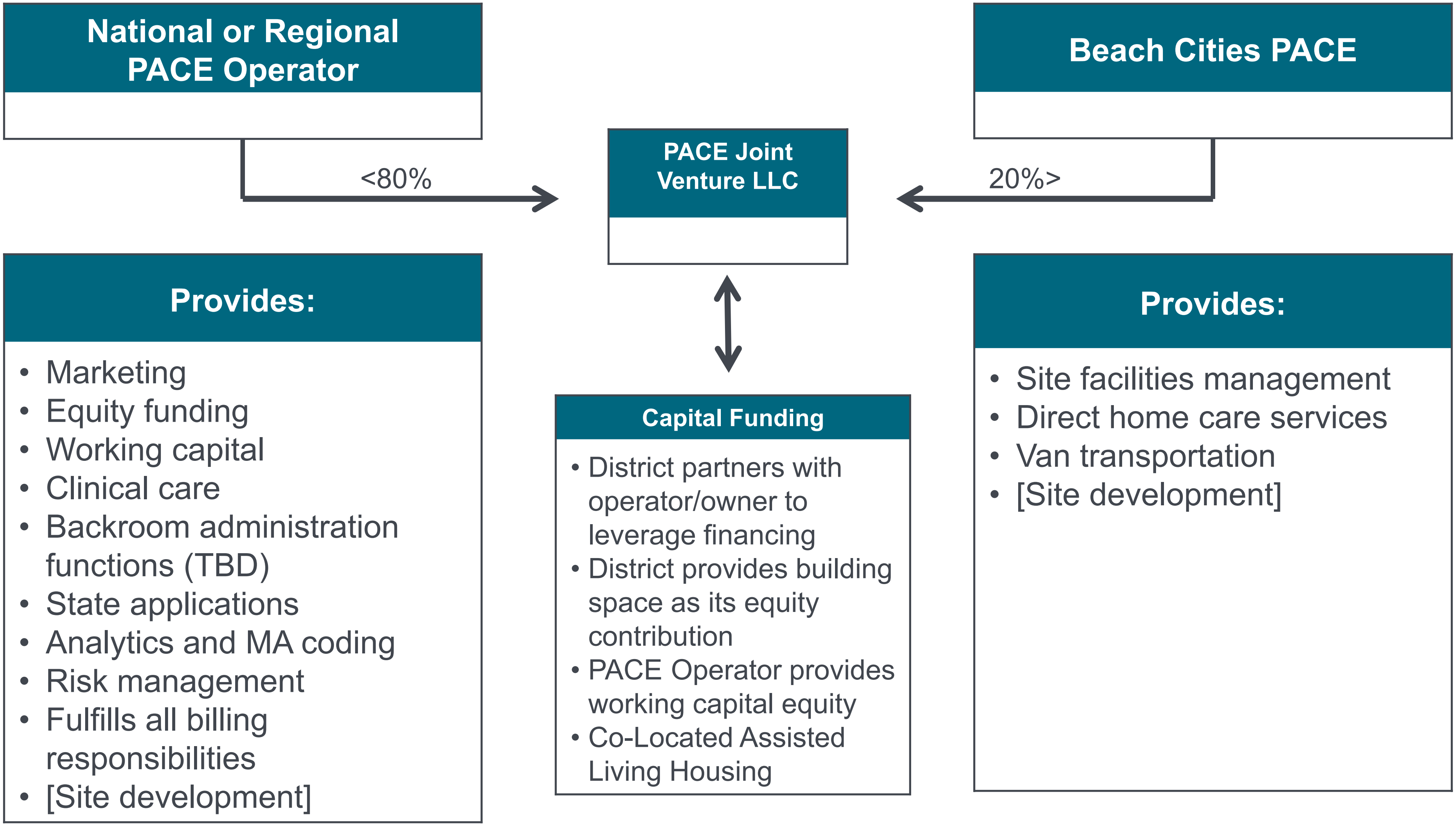
Highlights:

- SNF at-risk enrollment eligibility
- 12-15%+ margin returns
- High-touch/low-tech care
- MA destination for "frequent flyers"
- Reimburses Social Care determinants
- Support/nonaggressive treatment as costs at end-of-life remain flat
- 90%+ Medi/Medi but emerging Private Pay combined with Medicare is an opportunity for higher income seniors
- Helps keep seniors in their own homes

PACE Profitability and Valuation Grows with Scale

- Informal survey of PACE investors and existing PACE clients suggests that larger PACE sites of 14,000+ square footage can reach EBITDA margins of 12-15% with enrollee scale and site maximization being the driver of the higher earnings range
- Secondary sources of profitability exist as California reimbursement rules allow sub-contracts to be set at comparable market averages or at cost plus pricing with aligned entities – examples include property leases, in-home care, and transportation services
- The cost of new PACE Center sites will vary significantly depending on such factors as new versus site renovation construction costs and the sponsor's existing service programs and market presence and ability to drive referrals to a new site – with cost estimates ranging from $5-$6 million when renovating existing spaces to $10 million starting-up new construction for PACE programs
- PACE Center enrollment and daily attendance per center also varying significantly with approx. 400 enrollees per site being a reasonable assumption with weekly attendance of 2 to 3 days (200 per day)
- Providence operates PACE sites in WA and Oregon and could partner with the District

PACE Payer-Provider JV Concept (Possible Growth Model)



National or Regional PACE Operator

<80%

PACE Joint Venture LLC

20%>

Beach Cities PACE

Provides:

- Marketing
- Equity funding
- Working capital
- Clinical care
- Backroom administration functions (TBD)
- State applications
- Analytics and MA coding
- Risk management
- Fulfills all billing responsibilities
- [Site development]

Capital Funding

- District partners with operator/owner to leverage financing
- District provides building space as its equity contribution
- PACE Operator provides working capital equity
- Co-Located Assisted Living Housing

Provides:

- Site facilities management
- Direct home care services
- Van transportation
- [Site development]

PACE Financial Overview

Development Budget and Resulting Sources & Uses of Funds (Preliminary, Subject to Change)

The tables below show the development budget for construction of a new PACE Center on BCHD's Healthy Living Campus and the resulting financing in order to fund the construction. Under the assumption that construction takes place over 14 months and the District obtains permanent financing for a term of 30 years at an interest rate of 4.00%, approximate annual net level debt service would be ~$667,780

PACE Operator will provide funds for start-up working capital and state required reserve – approximately $4 million

Development / Construction Budget	
Hard Costs (14,000 sq. ft. @ $400 per sq. ft.)	$5,600,000
Soft Costs (14,000 sq. ft. @ $100 per sq. ft.)	1,400,000
Parking	2,000,000
Equipment / FF&E	2,000,000
Land	2,000,000
Total	**$13,000,000**

Sources of Funds	
Tax-Exempt Debt Funding	$11,000,000
Equity Contribution (Land Value)	2,000,000
Total	**$13,000,000**

Uses of Funds	
PACE Project Fund	$11,000,000
Land	$2,000,000
Total	**$13,000,000**

PACE Financial Overview

Debt Service Coverage and Revenue at Stabilization

Beach Cities Health District has two potential revenue streams if it were to develop a PACE facility on its Healthy Living Campus:

1. 20% of the “free cash flows” from the PACE operations (assuming BCHD is the minority stakeholder in an 80% / 20% JV Partnership with a PACE operator)
2. The difference between the rent from the PACE JV and the debt service on the funds borrowed to finance construction of the PACE Center.

Aggregate Operating Revenues	$43,814,302
Aggregate Operating Expenses	(38,355,056)
Aggregate Operating Income (Deficit)	*$5,459,246*
Add Backs	
Depreciation	$431,165
EBITDA	***$5,890,411***
JV Distributions	
80% of EBITDA to PACE Operator JV Partner	*$4,712,329*
20% of EBITDA to BCHD	*$1,178,082*
BCHD Projected Annual Cash Flow	
Difference between PACE Lease / Rent and Debt Service	*$118,763*
Total PACE Revenues to BCHD (not including van or in-home subcontracts)	***$1,296,845***
Debt Service	$667,780
Debt Service Coverage	***1.94x***

Recommendation

Cain Brothers recommends that the District pursue the PACE program for the following reasons:

1. Allows frail seniors to remain in their own homes until end of life
2. Provides a proven and more desirable, consumer friendly alternative to a skilled nursing facility
3. Is affordable for all seniors, specifically low income seniors
4. Provides positive cash-flow for the District to fund other activities
5. Has proven to be a highly flexible service delivery model during the COVID 19 pandemic as it allows for caring in a senior’s home or day center
6. Extends and broadens the continuum of services and programs offered and the income levels of residents served by the District

PACE Growth Strategies Next Steps

120 Day Time-Frame

- Review Cain Brothers prepared financial projections
- Determine if 14,000 sq. ft. of PACE space can be included in the Phase 1 EIR study
- Assess how affiliations with regional MA payers, health systems, and large physician groups may enhance start-up patient marketing efforts or serve as either JV investment or operating partners
- Interview a short-list of regional and national PACE providers with strong balance sheets as to their investment/JV interest in developing PACE at the Beach Cities site
- Based on findings, develop a “business plan with joint-venture governance structure” in discussions with this short-list of providers and use their input and presented deal terms as a methodology for selecting the ultimate partner