

Laguna Honda Replacement Program

Where do we go from here?

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Controller
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As costs to replace Laguna Honda Hospital have increased, Mayor Gavin Newsom asked the Controller's Office to collect information and prepare an independent analysis of the options that are available to the City. To prepare this report we looked at a variety of possible options, but concluded there are only two options worth considering:

Option 1 – Use all reasonably available funds to complete a 1,200 bed skilled nursing facility at Laguna Honda.

Option 2 – Use most funds to complete three buildings at Laguna Honda with 780 skilled nursing beds and use the remaining funds plus operational savings to purchase other long-term care services in assisted living, supportive housing, home care or other community based settings. Total people served under this option would exceed 1,800.

Background – the Laguna Honda Replacement Project

In 1999 the voters of San Francisco approved a \$299 million general obligation bond measure to construct “a health care, assisted living and/or other type of continuing care facility or facilities to replace Laguna Honda Hospital.” While the project was planned to have 1,200 skilled nursing facility (SNF) beds--approximately the historic number of beds in the current Laguna Honda Hospital--the number of beds to be built is not included in the bond ordinance. In a recent Court order, Judge James Warren states: “Nothing in the Proposition A ‘bond contract’ limits the type of facility the City must construct to a ‘long-term care facility’. Moreover, nothing in the Proposition A ‘bond contract’ requires the City to construct a facility of a specific size.” Please note that the current census at Laguna Honda is under 1,050 patients.

The original project plan included constructing 1,200 beds in four buildings in the following order:

- 300 beds in the South building
 - 60 beds in the Link building
 - 420 beds in the North building
 - 420 beds in the West building
- 1,200 beds total

plus 140 assisted living beds on the LHH site (only partially funded at \$15 million).

The proposed Laguna Honda replacement facility was estimated to cost \$401 million made up of \$299 million in bonds, and \$102 million from proceeds of a tobacco settlement and interest earnings. In March 2005, bids for the first phases of the project indicated there was a shortfall of \$84 million for a new estimated cost of \$485 million. In May 2005, additional bid information increased the cost estimate by another \$12 million. The cost overruns are attributed to increased construction escalation. The project had budgeted a construction escalation rate of 3.8% per year. In the 18 months ending last October, construction escalation had increased by about 55%.

Current estimates for entire project:

If escalation continues at:	Total project cost:
• 2.9%/mo (18 month high) (Used for DPH 3/15/05 report)	\$747 million
• 2.4%/mo (last 23 months)	\$678 million
• 1%/mo (moderate case)	\$580-\$600 million
• 3.8%/year (future drops to original projection)	\$540-\$550 million
• Most probable	\$600-640 million

These escalated total costs can be viewed as a per bed cost of approximately:

- SNF Original estimate \$322,000
- SNF Current-first three buildings \$536,000
 (heavily loaded with infrastructure)
- SNF Current-last (West) building \$350,000
 (no extra food, loading dock, etc.)

Option 1 would use \$629 million in funding to cover the estimated \$600 million to \$640 million most probable cost estimate for a 1,200 bed skilled nursing facility.

This is possible because other funding streams are now available that were not envisioned when this project was first proposed.

<u>Currently Programmed funds</u>	<u>Original proposal</u>	<u>Current View</u>
General Obligation bonds	\$299 million	\$299 million
Tobacco Settlement before bonds are issued	\$80 million	\$92 million
Other—primarily interest	<u>\$22 million</u>	<u>\$10 million</u>
Sub-total	\$401 million	\$401 million

New Funding (see explanations on following page)

1. Issue Certificates of Participation (COPs) using the general fund as credit but to actually be repaid using federal revenue made available through SB1128 \$120 million
2. Use NEXT \$100 million of Tobacco Settlement funds \$100 million
- Total funds that could be made available **\$621 million**

1. Issue COPs to be repaid using Federal revenue available through SB1128

This 1999 bill, by State Senator Jackie Speier, allows the City to receive additional Federal funds by billing for the cost of debt service once we build new SNF beds at Laguna Honda that are occupied by Medi-Care sponsored patients. This new stream of revenue can be leveraged through COPs to provide additional funds for the project. Legally, the COPs would be guaranteed by the City's General Fund, but the assumed source for repayment would be the additional Federal reimbursement.

2. Use NEXT \$100 million of Tobacco Settlement funds for construction

Proposition A requires that "the first \$100,000,000 of available tobacco settlement revenues...shall be applied to...construction [and additional receipts should be applied to debt service]. The proposition also defines available tobacco settlement revenues as tobacco settlement payments the City receives over the term of bonded debt. Since the City has not issued any debt, the tobacco settlement revenues received to date would fall outside this definition. While this interpretation has been challenged, it prevailed in the recent court litigation. Based on this interpretation, instead of spending a total of \$100 million in tobacco settlements revenues on Project costs, the City could choose to apply the approximately \$92 million of tobacco settlement revenues received before bond issuance **and** the next \$100 million received after bond issuance for a total of \$192 million from this source.

This would mean that property tax payers would be responsible for an additional \$100 million of debt service since the tobacco settlements funds wouldn't be available for this purpose. However, since 1999, tobacco settlement funds have amounted to significantly more than were originally projected and the total cost of borrowing has been reduced by more creative financing techniques. That means that property tax payers would still be projected to pay \$189 million less than was originally proposed even if they had to pay the additional \$100 million (see table below).

Property Tax effect:

	<u>Bond Repayment Sources</u>		
	Property Tax	Tobacco Settlement	Total
Original 1999 estimate	\$315 M	\$215 M	\$530 M
Current estimates	\$26 M	\$443 M	\$469 M
If \$100 million more tobacco settlement used for construction	\$126 M	\$333 M	\$469 M

Note: Original property tax payments of \$315 million would drop by \$189 million to \$126 million under this proposal.

Option 2 would provide a mix of long term care for over 1,800

individuals. The City would use all of the funds identified in Option 1 plus the General Fund share of the operational savings that would occur since fewer SNF beds would be maintained at their relatively high cost. These funds would provide for 1,015 beds on the Laguna Honda campus and pay for the annual cost of care for another 790 individuals in various community-based settings.

Construction costs:

- a. Use \$482 million--\$299 million of the general obligation bonds, plus the \$120 million COPs (SB 1128 monies), \$10 million in interest and \$53 million of tobacco settlement funds--to complete the first three buildings with 780 beds.
- b. Use \$59 million of tobacco settlement funds to build 235 assisted living and/or supportive housing beds at Laguna Honda (at approximately \$250,000 per bed). This could build 5 floors of the West Building with 47 units of assisted living per floor. This would be substantially more than the 140 assisted living beds that were only partially funded in the original plan. These beds added to the 780 SNF beds would provide 1,015 beds at the Laguna Honda campus.

Annual units of service: Attachment A is a paper prepared by the Mayor's Office of Disability that provides examples of how long term non-skilled nursing services might be provided and the number of people who could be served. It conservatively estimates that 100 people could receive long term care in a mix of settings for about \$2 million per year. Since the total saved under Option 2 c, d and e amounts to \$15.8 million dollars annually, approximately 790 people could be served per year.

- c. Use \$80 million of previously received tobacco settlement revenues that could be freed up when the general obligation bonds are issued. These funds could be invested in a trust fund and used for other long-term care needs for 25 years until the Laguna Honda bonds are paid off. We estimate this trust fund would generate about \$5.4 million per year that could fund the long-term care needs of **270 people** per year. Once the Proposition A bonds are paid off the City would no longer be constrained to use tobacco settlement revenues for any particular purpose; any further receipts could be used to maintain this trust fund or allocated to pay for similar long-term care programs.
- d. Use \$6.1 million annually of operating savings from the 185 SNF beds not built (West building drops from 420 to 235) to provide assistance to an additional **305 plus people** with long-term care needs. This calculation assumes that the General Fund cost per day of a SNF bed is approximately \$100. Most of these costs are staffing, food and similar costs that are not fixed; so we assume that the City would save about \$90 per day per bed for each SNF bed that we do not build.
- e. Use an additional \$4.3 million in savings by having 235 assisted living or supportive housing beds rather than SNF beds to provide assistance to another **215 people**. This calculation assumes that the City could contribute \$50 per day

with a Medi-Cal waiver for this lower level of care rather than the \$100 per day currently paid for SNF beds.

Using the various levels of institutional and community care offered in Option 2 would presumably be responsive to concerns of the Department of Justice that have been expressed over the past several years.

Terminology: This report uses terms like "beds", "people" or "individuals" somewhat interchangeably for the convenience of the reader. They do not refer to services only available over time to one person, rather they are meant to indicate the availability of services to a total number of people at any one time.

Attachment A

**Estimates for Housing, Medical and Supportive Care Costs for
People Discharged from LHH**

(Excerpts from a report by the Mayor's Office on Disability
Susan Mizner - April, 2005)

Background & Summary

The City is considering adding funding to long-term care needs other than skilled nursing beds. The question presented is what community care could be provided at what price? In short:

Q: How many people, eligible for services at LHH, could be served in the community at service levels similar to Laguna Honda?

A: For each \$2 million, 100 people could be served.

Assumptions and Analysis

Of the people able to leave a skilled nursing facility and return to the community, (currently 84% of the LHH residents according to data from TCM), Targeted Case Management staff estimate that 25% would want to live in a Board and Care facility, 50% would want supportive housing, and 25% would want to return to their own home or live in independent housing (with outside supports).¹

So, for every 100 people discharged from LHH, their preferred living situations would break down as follows:

- 25 Board and Care
- 50 Supported Housing
- 25 Own home or independent unit

Board & Care

For Board and Care residents, the cost to the city would be a straightforward "patch" for the providers, above what they receive from SSI or Social Security.² The best numbers available for that patch would be \$1600 / month per resident, or, \$19,200 per year.

Total cost to county for 25 people in Board and Care = \$480,000

¹ Data from national surveys support this. There is currently a large body of research regarding trends in long-term care use. Seniors are living healthier longer, and staying home longer. The data shows that few seniors want nursing home placement, and the availability of new models of service, such as PACE and assisted living, has helped seniors avoid nursing home placement longer or altogether. Nationally and in California, nursing home bed occupancy rates have steadily decreased, and are currently around 81%.

² Charlene Harrington, PhD, testifying at the Mayor's Disability Council, cited a study that found 315 available slots at residential and board and care facilities. Of these, half of the providers said they would be willing to take on more clients with substance abuse, cognitive impairment, or behavioral problems if the reimbursement rates were higher. This patch is the estimated need.

Supportive Housing

Supportive Housing comes in a range of forms. Some supportive housing is in Single Room Occupancy units, others include private units where services can be provided to many people at the same location. Models for seniors are available through HUD's 811 buildings or On Lok.

For people entering Supported Housing, there would be both housing and care costs. The care costs would vary according to need, but would primarily be covered by programs such as IHSS, PACE, Adult Day Health, and waiver programs. To be conservative, these numbers do not include the waiver programs (which are **no** cost to the county).

Population assumptions per 50 people

- 10% of people in supportive housing would need only IHSS services – 5
- 50% would benefit from, and be able to get into, a PACE program – 25
- The remainder, 40% would get services from both IHSS and Adult Day Health – 20
- About a third may also receive one or more home delivered meals per day – 15

The cost breakdown per person to the County for these assumptions would be as follows:

Supportive Housing costs - \$42/ day or 15,330 / year.

IHSS costs – Not all clients would need the maximum number of hours of care each month (approximately 9 hours of care a day). However, that maximum is assumed for these cost estimates. County costs for clients range from \$21 to \$35 / day, or \$7665 to \$12,775 / year, depending on whether this is the Independent Provider mode or Consortium services. Ave = \$10,220/yr
Those who receive only IHSS tend to be relatively stable medically, but have functional limitations that interfere with their ability to dress themselves, cook, clean, etc. Any medical care that they needed would be covered by MediCal, through visits to community clinics, etc.

PACE costs – to county are ZERO (This is an all-inclusive program with medical care, support services and meals provided.) This is also a program with 300 slots *currently* available.

Adult Day Health costs – to county are currently zero, MediCal covers all but an average of \$15 / day. If the county were to cover that cost, it would amount to \$5470 / yr. This is another program with slots *currently* available and with room for expansion.

Cost Totals

SH + IHSS = \$15,330 + 10,220 = \$25,550 / yr x 5 = \$ 127,750
SH + PACE = \$15,330 + 0 = \$15,330 / yr x 25 = \$ 383,250
SH + IHSS + ADH = \$15,330 + 10,220 + \$5470 = \$31,020 / yr x 20 = \$ 620,400
+ HDM = \$2190 x 15 = \$32,850

Total to county for 50 People living in Supportive Housing = \$1,164,250

Independent Housing

Like supportive housing, this is a combination of housing costs and service/medical costs. This is the most difficult category to average. Many people would require a one-time expenditure to enable the person to modify or keep their housing. Some would require housing subsidies.

The assumptions are:

- 20%, or 5 of the 25 could return to a home that they own or could live with family. If funds were needed to rehab the home to make it accessible, CHRP funds could be accessed. (This is a little used fund available for a range of home rehabilitation, including access.) Cost to county = 0
- 50%, or 12 of the 25, could return to housing they were previously in, usually government subsidized (e.g. Housing Authority) or section 8 housing. Costs here would include both bridge rent payments, until released from the hospital or rehab, and possible renovations to make accessible, with one-time home modifications ranging from \$12K to \$42K.

Cost to county = \$30K (average cost) x 12 = \$360,000 one-time cost.

- 30% , or 8 of the 24, would want to be placed in independent, affordable housing, or provided a rent subsidy. The rent subsidy could range from \$500 to \$1500 per month, averaging \$1000/ month or \$12K / yr.
 Cost to county = \$12K x 8 = \$96,000 on-going

The medical and support costs would be similar to costs in supportive housing.

Cost Totals for Independent Housing

IHSS = \$10,220 / yr x 2 =	\$ 20,440
PACE = \$0 x 13 =	\$ 0
IHSS + ADH = \$10,220 + \$5470 = \$15,690 / yr x 10 =	\$ 156,900
+ HDM = \$2190 x 10 =	\$21,900
Total medical and service, and rent subsidy costs =	\$295,240
One-time cost of \$360,000 for access changes, amortized over average life expectancy 5 years =	\$72,000 / year.

Total cost to county for 25 people living in independent housing = \$367,240

Grand total for 100 people leaving LHH and living in the community:

Board & Care =	\$480,000
Supportive Housing =	\$1,164,250
Independent Housing =	\$367,240
Grand total	\$2,011,490

Note re: Specific Populations: These calculations do not always factor in the varying needs of the population of LHH. About 40% of the LHH population has a primary psychiatric diagnosis or substance abuse issue and will need some form of community mental health services (including day treatment, counseling, mental health board and care, etc.)

It is important to note that, **the services to meet these unique and different needs can be secured primarily through programs that will cost the county nothing.** Specifically, Home and Community based Waivers can provide additional attendant/home nursing care (Nursing Facility Waiver), case management (Nursing Facility Waiver, MSSP, AIDS Waiver), as well as other incidental services for LHH residents. Waivers are 100% state and federal Medi-Cal funds, and are at no cost to San Francisco. In addition, Proposition 63 will provide \$50 million to SF for first year (planning year) and more thereafter to provide community mental health services and supports, including housing options. Proposition 63 funds can be used to drawn down federal matching funds, again, at no increased cost to San Francisco.