

## Property Purchase Proposal - Executive Summary

Date: March 27, 2019

Prepared by: Donna L. Belusar, Ph.D. President / CEO ADEC

Consulting: Cressy Commercial Real Estate Services

On January 18, of this year, ADEC agreed to assist in the transition of 30 supported living waiver clients from MDC Goldenrod. The transition has proven successful. ADEC is proud that we were able to draw on our resources to insure the safety and care of individuals served. Now we face a longer-term housing challenge and believe the solution for continued long-term care for the former MDC Goldenrod clients is maintaining where they currently live and are being served.

At Thursday's March 28<sup>th</sup> Board meeting, **I would like to receive your Yes vote** on a proposal to make a conditional purchase offer on the 6 former Goldenrod residences homes – five have tenants and one is the former administration office in Goshen (*plus two small empty lots*). The two Middlebury homes are not being purchased. Timing is critical as this requires Zoning Appeals and going forward would require MDC's involvement as they must sign-off on appeals/variances.

### Proposal Summary:

- ADEC would make a **conditional purchase offer for \$800,000 to \$1,100,000**, through Broker, Cressy Real Estate. Current market value is \$1,068,952 - \$1,075,522.
  - Closure is conditional upon obtaining a required "Use Variance" from the Goshen Zoning Board – appeal application /narrative due by May 8, Public Hearing May 28.
- A national competitor Res-Care is also reviewing these properties for potential purchase.
  - *ResCare, Inc., founded and headquartered in Louisville, Kentucky, is dedicated to impacting communities for the better with a mission to help people live their best life. As the largest diversified health and human services provider, and the fastest growing through acquisitions and targeted market entry. ResCare is the largest private provider of services to people with disabilities.*
- Purchasing the homes allows ADEC to continue housing the 23 Supported Living clients living there as their rental contract with MDC Goldenrod is set to run through the end of this year, subject to 30 days cancellation by property owner.
- Full utilization of the houses allows for growth up to 34 tenants.
  - If the rental agreement between clients and MDC Goldenrod is not renewed at year end, we face a difficult task of potentially relocating the 23 clients to available apartment/house rentals in the Goshen community.
- The proximity of these homes allows for better staff utilization, care of individuals, access to transportation and the community and complies with HCBS.

- If our offer is accepted, and the “Use Variance” is approved, ADEC will take ownership and manage the properties for at least three years, before considering future strategic development plans which would be subject to zoning issues.
  - Goshen site is complex with multiple zoning and requires BZA reviews and approvals for any strategic planning and redevelopment
  - We are initially looking to have the variance to continue operations ‘as is’.
  - Future development is subject to zoning with flexibility to sell of existing homes to single residences or partnership development of housing (e.g. apartments, etc.)
- Excluding the initial purchase price, the first few years of net cash outlay is minimal to operate these homes. The Income Statement shows a deficit due to including the non-cash depreciation and allocations.
- No debt is required. Cash funding is available through our fixed income 1<sup>st</sup> Source account.

Additional Information provided:

ADEC Property Purchase Analysis

Cressy Broker Opinion of Value, March 26, 2019

CMS Home and Community Base Setting Update, March 12, 2019

## **ADEC Property Purchase Analysis**

### **ADEC Proposal**

- ADEC would make a conditional purchase offer for \$900,000 to \$1,100,000, through Broker, Cressy Real Estate
  - Requires approved "Use Variance" through Goshen City BZA
  - When approved, ADEC would take ownership and manage the properties "As Is" for at least next 3-5 years

### **Considerations**

- "What got us here, is not going to get us there." - HCBS Compliance
- Long-Term Strategic development of HCBS Waiver Residential Options
- Goshen Zoning - complex and non-transferrable variances
- New Line of Business for ADEC – would require additional external reporting/990

### **Former Goldenrod Homes**

- The MDC Site includes five parcels with three difference Zoning Implications
- These are not Group Homes, mix style of single-family homes and duplexes
- Aged residences not intentionally built for ADA / IDD, but adapted and modified over the years (mostly through volunteers)
- Market assessment only, no formal inspections for hazardous materials or deficiencies
- Currently under occupied - 20 Tenants; Zoning allows for growth up to 31
- Current Tenants have rental agreements through 12/31/2018, subject to 30-days' notice

### **Analysis**

- Residential Care "Fee for Service revenue / expenses" reported and managed separately from property management business
- Property Management would reflect rental income and expenses for owning and maintaining the homes
- Two Valuation Methods - Market Approach and Income Approach

### **Future Strategic Steps**

- Future re-development, post 2022
- Establish a separate LLC under ADEC for Property Management (exclude all group homes)
- Redevelopment on existing Goshen property or sell-off and develop on new land
- Strategic partnership with housing (e.g. LaCasa)

## Market Value Approach

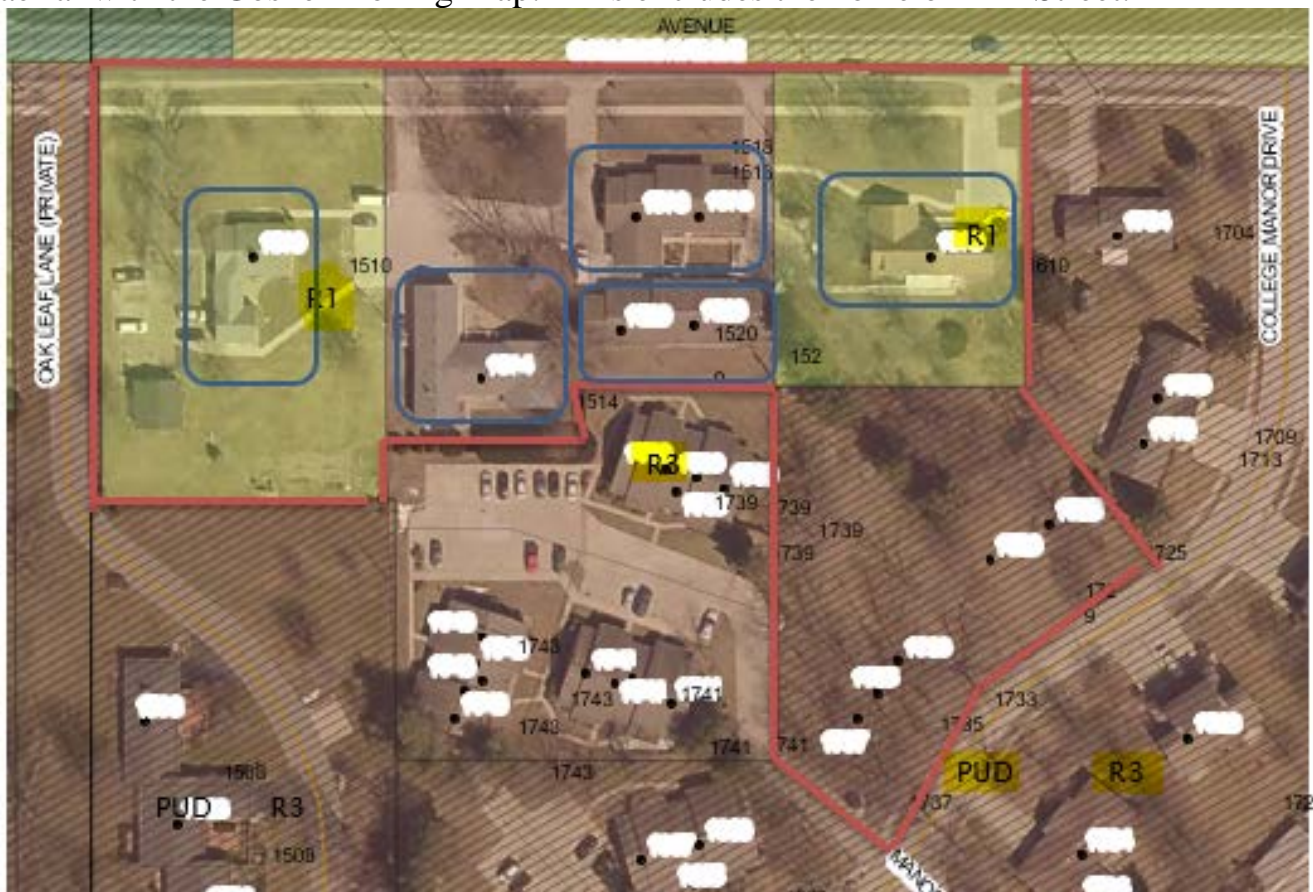
ADEC hired Cressy Real Estate to provide Broker Opinion of Value. This analysis is complete. In addition, ADEC was provided the market assessment completed by ReMax, commissioned by MDC Goldenrod.

Both market valuations are similar:

- Cressy - \$1,068,952
- ReMax - \$1,075,522

The values of the individual structures are highest using the Market Approach, as single-family homes or individual duplexes.

The 6 homes are in six different parcels. The MDC site on College Avenue is complex, with multiple zonings. The site that includes five parcels, three with frontage on College Avenue and two with frontage on College Manor Drive, the zoning includes Residential R-1, Residential R-3, and Residential R-3PUD (Planned Unit Development), shown on the attached aerial with the Goshen Zoning Map. This excludes the home on 14<sup>th</sup> Street.



## Income Approach

In addition to the Market Approach, ADEC and Cressy Real Estate independently generated a model for investment.

Both valuations are comparable. Cressy deducted traditional expenses such as utilities, insurance, a 10% property management fee and 1% annual replacement. We believe, based on our experiences, the age of the homes and upkeep, the expenses are much higher, though the results are comparable at an EBIDA level.

- Cressy - \$646,222 / 6% Cap Rate
- ADEC - Equivalent (EBIDA Level): \$ 618,099

From an investment perspective, market rents in the Goshen area do not support a reasonable rate of return after deducting traditional expenses and overhead costs.

## Financial Analysis Approach

The following is a five-year projection, with the critical dependency of "Use Variance" and full occupancy of the homes. For analysis purposes only, at **HIGH** end range of Purchase Price

	Ongoing Maintenance / Refresh						5 Year Total
	July-Dec 2019	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	
<b>Purchase Property</b>	\$ 1,100,000	\$ 50,000					\$ 1,150,000
Initial Acreage - Estimate	3.12						
Building SF	12,270						
Existing Homes	\$ 1,100,000						
Closing Fees, Legal, Consulting	\$ 55,000						
Development Phase	No Changes	Remodel					
NUMBER OF TENANTS	23	26	34	34	34	34	
RENTAL INCOME	\$ 62,100	\$ 140,400	\$ 183,600	\$ 183,600	\$ 183,600	\$ 183,600	\$ 936,900
EXPENSES							
SALARIES/WAGES & BENEFITS	\$ 16,853	\$ 33,706	\$ 53,568	\$ 54,372	\$ 55,187	\$ 56,015	\$ 269,701
OUTSIDE SERVICES	\$ 2,750	\$ 5,500	\$ 5,583	\$ 5,666	\$ 5,751	\$ 5,837	\$ 31,087
SUPPLIES	\$ 600	\$ 1,200	\$ 1,218	\$ 1,236	\$ 1,255	\$ 1,274	\$ 6,783
OCCUPANCY COSTS	\$ 47,650	\$ 95,300	\$ 98,116	\$ 99,283	\$ 100,467	\$ 101,669	\$ 542,485
EQUIPMENT COSTS	\$ 2,925	\$ 5,850	\$ 5,863	\$ 5,876	\$ 5,889	\$ 5,902	\$ 32,304
TRAVEL COSTS	\$ 500	\$ 1,000	\$ 1,015	\$ 1,030	\$ 1,046	\$ 1,061	\$ 5,652
TECHNOLOGY	\$ 475	\$ 950	\$ 964	\$ 979	\$ 993	\$ 1,008	\$ 5,370
OTHER AGENCY COSTS	\$ 256	\$ 513	\$ 521	\$ 528	\$ 536	\$ 544	\$ 2,899
ALLOCATIONS	\$ 5,750	\$ 11,500	\$ 11,673	\$ 11,848	\$ 12,025	\$ 12,206	\$ 65,001
TOTAL EXPENSES	\$ 77,759	\$ 155,519	\$ 178,520	\$ 180,818	\$ 183,150	\$ 185,517	\$ 961,283
NET SURPLUS/(DEFICIT)	\$ (15,659)	\$ (15,119)	\$ 5,080	\$ 2,782	\$ 450	\$ (1,917)	\$ (24,383)
EBIDA - (excludes non-cash)	\$ (576)	\$ 15,048	\$ 37,086	\$ 34,963	\$ 32,809	\$ 30,622	\$ 149,952





# Broker Opinion of Value

Brokerage Services | Property Management | Construction | Development | Virtual Solutions

## Multiple Properties in Goshen, IN

### Prepared For:

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President/ Chief Executive Officer  
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Global Brokerage Division of Cressy Commercial Real Estate

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*Note: Each individual Property Information section above will include a summary of the property including assessed values, real estate taxes, photographs, sketches (if available), title work review and our comments plus the notes from your tours of the property. These “snapshots” will give you a good understanding of each property and how it compares to each other and how it fits into the Goshen marketplace.*

March 26, 2019  
Donna L. Belusar, PHD  
President/ Chief Executive Officer  
ADEC, Inc.  
19670 SR 120  
Bristol, IN 46507

Dear Dr. Belusar:

This report is provided for the limited use of planning and internal review. It is not an appraisal and was not prepared in accordance with appraisal guidelines. This report is considered a consulting report intended to reflect Property Value as it relates to the local and regional real estate market. This Opinion of Value, as stated herein, is based on the assumption that the property is not negatively affected by the existence of hazardous substance, ADA deficiencies or other condition, unless otherwise stated in this report. The undersigned is not an expert in the identification of hazardous substances and ADA regulations. It is possible that tests and inspections made by qualified experts would reveal the existence of hazardous substances, ADA or other conditions on or around the property that would negatively affect its value.

Two valuation methods were used in this analysis, the Market Value Approach and the Income Approach. In summary, it is our opinion that the values of the individual structures are highest using the Market Approach, as single family homes or individual duplexes. From an investment perspective, market rents in the Goshen area do not support a reasonable rate of return after deducting traditional expenses and overhead costs.

Market Approach to Value - \$1,068,952

Income Approach to Value - \$646,222 / 6 % Cap Rate

This valuation is reflective of current market conditions. No technical inspection has been made as a part of this Report. This valuation assumes that all mechanical, roof and structural components are maintained and in good condition and that the property is free of any environmental problems.

Sincerely,



Christopher J. Barth  
Senior Broker  
License #RB14043585



Ryan Gableman  
Senior Broker / Principal  
License #RB14049453



## PROPERTIES SUMMARY

Building SF	12,270
Lot Size	3.12 Acres
Year Built	1945 thru 1989
Bedroom	20
Bathrooms	13 1/2
Assessed Value (combined)	\$900,489 / \$112,561 Average
Annual Assessments	\$2,086.64
Mortgages	Three mortgages total equaling \$400,000 (1514, 1518, 1520 and 1610 College Avenue) per preliminary title policy.

## VALUATION SUMMARY

Property Address	1514 College Avenue 2,816 SF	1510 College Avenue 1,836 SF	1518 College Avenue 1,530 SF	1520 College Avenue 2,584 SF
Market Approach to Value	\$82.71 PSF \$232,898	\$151,855	\$126,546	\$213,722

## VALUATION SUMMARY

Property Address	1610 College Avenue 2,448 SF	College Manor Drive Site #6 – 0.49 Ac	College Manor Drive Site #7 -0.38 Acres	1404 S. 14 <sup>th</sup> Street 1,058 SF
Market Approach to Value	\$82.71 PSF \$202,474	\$27,440*	\$21,280*	\$87.82 PSF \$92,737

*\*A review of residential lot sales in newer subdivisions on the south side of Goshen indicate during the last five years an average range of \$45,000 to \$65,000 per acre. We utilized an average of \$56,000 per acre for the valuation of the two land parcels above.*

## Summary Overview of All Properties

	Site #1	Site #2	Site #3	Site #4	Site #5	Site #6	Site #7	Site #8
	1514 College Avenue Admin. House	1510 College Avenue Kauffman House	1518 College Avenue Cornerstone East/West	1520 College Avenue Hope / Harmony House	1610 College Avenue Omega House	College Manor Drive Vacant Lot #6	College Manor Drive Vacant Lot #7	1404 S. 14 <sup>th</sup> Street Faith House
Building SF Lot Size Year Built	2,816 0.35 Acres 1945	1,836 0.94 Acres 1949	1,530 0.35 Acres 1989	2,584 0.35 Acres 1989	2,448 0.55 Acres 1959	0.49 Acres	0.38 Acres	1,056 0.26 Acres 1962
Bedroom Bath	3 2	3 3	3 4	4 2	4 2 1/2			3 1
Assessed Value	\$199,513	\$145,900	\$108,400	\$183,076	\$152,200	\$13,200	\$11,800	\$86,400
Assessed Value PSF Or Per Acre	\$70.85	\$79.47	\$70.85	\$70.85	\$62.17	\$26,938	\$31,052	\$81.81
Real Estate Taxes or Assessment	\$10**	\$15**	\$10**	\$10**	None	None	None	\$2,041.64
Mortgage	\$200,000 <u>\$100,000</u> \$300,000*	None	*	*	\$100,000	None	None	None

\*Mortgages apply to 1514, 1518 and 1520 and 1610 College Avenue in the total amount of \$400,000

\*\*Storm water assessment

We understand that this Broker Opinion of Value purpose is to identify the true market value of the properties as they stand today in the condition they are currently in and to assist you in making the best informed real estate decision for ADEC and for the needs of the tenants. We also understand that you may wish, at some time in the future, to sell these properties and move all of the tenants into one facility. We have discussed those issues in the assets and challenges as well as in the detail section for each property.



## ASSETS

- Located adjacent to Greencroft Development and near Goshen College on the well travelled College Avenue with over 7,000 cars daily.
- The immediate marketplace includes single family residential housing and developments and commercial businesses along College Avenue.
- Potential to be sold to an investor who would typically renovate the buildings for sale or lease or keep them for an income stream and add to their portfolio.
- Residential monthly rents rates range from \$645 to \$1,200 indicating a good rental market exists according to third party sources that we deemed reliable.
- The properties are located in an Opportunity Zone which is an economic development tool to attract investment into the community.
- Limited available land sites in the immediate area for new development.
- The asset includes two nearby residential land parcels that could be developed to expand the subject property with housing or the parcels could be sold individually or as a package for a buyer/user.
- Opportunity to sell all of the properties for redevelopment purposes.

## CHALLENGES

- Age of the properties.
- Any deferred maintenance including but not limited to, roof, structural components, HVAC, plumbing, electrical and/or existing or previous water damage and any resulting impact (mold, pests, etc.) along with the cost to remedy any and all such items.
- Determination if renovations/updates needed would exceed the market value of each property (any remediation for mold and pest control).
- Any rebuilds on the property would mandate significant zoning changes as these were built and modified over the decades.
- Any issues that might arise with fee simple title to be transferred to you.
- Tax implication for a potential buyer if it is not a non-profit entity.
- Request a copy of any rental inspections reports by any municipalities or governing agencies.

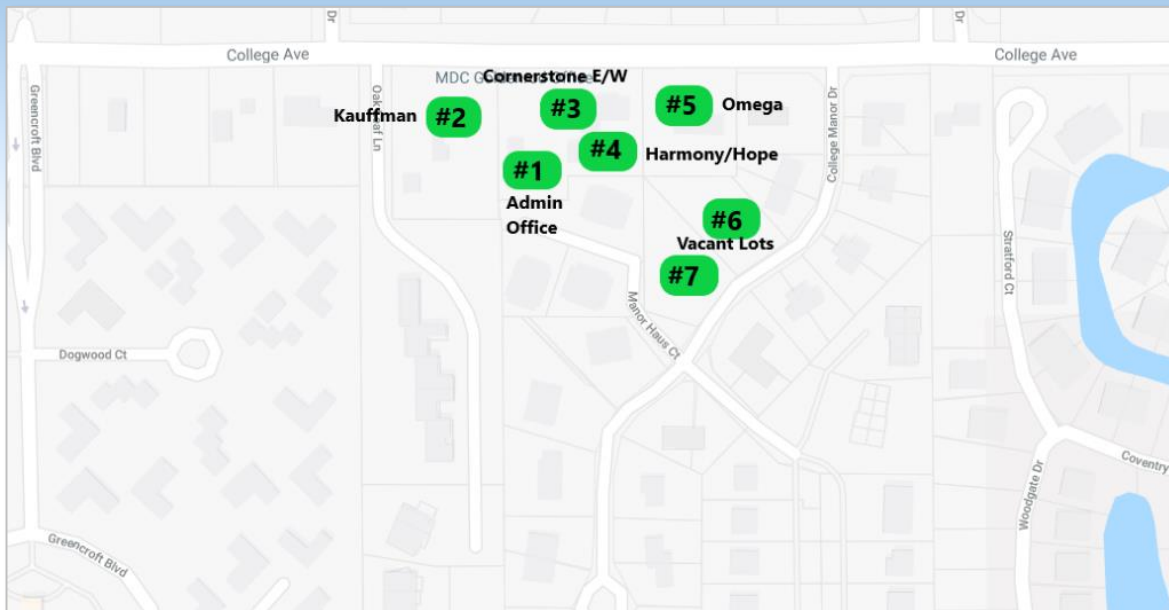


## BROKER DISCLOSURE

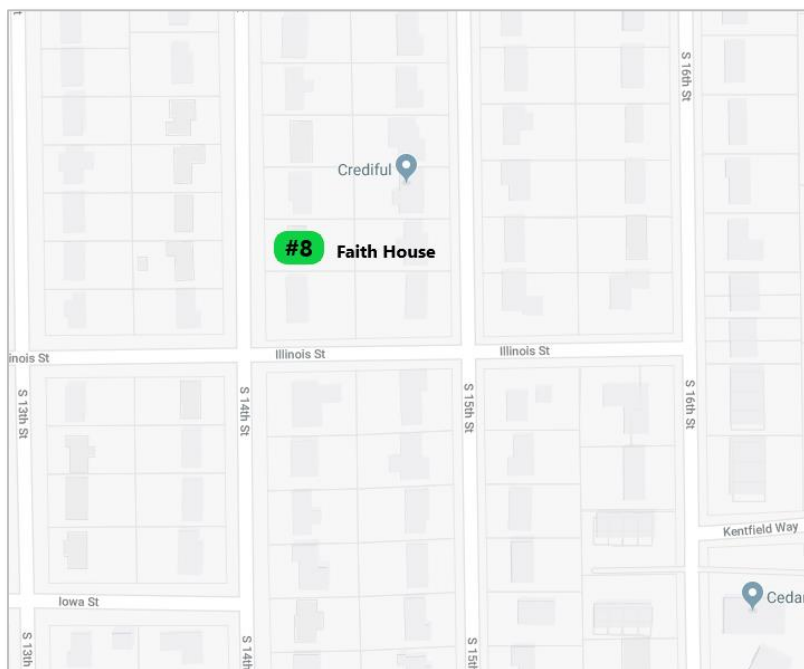
We have not been provided a copy of easements, survey, or environmental studies regarding the environmental integrity of the property. Any negative issues arising from any of these reports will affect the market value of the property perceived by a potential buyer.

## BROKER'S SUGGESTIONS AND THOUGHTS

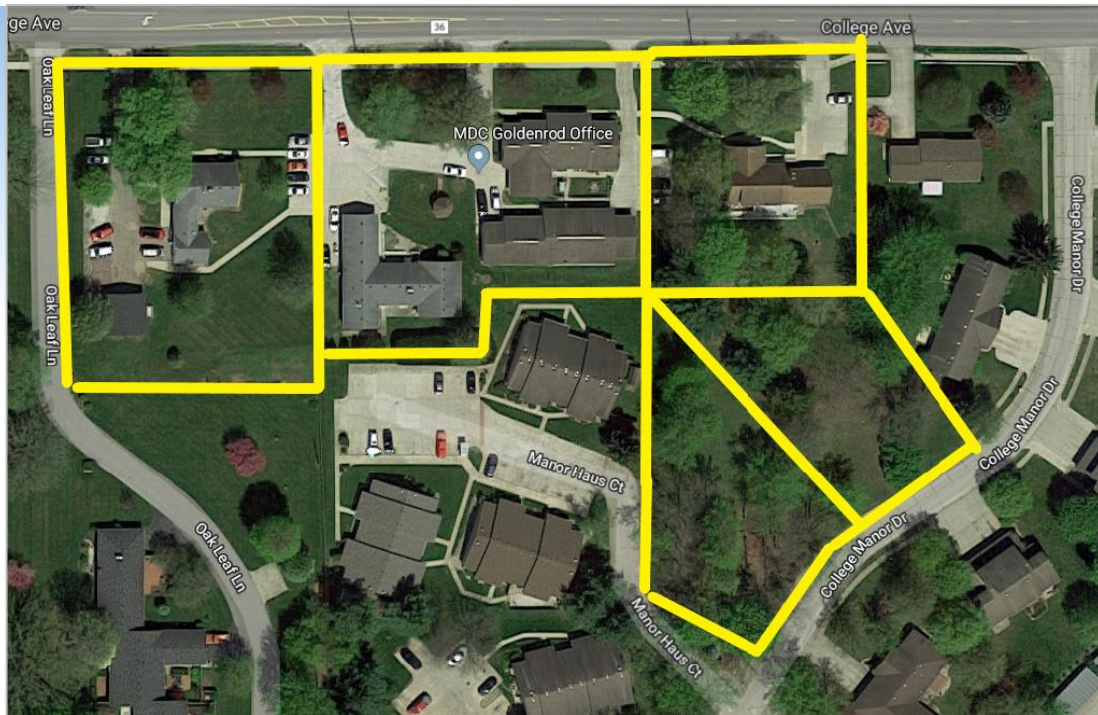
1. We would recommend under the inspection report in the Purchase Agreement that we have very specific outline of the inspections that we would require (in particular for mold, roof, electrical, plumbing and pests) and the owner's liability to cure defects or the contract can be null and void or the amount to correct problems will be deducted as accredit at closing upon agreement by both Parties.
2. Since you have already received and provided us a copy of the preliminary title insurance policies for all of the properties except the two vacant land parcels (Site #6 and Site #7) we would recommend an update by the title company followed by a review by your attorney.
3. After our tour on March 20, 2019 and reviewing your tour notes, in the Purchase Agreement, as a further condition of the sale we should incorporate language requiring the Owner to provide copies of any health or property inspections as well as any existing reports by any municipal and/or state or federal agencies including details on the remedies, if necessary and that Owner is responsible for curing any outstanding issues.
4. If any of the properties were to be put back on the market we anticipate that the lack of ADA accessibility in some areas, the current configurations with narrow door ways and hallways could impact the market value of the properties.



Site #	Address
1	1514 College Avenue Administration Office
2	1510 College Avenue Kauffman House
3	1518 College Avenue Cornerstone East / West
4	1520 College Avenue Hope / Harmony
5	1610 College Avenue Omega House
6 & 7	College Manor Drive (vacant lots)
8	1404 South 14 <sup>th</sup> Street Faith House







**College Avenue and College Manor Drive Properties**



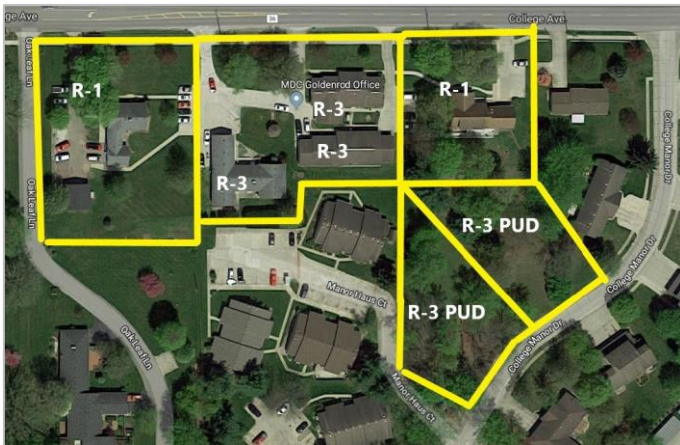
**1404 South 14<sup>th</sup> Street**



**R-1: Residential District (Single Family).** The intent of this district is to permit single family detached dwelling units and the necessary accessory uses commonly found in a single family residential neighborhood. Certain other uses shall be permitted in this district as set forth in this ordinance.

**R-3: Residential District (Multi-Family).** The intent of this district is to permit multi-family dwelling units or a mix of single family, two-family, and multi-family dwelling units and the necessary accessory uses commonly found in similar types of residential developments. Certain other uses shall also be permitted in this district as set forth in this ordinance. However, no office or commercial uses will be permitted in this district.

**PUD: Planned Unit Development District (Overlay District).** The intent of this district is to permit an alternative district for the unique and rational uses of land. This zoning district would allow for the mixing of the full range of uses and activities subject to the conditions of this ordinance. This district shall require submittal of a site plan showing location of uses, density of uses, parking, etc. Detailed requirements will be set forth in this ordinance.





Centers for Medicare & Medicaid Services

## Home and Community Base Setting Rule (HCBS)

March 12, 2019

Melissa Harris, Senior Policy Advisor, CMS Disabled and Elderly Health Programs

### **2014 HCBS Final Rule: Published January 2014 – Effective March 17, 2014**

- Addressed CMS Requirements across HCBS provided through: 1915(c) waivers, 1915(i) state plan, 1915(k) Community First Choice, and 1115 Demonstration Waivers
- Some requirements were effective immediately, others were given a transition period to allow states sufficient time to come into compliance. Indiana (along with 38 other states) is non-compliant
- Guidance issued in May 2017 extended the transition period for settings in existence as of the effective date of the final regulation from March 2019 to March 17, 2022.
- Extension of the transition period recognized the significant reform efforts underway and is intended to help states ensure compliance activities are collaborative, transparent and timely.

### **Settings that are NOT home and community-based include:**

- A Nursing Facility;
- An Institution for Mental Diseases;
- **An Intermediate Care Facility for Individuals with Intellectual Disabilities – also known as Group Homes or Supervised Group Living Homes;**
  - Indiana DDRS, part of 1102 Task Force, Institutional modernization Workgroup
  - Agencies are starting to shift or convert to Structured Family Living or Waiver Sitings (maximum of 4 individuals)
  - Agencies are down-sizing 6-8 bed group homes to 4-bed settings
  - This will change the future of group homes – anticipate 2022, with a 10 year conversion timeline
- A Hospital; or
- Any other locations that have qualities of an institutional setting, as determined by the Secretary.

### **HCBS Rule - Key Themes**

- The regulation is intended to serve as a catalyst for widespread stakeholder engagement on ways to improve how individuals experience daily life.
- The rule is not intended to target particular industries or provider types
- Federal financial participation (FFP) is available for the duration of the transition period

- The rule provides support for states and stakeholders making transitions to more inclusive operations
- The rule is designed to enhance choice

### **Settings Presumed NOT to be Home and Community-Based - Presumptively Institutional Settings**

- Category I: Settings in a publicly or privately-operated facility that provides inpatient institutional treatment.
- Category II: Settings in a building on the grounds of, or adjacent to, a public institution.
- Category III: Settings with the effect of isolating individuals receiving Medicaid HCBS from the broader community of individuals not receiving Medicaid HCBS.

### **Home and Community-Based Settings Criteria**

- Is integrated in and supports access to the greater community
- Provides opportunities to seek employment and work in competitive integrated settings, engage in community life and control personal resources
- Ensures the individual receives services in the community to the same degree of access as individuals not receive Medicaid HCBS
- Is selected by the individual from among setting options including non-disability specific settings and an option for a private unit in a residential setting
- The setting options are identified and documented in the person-centered service plan
- The setting options are based on the individual's needs, preference, and, for residential settings, resources available for room and board
- Ensures an individual's rights of privacy, dignity, respect and freedom from coercion and restraint
- Optimizes individual initiative, autonomy, and independence in making life choices
- Facilitates individual choice regarding services and supports and who provides them

### **Provider-Owned or Controlled Settings Additional Criteria**

- Unit/dwelling is a specific physical space owned, rented, or occupied under legally enforceable agreement
- Same responsibilities/protections from eviction as all tenants under landlord tenant law of state, county, city or other designated entity
- If tenant laws do not apply, state ensures lease, residency agreement or other written agreement is in place, providing protections to address eviction processes and appeals comparable to those provided under the jurisdiction's landlord tenant law
- Each individual has privacy in their sleeping or living unit
- Units have entrance doors lockable by the individual, with only appropriate staff having keys to doors as needed

- Individuals sharing units have a choice of roommates
- Individuals have the freedom to furnish and decorate their sleeping or living units within the lease or other agreement
- Individuals have freedom and support to control their schedules and activities and have access to food any time
- Individuals may have visitors of their choosing at any time
- Setting is physically accessible to the individual
- Supported by specific assessed need
- Justified in the person-centered service plan
- Documented in the person-centered service plan