



February 4, 2016

Jon Geselle  
Contracts & Procurement Manager  
Alaska Department of Health and Social Services  
Juneau, Alaska 99811

**RE: RFI 160000006**  
**Alaska Pioneer Homes Privatization of Service Provision**

Dear Jon,

We are indicating our response to the RFI above. Our interest would be:

- Up to 18-month management contract for full operation of the Pioneer Home portfolio with conversion to a 15-year long-term asset lease with two five-year extensions. Or, full purchase of the Pioneer Home portfolio following the 18-month management contract.

1. **Summary of Current Business, Expertise and Qualifications.**

The management, lease and or purchase of the Pioneer Homes would be a Joint Venture (JV) composed of Marathon Development, Inc. Bellevue, WA and Village Concepts Retirement Communities, Federal Way, WA.

Marathon Development has developed senior housing nationally for more than 18 years [www.marathondev.com](http://www.marathondev.com). Marathon has development or provided development services for more than 2,700 Assisted Living, Memory Care and Independent Living housing units valued in excess of One Billion Dollars throughout the United States. Marathon is currently developing an 80-unit 84-bed Assisted Living and Memory Care Community in the Vintage Park area of Juneau, Alaska, for Senior Citizens Support Services, Inc., Sioux Douglas, President. We expect construction to start in the third or fourth quarter of 2016 with completion in late 2017.

Village Concepts Retirement Communities [www.villageconcepts.com](http://www.villageconcepts.com) has been providing senior housing management and consulting for more than 40 years now in their third generation of ownership. Village currently operates 15 senior communities in Washington with over 1330 units, and employs 450.

2. **Statement of Business Model Proposed.**

The JV would provide up to 18 months of management for the full operation of the Pioneer Home portfolio with conversion to a 15-year long-term asset lease with two five-year extensions. Or, full purchase following up to 18-months of management. The up to 18-month management contract would encompass all operation of the Pioneer Home portfolio and allow

the JV to assess and streamline operation and enhance revenue eliminating the MONTHLY \$3.5 million negative cash-flows fed by the State of Alaska General Fund. The elimination of the negative cash flow will be necessary for the JV to proceed with the long-term lease or purchase of the portfolio. No lease tenant or buyer will be willing to feed the portfolio nor will financing be available for the purchase of the portfolio in its present financial state. Following the expiration of the management agreement the long-term asset lease would mirror common Healthcare REIT transactions i.e., the asset value and lease rate say 5% would be established. With this arrangement the State would eliminate the annual negative cash flow, -\$41.8M FY 14, and turn the Pioneer Home portfolio into positive revenue with monthly lease payments. If a sale of the portfolio is preferred the JV would purchase the Pioneer Homes by utilizing existing investor, and debt relationships or, by the use of Senior Housing REIT funding similar to the recent transaction completed with Nation Health Investors (NHI) see attached press release. In both cases, lease and or purchase the value of the Pioneer Home portfolio would be by appraised value

**3. Care Models for Addressing Current Resident Mix.**

The Marathon, Village Concepts JV would continue with the present Level I, Level II and Level III service levels. The Alaska care model is one that is familiar to the JV. We would continue the Eden Alternative to the extent that its is financially viable. The Eden Alternative philosophy of caring is fully endorsed by the JV as is the physical environment in entails. The delivery of services and more specifically staffing levels will be evaluated and corrected as needed during the management period to improve the financial viability of the Pioneer Homes.

**4. Summary of Projected Revenue resulting from the Proposed Business Model.**

The published RFI appeared on January 13, 2016. Marathon was made aware of the RFI on January 19, 2016. The RFI response is due on February 8, 2016. Fourteen (14) days is not adequate time to evaluate and financially model the projected revenue of the Pioneer Home portfolio of 499 beds in six locations. Complete financial modeling would take place during the management period.

**5. Comparison between the respondent's business/care model and current Pioneer Home Model.**

The published RFI appeared on January 13, 2016. Marathon was made aware of the RFI on January 19, 2016. The RFI response is due on February 8, 2016. Fourteen (14) days is not adequate time to evaluate and understand the current Pioneer Home business/care model for 499 beds in six locations. The JV must understand the current business/care models before changes are made. Full modeling associated with the delivering of services would occur during the management period.

**6. Clear explanation of where savings can be realized from the proposed business model.**

The published RFI appeared on January 13, 2016. Marathon was made aware of the RFI on January 19, 2016. The RFI response is due on February 8, 2016. Fourteen (14) days is not adequate time to evaluate and understand the current Pioneer Home business/care model for 499 beds in six locations.

**Summary:**

The Marathon/Village Concepts JV has had the opportunity to review the May 21, 2015 Performance Audit of the Department of Health and Social Services (DHSS) Division of Alaska Pioneer Homes (DAPH). It is clear to the JV that current staffing levels exceed operational norms. Personal care services i.e., activities of daily living (ADLs) bathing, dressing, toileting, medication management, etc., are not being charged to the residents for services rendered, allowing labor rates to run unchecked and unreimbursed. Revenue has not increased since 2009. Selection of each Administrator and appointment of the Pioneer Home Advisory Board by the Governor to individuals with limited experience in senior housing operation and delivery of care is an inefficient way to operate a highly specialized business. From FY 10 through FY 14 the State of Alaska General Fund subsidized the Pioneer Home portfolio more than \$191,000,000 from its General Fund. The current Pioneer Home business model is broken and must be fixed for the people of Alaska.

In 2003 the State took the appropriate step and outsourced the pharmacy needs to PeachHealth resulting in cost containment in pharmaceuticals. The same could be achieved by outsourcing the management of the Pioneer Home portfolio to the Marathon/Village Concepts JV who remains interested in a further discussion involving the management and long-term lease or purchase of the Pioneer Home Portfolio. The JV is extremely experienced in the operation, development and financing of assisted living, memory care and Independent living senior communities and would welcome the opportunity to meet with the appropriate individuals or group to discuss the RFI.

Marathon Development is active in the Great State of Alaska and appreciates the long history the State has had with its Pioneers.

Please contact me with any further questions. I am in Juneau frequently and would be happy to meet there or any location in the State at your convenience.

Sincerely,



Ted Johnson, President  
Marathon Development, Inc.

CC: Stuart Brown, COO, Village Concepts  
Pete Jorgensen, CFO, Village Concepts



Contact: Roger R. Hopkins, Chief Accounting Officer  
Phone: (615) 890-9100

## **NHI Acquires Washington State Independent Living Community for \$9.8 Million**

Company Release 01/19/2016

MURFREESBORO, Tenn. – (Business Wire) National Health Investors, Inc. (NYSE: NHI) announced today that it has acquired a 98-unit independent living community in Chehalis, Washington, located approximately 40 miles outside Olympia, and leased the community to a partnership between Marathon Development and Village Concepts Retirement Communities. The total investment in the community will be \$9.8 million including \$350,000 for capital improvements. The lease is for a period of 15 years at an initial annual rate of 7.25% plus annual escalators from 2% to 3%. The acquisition was funded with borrowings on NHI's revolving credit facility.

### **Highlights**

- Built in 1986 with additions in 1993 and 2000
- 98 units
- 95% occupied
- Available land for expansion
- Opportunity for NHI to enter new relationship with a growth-oriented operator and development partner

"We are excited to announce this new relationship with Marathon and Village Concepts," said Eric Mendelsohn, NHI's CEO and President. "Village Concepts has extensive experience in providing senior living community management and a commitment to providing each resident with independence and security. Marathon is led by a team with extensive real estate experience in project development, acquisitions and financing of senior communities. We believe this combination will provide a solid, productive collaboration and an excellent addition to our portfolio."

### **About Marathon and Village Concepts**

Marathon is a development company that has completed many senior housing projects over the past 18 years. Village Concepts has provided property management and consulting services for more than 40 years and currently operates 15 senior living communities in Washington. For additional information, visit [www.marathondev.com](http://www.marathondev.com) and [www.villageconcepts.com](http://www.villageconcepts.com).

### **About NHI**

Incorporated in 1991, National Health Investors, Inc. (NYSE: NHI) is a real estate investment trust specializing in sale-leaseback, joint-venture, mortgage and mezzanine financing of need-driven and discretionary senior housing and medical investments. NHI's portfolio consists of



independent, assisted and memory care communities, entrance-fee retirement communities, skilled nursing facilities, medical office buildings and specialty hospitals. For more information, visit [www.nhireit.com](http://www.nhireit.com).

*This press release includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements regarding the Company's, tenants', operators', borrowers' or managers' expected future financial position, results of operations, cash flows, funds from operations, dividend and dividend plans, financing opportunities and plans, capital market transactions, business strategy, budgets, projected costs, operating metrics, capital expenditures, competitive positions, acquisitions, investment opportunities, dispositions, acquisition integration, growth opportunities, expected lease income, continued qualification as a real estate investment trust ("REIT"), plans and objectives of management for future operations, continued performance improvements, ability to service and refinance our debt obligations, ability to finance growth opportunities, and similar statements including, without limitation, those containing words such as "may," "will," "believes," "anticipates," "expects," "intends," "estimates," "plans," and other similar expressions are forward-looking statements. Forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results in future periods to differ materially from those projected or contemplated in the forward-looking statements. Such risks and uncertainties include, among other things; the operating success of our tenants and borrowers for collection of our lease and interest income; the success of property development and construction activities, which may fail to achieve the operating results we expect; the risk that our tenants and borrowers may become subject to bankruptcy or insolvency proceedings; risks related to governmental regulations and payors, principally Medicare and Medicaid, and the effect that lower reimbursement rates would have on our tenants' and borrowers' business; the risk that the cash flows of our tenants and borrowers would be adversely affected by increased liability claims and liability insurance costs; risks related to environmental laws and the costs associated with liabilities related to hazardous substances; the risk that we may not be fully indemnified by our lessees and borrowers against future litigation; the success of our future acquisitions and investments; our ability to reinvest cash in real estate investments in a timely manner and on acceptable terms; the potential need to incur more debt in the future, which may not be available on terms acceptable to us; our ability to meet covenants related to our indebtedness which impose certain operational; the risk that the illiquidity of real estate investments could impede our ability to respond to adverse changes in the performance of our properties; risks associated with our investments in unconsolidated entities, including our lack of sole decision-making authority and our reliance on the financial condition of other interests; our dependence on revenues derived mainly from fixed rate investments in real estate assets, while a portion of our debt bears interest at variable rates; the risk that our assets may be subject to impairment charges; and our dependence on the ability to continue to qualify for taxation as a real estate investment trust. Many of these factors are beyond the control of the Company and its management. The Company assumes no obligation to update any of the foregoing or any other forward looking statements, except as required by law, and these statements speak only as of the date on which they are made. Investors are urged to carefully review and consider the various disclosures made by NHI in its periodic reports filed with the Securities and Exchange Commission, including the risk factors and other information disclosed in NHI's Annual Report on Form 10-K for the most recently ended fiscal year. Copies of these filings are available at no cost on the SEC's web site at <http://www.sec.gov> or on NHI's web site at <http://www.nhireit.com>.*