

Credit still available

HUD program among options for post-acute providers looking to expand

As the credit markets remain shaky after taking a beating in 2008, access to capital will likely put a strain on post-acute providers looking to invest in facilities and major equipment, experts say.

This comes at a time when demand for post-acute-care services continues to increase, as the population ages and post-acute providers cut back on operational costs through reduced lengths of stay, according to a 2009 trend report from the Noblis Center for Health Innovation, a Falls Church, Va.-based organization that advises both private-sector and government-health organizations. And even though capital markets might relax a bit this year, proposed loans and bond offerings “will be closely scrutinized and capital will continue to be increasingly expensive for all but the most financially solid providers,” according to the report.

Kathleen McCarthy, a principal at Health

Strategies & Solutions, Clifton Park, N.Y., says private-equity firms might not have access to capital in the current environment, and some of those firms “might be highly leveraged already.” But while the private-sector picture might be dreary, there could be a bright spot elsewhere for post-acute providers, according to Francine Machisko, a senior principal at Noblis.

“Public financing has gotten better,” Machisko says. The Section 232 “program has been revamped,” she says of the Housing and Urban Development Department program that insures mortgage loans to facilitate the construction and substantial rehabilitation of nursing homes, intermediate-care facilities, board-and-care homes and assisted-living facilities. “What they’re trying to do is make the HUD program—which is almost considered ‘financing of last resort’—more

competitive with private financing.”

To do this, HUD streamlined the Section 232 program in a few ways, says Roger Miller, director of the Office of Insured Health Care Facilities within HUD. In July, the department moved the program—which has been around since the 1960s—to Miller’s office from the Office of Multifamily Housing. Miller says Section 232 is similar to the Section 242 program, which supports the financing of new hospitals, acquisitions or significant renovation and modernization of existing projects (March 3, 2008, p. 32).



Machisko: Public financing for post-acute projects has gotten better.

“This was in response to principally the mortgage bankers dealing with the skilled-nursing facilities who thought it would be best

to have it consolidated under healthcare,” Miller says, adding that staff members in the office that coordinated multifamily housing did not have a background in healthcare.

Getting lean

Converting the application process to an electronic system was another significant improvement. So far, these changes have improved the application process significantly; ultimately, Miller says his office would like to see the application process for refinancing be completed in 42 days, compared with the previous typical timeframe of more than 200 days. Construction applications could take longer.

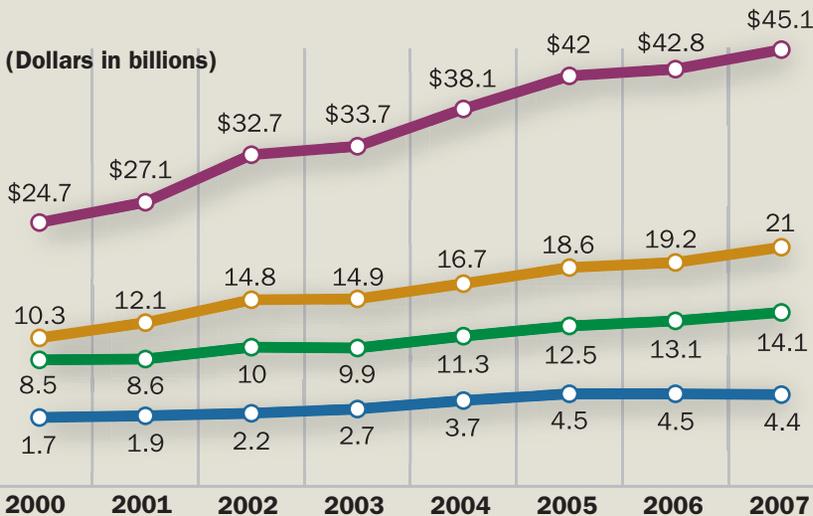
“We took the Lean side of Six Sigma, which tries to get the application process down,” Miller says. “What we did—we brought in our mortgage bankers, and they helped us re-engineer the whole process. It has worked out extremely well.”

According to HUD, in addition to being used for construction or rehabilitation, insured mortgages can be used to enable borrowers to buy or refinance properties that do not need substantial rehabilitation as well as to install fire-safety equipment. About 90% of the applications HUD receives are from mortgage bankers (on behalf of providers) or developers who are interested in refinancing.

GROWTH IN ALL SECTORS

Spending for post-acute care settings, 2000-2007

- All post-acute care
- Home health agencies
- Skilled-nursing facilities
- Long-term acute-care hospitals



Source: Medicare Payment Advisory Commission report, June 2008

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The remaining 10%, Miller says, is for construction.

Miller also says problems in the credit markets could have generated renewed interest in the program. There were about 200 applications for the Section 232 mortgage program in fiscal 2008, and he expects at least 50 more in the current fiscal year.

Applicants apply for a range of amounts—from as low as \$6 million to as high as \$35 million for new facilities, with the average size about \$14 million. In fiscal 2006, HUD insured mortgages for 222 projects totaling \$1.3 billion.

“We think whoever is going to be able to pay the mortgage—HUD puts its seal of approval on it, and you get an AA bond rating,” Miller says.



McCarthy: Provider collaboration can be an alternative to new construction.

McCarthy of Health Strategies & Solutions says she thinks the changes came about because HUD acknowledged there would be a need and increased interest in government-backed financing. And there certainly is a demand for services in post-acute settings, as a June 2008 report from the Medicare Payment Advisory Commission shows. According to the report, the CMS estimated that total spending for post-acute care was about \$45 billion in 2007, compared with just under \$34 billion in 2003 and about \$25 billion in 2000 (See chart, p. 30).

Meanwhile, two out of five Medicare patients discharged from hospitals use post-acute care, with skilled-nursing facilities the most common setting, used by 17% of beneficiaries after discharge, followed by home healthcare, used by 16%.

“I think refinancings will continue,” Miller says. “I think we could see—in terms of percentage—maybe just slightly more than 10% total for construction for pent-up demand. On the other hand, there is a little more reticence to move ahead based on the economy.”

Looking for alternatives

Given the current financial environment, McCarthy suggests a few alternatives to new construction for post-acute providers trying to meet their growth needs. They can do this by expanding in new markets or enhancing services they are offering currently, such as skilled-nursing facilities that might also have rehabilitation programs. McCarthy also says that providers could gain market share through new referrals from hospitals.

“Sometimes service expansions can happen in collaboration with others in the community that would not require additional bricks and mortar to grow the business,” McCarthy says.

And Noblis’ Machisko says while the sluggish economy has caused a decline in patients and procedures at hospitals, it has freed up space and staff that could be used in other ways. Providers can use this time to evaluate their individual situations, she says.

“I think it’s a good time for those providers to be considering post-acute options—they might provide rehab or skilled nursing,” Machisko says. “In the grand scheme of things, post-acute is much less capital-intensive than acute care,” she adds. “As long as there are favorable margins on post-acute, hospitals should consider either implementing those programs or take this time to look at those programs and understand why they’re not profitable.” <<

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