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**HEALTHCARE MORTGAGEE ADVISORY COUNCIL**

Financing Seniors Housing for America

# TATER-TOT HUD DISH

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A LEAN TOUR OF THE TWIN CITIES



# WHO'S WHIPPING UP HUD DISH?



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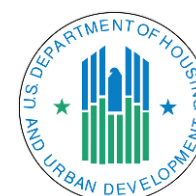
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# TATER-TOT HUD DISH INGREDIENTS

What goes in a good HUD Dish?



- Tater Tots
- Green MIP for Section 232
- New York Skilled Nursing Reform
- A/R Financing Reviews
- Cream of Mushroom Soup
- Supplemental Income (UPL, IGT, QASP, QIPP)
- Turnaround Projects
- Special Use Facilities
- Board & Care Homes
- More Tater Tots



# STOP #1: FIRST AVENUE

- Celebrated its 50<sup>th</sup> anniversary in 2020
- Marked by 531 stars on its exterior commemorating past venue performers.
- Rose to national prominence with the release of Purple Rain in 1984, as much of the movie was filmed there.
- Street in front of the building has been renamed Prince Rogers Nelson Way.



# GREEN MIP – SECTION 232

- Effective for FHA firm commitments issued or reissued on or after October 1, 2022
- Upfront & Annual MIP Rates of 0.25%
- Qualifying Loan Types: 232 NC/SR, 223(f), 223(a)(7), & 241(a)
- Application must evidence that the project will achieve an industry-recognized standard for green building certification
- Ongoing Borrower's obligations with respect to the reduced MIP will be set forth in the Borrower Regulatory Agreement
- Federal Register Notice published 5/19/22; Comments Close 6/21/22
- Mortgagee Letter and applicable revised Forms in process

# STOP #2: TARGET FIELD

- Home of the Minnesota Twins.
- Opened in 2010.
- One of only three baseball stadiums in the country to achieve LEED Certification.
- Twins have lost 18 consecutive playoff games, stretching all the way back to 2004.
- 13 of those losses were to the New York Yankees....



# NEW YORK SKILLED NURSING MINIMUM STAFFING

- New York's recently enacted law regarding minimum staffing requirements will certainly have an impact on the operations of NY nursing homes
- Under the new law, NY nursing homes must:
  - Provide a minimum of 3.5 hours of care per resident per day
  - At least 70% of revenue must be spent on direct resident care
  - At least 40% must be spent on staffing
  - Return all profits in excess of 5% to the State
  - Operators can incur monetary penalties for non-compliance
- Lenders should address this in their applications and should make a conclusion whether the project-specific impact is **LOW IMPACT** or **HIGH IMPACT**



# STOP #3: US BANK STADIUM

- Home of the Minnesota Vikings.
- Built on the former site of the HHH Metrodome.
- Opened in 2016.
- Site of the Minneapolis Miracle!
- Has already hosted:
  - a Super Bowl,
  - multiple ESPN X Games, and
  - the NCAA Final Four.





# ACCOUNTS RECEIVABLE FINANCING – UW GUIDANCE

- New Team completing all ORCF AR Financing reviews in UW
- In UW member of our review team will be assigned the AR review. They will complete the AR punchlist and Terms Memo.
- During closing the AR team member will review any changes from the ORCF side and will work with OGC as needed.
- We have a weekly meeting with Asset Management to go through any questions we have on our reviews.
- \*Draft Handbook Coming Soon\*
  - We want your feedback on guidance we can provide in the handbook that will streamline/standardize the process!

# STOP #4: MN STATE CAPITOL

- Built between 1896-1905.
- Dome stands 220 feet high and is the second largest self-supported marble dome in the world, behind only Saint Peter's Basilica in Rome.
- Constructed of marble.
- Offers a wide mix of Democrats and Republicans.
- As Minnesota's seat of government, this is where key decisions related to Medicaid funding are made.



# SUPPLEMENTAL REVENUE (IGT & UPL)

- Use the IGT/UPL Chart when you have supplemental revenue
- The higher the percentage of value the more scrutiny ORCF places on this.
- Successful applications haven't had more than 15% of underwritten value attributed to supplemental revenue streams
- Quality supplemental revenue streams such as QASP in California are typically treated as regular revenue rather than IGT/UPL.
- Latest Email Blast Dates:
  - February 24, 2021
  - June 24, 2015
  - June 27, 2021



# SUPPLEMENTAL REVENUE (IGT & UPL)

Appraised Value	\$ 9,100,000
Appraisal Cap Rate	12.0%
Appraisal LTV	80.0%
Beds	131
Appraisal NOI	\$ 1,271,180
Less: IGT/UPL Funds	\$ (223,491)
Adjusted NOI	\$ 1,047,689
Adjusted Cap Rate	12%
Adjusted Value before IGT/UPL Payment	\$ 8,730,742
IGT/UPL Payment	\$ 223,491
Adjusted IGT/UPL Cap Rate	50%
Adjusted Value for IG/UPL Payment	446,982
Aggregate Value	\$ 9,177,724
Per Bed Value	\$ 70,059
HUD Underwritten Loan Amount	\$ 7,280,000
<b>Adjusted LTV</b>	<b>79.3%</b>
<b>IGT/UPL Value as a % of Overall Value</b>	<b>4.9%</b>

Overall Revenue	\$ 8,449,240
IGT/UPL Revenue	\$ 223,491
IGT/UPL Revenue as a % of overall Revenue	2.65%
<b>DSCR Excluding IGT/UPL Funds</b>	
HUD Loan Amount	\$ 7,280,000
Loan Term (Years)	35
Market Interest Rate	2.50%
MIP	0.65%
Annual D.S.	\$ 359,628
D.S. NOI	\$ 999,185
Less: IGT/UPL Payment	\$ (223,491)
Adjusted D.S. NOI	\$ 775,694
<b>DSCR Excluding IGT/UPL Funds</b>	<b>2.16x</b>



# STOP #5: SENIORS HOUSING

- Twin Cities suburbs - excursions for residents and visitors:
  - Minnesota Zoo,
  - Valleyfair,
  - Canterbury Downs
  - Mall of America.
- Suburbs are also home to a number of Section 232-insured facilities, including this recent turnaround project located in Coon Rapids.



# TURNAROUND FACILITIES

- ORCF Defines Turnaround Facilities as follows:
  - Acquired recently (within the past three years) either as a distressed asset with poor financial performance,
  - Or where the new borrower projects significant increases over the facility's historic financial performance.



# TURNAROUND FACILITIES

- **Concern:** Are significant NOI increases sustainable and will they be able to provide strong quality of care despite expense cuts?
- **Experience is Key!**
  - More experience than the minimum required by the handbook
  - Demonstrated experience turning around and **sustaining operations over time**
  - Recent experience operating the same type of facility in the same state or market as the subject application.

# TURNAROUNDS – WELL THAT’S INTERESTING

<b>Key Data</b>	FY 2018	2019 Annualized	FY 2020	T-12 ending 4/30/2021	Appraisal (Market)	Lender's DSC	T-12 ending 12/31/2021	T-12 ending 12/31/2021 actual exp.
Effective Gross Income	\$13,917,934	\$15,677,725	\$16,215,155	\$16,226,796	\$17,086,227	\$17,086,227	\$17,120,960	\$17,120,960
Net Operating Income	-\$1,188,732	\$2,040,969	\$1,636,788	\$1,571,499	\$2,369,672	\$2,284,672	\$1,562,735	\$1,413,335
Normalized Net Operating Income	-\$1,118,043	\$1,913,239	\$1,516,360	\$1,451,069	\$2,369,672	\$2,284,672	\$1,836,626	\$1,687,226
Occupancy	84.6%	86.1%	80.9%	76.7%	84.5%	84.5%	81.5%	81.5%
Potential # Res Days	73,000	73,000	73,200	73,000	73,000	73,000	73,000	73,000
Actual # Res Days	61,793	62,843	59,194	56,026	61,685	61,685	59,489	59,489



# TURNAROUNDS - NEEDS MITIGATION, DON'T YA KNOW

<b>Key Data</b>	FY 2018	FY 2019	FY 2020	Appraisal (Market)	Lender (for DSCR)	FY 2021	T-12 Ending 3/31/22
Effective Gross Income	\$6,000,000	\$8,000,000	\$7,000,000	\$10,600,000	\$10,500,000	\$9,132,562	\$10,700,000
Net Operating Income	-\$120,000	\$250,000	\$795,993	\$1,205,000	\$1,193,000	\$1,038,000	\$1,400,000
Normalized Net Operating Income	-\$100,000	\$200,000	\$840,000	\$1,272,000	\$1,260,000	\$1,095,000	\$1,350,000
Occupancy	76.7%	79.5%	74.0%	90.0%	90.0%	84.9%	93.2%
Potential # Res Days	36,500	36,500	36,500	36,500	36,500	36,500	36,500
Actual # Res Days	28,000	29,000	27,000	32,850	32,850	31,000	34,000

# TURNAROUNDS – UFF DA!

<b>Project Name</b>	Blizzard in April Senior Living
<b>Address</b>	Minnesota
<b># Beds Available</b>	150

<b>Phase</b>	<b>Previous Operator</b>	<b>At Time of Transition</b>	<b>Post-Transition New Operator</b>	<b>Stabilized New Operator</b>
Date/Year	2019	2020	2021	T12 2022
Revenue	\$ 11,000,000	\$11,400,000	\$14,000,000	\$15,000,000
Expense	\$ 11,500,000	\$10,000,000	\$12,000,000	\$12,000,000
NOI	\$ (500,000)	\$ 1,400,000	\$ 2,000,000	\$ 3,000,000
Occupancy	80%	82%	85%	86%
CMS Star Rating	1	1	1	1

# TURNAROUNDS – YOU BETCHA!

<b>Project Name</b>	10,000 Lakes View
<b>Address</b>	Minnesota
<b># Beds Available</b>	150

<b>Phase</b>	<b>Previous Operator</b>	<b>At Time of Transition</b>	<b>Post-Transition New Operator</b>	<b>Stabilized New Operator</b>
Date/Year	2016	2017	2018	T12 2022
Revenue	\$ 11,000,000	\$ 11,400,000	\$ 14,000,000	\$ 15,000,000
Expense	\$ 10,800,000	\$ 10,000,000	\$ 10,500,000	\$ 10,600,000
NOI	\$ 200,000	\$ 1,400,000	\$ 3,500,000	\$ 4,400,000
Occupancy	80%	82%	85%	86%
CMS Star Rating	1	1	2	4

# TURNAROUND HELP – LOOKIN’ PRETTY GOOD

- Debt Service Reserve Escrow
  - Partnership Debt Holdback
  - X number of Months
- Quality of Care
  - HUD seeks a 3-month DSR for 1-Star Facilities
  - One-Time Risk Assessment
  - 3<sup>rd</sup> Party Risk Management
- Other Mitigation
  - Lower than 80% LTV
  - Other Equity remaining in the project
  - Resubmit the Application when they have had a longer track record



## STOP #6: PAISLEY PARK

- Prince's home and recording studio in Chanhassen.
- After his death, Paisley Park was turned into a museum open to the public.
- Tours include:
  - Studios where Prince recorded, produced, and mixed some of his biggest hits, and
  - Soundstage where he rehearsed for tours and hosted exclusive private concerts.



# SPECIAL USE FACILITIES

- ORCF can only insure facilities encompassed in 232 statute.
- Those are SNFs, IMFs, ALFs, and B&C Homes.
- Most applications fit neatly into one of these.
- Other facilities require a close examination of, e.g.—
  - license or other authority, funding, care provided, etc.
- A facility not fitting can't obtain eligibility based on a "special use."
- Examples of types of ineligible inpatient facilities:
  - Acute care facilities
  - Long-term care hospitals



# SPECIAL USE FACILITIES

- “Special Use” consideration becomes relevant when facility:
  - Is statutorily and programmatically eligible AND
  - Serves a niche clientele.
- Examples of Special Use facilities:
  - Bariatric SNF
  - Pediatric SNF
- Underwrite conservatively taking special use into account
  - Market, funding stability, costs, Olmstead/HCBS, operator’s (and staff’s) expertise, etc.



# BOARD & CARE HOMES: STATUTORY LIMITATIONS

- We've been asked to label various facility types as a "Board and Care Home."
- The most fundamental requirements are in the statute.
- Statute defines "board and care home" as:
  - Providing room, board and continuous protective oversight that is...
  - Regulated by a state pursuant to...Section 1616(e) of the Social Security Act,
  - So long as the home is located in a state that, at the time of an application is made...
  - Has demonstrated to the Secretary that it is in compliance with the provisions of such section 1616(e).

# BOARD & CARE : IMPLEMENTING STATUTORY TERMS

- “Providing room, board and continuous protective oversight”
- In implementing this language, ORCF’s handbook and policy require:
  - One full bathroom for every four residents (details in CFR)
  - Minimum of 20 beds
  - Central dining area
  - Three meals per day offered, with resident taking at least one
  - “Continuous protective oversight,” which often includes high service and assistance level, but must at least involve staff’s continuous awareness of residents’ whereabouts & ability to intervene in event of crisis.





# BOARD & CARE : IMPLEMENTING STATUTORY TERMS

- Regulation “pursuant to the provisions of Section 1616(e),” which states in part:
  - Each State shall establish or designate one or more State or local authorities which shall establish, maintain, and insure the enforcement of standards for any category of institutions, foster homes, or group living arrangements in which (as determined by the State) a significant number of recipients of supplemental security income benefits is residing or is likely to reside. Such standards shall be appropriate to the needs of such recipients and the character of the facilities involved, and shall govern such matters as admission policies, safety, sanitation, and protection of civil rights.
- The SSA provision also requires state to certify, as those facilities, “that it is in compliance with the requirements of this subsection.”



# BOARD & CARE : IMPLEMENTING STATUTORY TERMS

- “Has demonstrated to the Secretary that it is in compliance with the provisions of such section 1616(e).”
- The “demonstration” is the state’s annual letter to the SSA.
- Sometimes the letter shows compliance and that the subject facility type is regulated pursuant to 1616(e)
- If not, lender must delve into the 1616(e) letter & state’s policy documents referenced/encompassed in letter.
- A direct 1616(e) nexus may exist w/ only a subset of units; considering building systems & common areas, we might find conclude overall that the “board and care home” is regulated pursuant to 1616(e).



# THE END

