



U.S. Dept. of Housing and Urban Development

Minneapolis Field Office
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<http://www.hud.gov/local/min/minhome.html>

This circular is withdrawn, as it has been found to be in violation of the MAP Guide's prohibition of separate Hub requirements not in conformance with the program.

Nevertheless, and in conformity with the Guide, any 232 pursuant to 223 (f) nursing home applications must provide applicable support within the market study (see MAP Guide Appendix 4D, Item 36) submitted that assures the long-term viability of that facility in that county against its competition, including ALFs and other alternative residential settings receiving elderly waiver assistance. The factors referred to in the circular should be provided to the preparer of the market study to consider and address in its analyses and findings. Thanks.

Scott A. Werdal

MEMORANDUM: Minneapolis Multifamily HUB Lenders

SUBJECT: Clarification of Minneapolis Hub's Position on the Refinancing or Purchase of Minnesota Nursing Homes – Circular 03-15

DATE: August 22, 2003

In recent years the Minneapolis Hub has accepted few applications for refinance or purchase of Minnesota nursing homes under Section 232 pursuant to Section 223 (f). The purpose of this circular is to formally establish this Hub's policy concerning refinance or purchase Mortgage Insurance Applications for existing nursing homes located in Minnesota.

The State of Minnesota is moving to what the Minnesota Department of Human Services term an "inverted cone" structure for providing long-term care for the aged. This approach emphasizes home-based care, and effectively reduces the number of institutional care facilities and beds. At least partially as a result of the State's preferred direction, and monetary or other incentives provided, the number of nursing homes, size of facilities, and overall number of beds has significantly declined over the past few years. That trend is expected to continue into the foreseeable future.

Another significant market factor is the ongoing construction of assisted living facilities. These facilities are merely "registered", pursuant to provisions of the "Housing with Services Contract Act", as opposed to nursing homes that are "licensed" and heavily regulated by the State. (See the internet link <http://www.revisor.leg.state.mn.us/forms/getstatchap.shtml> and input 144D in the query window for the Chapter of the Minnesota Statutes 2002 involved).

Recognizing Minnesota's fiscal constraints and continuing legislative support for less institutional care, we believe that these declines will continue into the foreseeable future. This trend makes the projection of future income streams for nursing homes in Minnesota uncertain. Therefore, we will not accept applications for mortgage insurance to refinance or purchase existing nursing homes located in Minnesota unless they include a pre-approved (by this office) "Business and Strategic Plan of Action" that assures us of the subject facility's long-term

viability and competitive position within its market.

We will review, and where warranted pre-approve, Business and Strategic Plans of Action. At a minimum, plans must:

- o demonstrate a "durable real estate asset value" over the next 35 years;
- o specify how the facility will adapt to the expected nursing home bed decline (de-licensing options and conversions considered);
- o include direct comparison analyses with all other nursing home and assisted living facility options within that county, including reference to that county's Medicaid Elderly Waiver contract rates schedule for lower acuity ambulatory residents;
- o describe whether the operator intends to preserve lower acuity residential beds in private rooms;
- o indicate whether a significant subacute care (Medicare certification and referral network) profit center will enhance or sustain the facility's operations;
- o explore various configurations, conversions, and potential campus-like settings that the site zoning and physical attributes allow;
- o present a transition plan to effectively compete with new lower Medicaid payment (Elderly Waiver) home based alternatives within the subject's county.

In both purchase and refinance transactions, the proposed mortgagor must submit a Business and Strategic Plan of Action for our review and receive our pre-approval prior to submitting an Application for Mortgage Insurance.

Below are web links to information that the State has made available regarding their policies in the current publicly-supported elderly-health-care-related budgetary environment:

www.dhs.state.mn.us/agingint/ltctaskforce/ms-1781es.pdf

www.dhs.state.mn.us/agingint/ltctaskforce/lcmtg021023planned.htm

www.dhs.state.mn.us/agingint/proj2030/report/overall.htm

Questions relating to this circular's application to specific projects should be directed to Tim Gruenes at (612) 370-3051 x2252 or Del Relopez at (612) 370-3051 x2274.