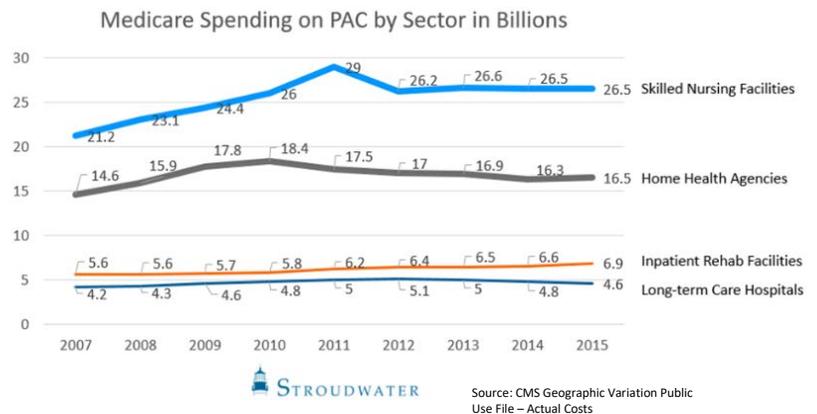


## Financial and Community Benefits to Nursing Home Divestiture

Senior housing/care acquisitions are on the rise, and nearly doubled<sup>1</sup> from Q3 to Q4 in 2016. In assisting a hospital client to divest two nursing homes, Stroudwater’s team found many reputable potential partners eager to invest in both the nursing homes and the communities they served.

By [Doug Johnson](#), Stroudwater Associates

As the healthcare industry moves toward value-based payment models, hospitals, health systems, ACOs, and health plans have increasingly recognized the importance of post-acute care as a key component of their organization’s care continuum.



Effective care transitions between a hospital and a nursing home or other post-acute/long-term care setting can greatly improve the patient experience and reduce the chances of unplanned readmission to the hospital. This is especially important today, given CMS began reducing Medicare payments for Inpatient Prospective Payment System hospitals with excess readmissions in 2012.

While a nursing home or other skilled post-acute care facility can offer a hospital or health system the opportunity to reduce overall system costs through quality improvement, some organizations may find increased financial benefit in divesting these assets. Industry research shows that publicly announced senior housing/care acquisitions are on the rise, and nearly doubled<sup>2</sup> from Q3 to Q4 in 2016. In assisting a hospital client to divest two nursing homes, Stroudwater’s team found many reputable potential partners eager to invest in both the nursing homes and the communities they served.

In 2016, the Mayo Clinic Health System Waycross (MCHSW) hospital in Waycross, GA, was being divested by the Mayo Clinic Health System. Now affiliated with HCA and renamed Satilla Memorial Health, MCHSW is a 231-licensed-bed medical center delivering acute, ambulatory, and emergency care. MCHSW originally engaged Stroudwater to serve as transaction advisor to the board of directors in an affiliation process that resulted in HCA Health acquiring the hospital for \$51.5M, a commitment to invest \$21.6M over the next six years on the facilities, a commitment to fund charitable and indigent care, and the creation of a local foundation with assets exceeding \$75M.

<sup>1</sup> Lagasse, Jeff. “Senior housing and care acquisitions double from third to fourth quarter 2016,” *Healthcare Finance News*, January 2017. <http://www.healthcarefinancenews.com/news/senior-housing-and-care-acquisitions-double-third-fourth-quarter-2016>

<sup>2</sup> Lagasse, Jeff. “Senior housing and care acquisitions double from third to fourth quarter 2016,” *Healthcare Finance News*, January 2017. <http://www.healthcarefinancenews.com/news/senior-housing-and-care-acquisitions-double-third-fourth-quarter-2016>

Included in the portfolio of MCHSW's assets were two nursing homes—one located in the same county as the hospital and another located in an adjacent county. The two facilities, Satilla Care Center (leased by MCHSW from the Hospital Authority of Ware County) and Pierce County Nursing Home, (leased by MCHSW from the Hospital Authority of Pierce County) were operated as a department of the hospital. As of 2016, the net patient revenue for the combined facilities had been relatively steady for the past three years.



Through an extensive RFP process, the MCHSW board identified HCA Health as the partner that could best help them achieve their mission to care for and improve the quality of life for their community. However, HCA Health's preference was not to include the two nursing homes in the hospital transaction. While the hospital transaction due diligence proceeded, the Stroudwater team undertook an additional assignment to separately market and identify a new operator for the nursing home assets.

Satilla Care Center, located in Waycross, GA, was a 96-bed hospital-based skilled nursing facility that provided both short-term rehabilitation and long-term care to Waycross and surrounding communities for more than 45 years. With a three-star quality rating and 88 percent historical occupancy, the Care Center was Medicare, Medicaid, and VA certified.



Pierce County Nursing Home, located in Blackshear, GA, was a 78-bed hospital-based skilled nursing facility that provided both short-term rehabilitation and long-term care for more than 50 years. Formerly an acute-care hospital facility, the 43,000-square-foot nursing home had an average occupancy of 88 percent and a three-star quality rating. It was also Medicare, Medicaid, and VA certified.

Stroudwater's team, led by Doug Johnson, principal; Rob Kirsch, managing director; and Ryan Sprinkle, consultant, wrote an offering memorandum describing the nursing homes and circulated it to more than two dozen regional and national operators of nursing homes and skilled nursing facilities. Almost half of the operators contacted expressed initial interest, and six submitted very competitive proposals to acquire the nursing home assets. Proposed affiliation types for the nursing homes included lease agreements, joint ventures, and asset purchase agreements. The potential partners also included various types of community benefits in their proposals, including potential renovations, facility replacement, and involvement of the local authority board in governance and decision-making.

Operator	Potential Partner A	Potential Partner B	Potential Partner C	Potential Partner D	Potential Partner E	Potential Partner F	
Proposed Structure	Lease Agreement	Lease Agreement	Joint Venture	APA	APA	APA	APA with Building Fund

Stroudwater assembled an electronic data room, facilitated site visits, and helped the MCHSW community board to narrow the field of suitors. Typically, Stroudwater prepares a quantitative and qualitative evaluation of proposals submitted using the client’s pre-established affiliation criteria as the scorecard. This evaluation becomes the basis for a facilitated discussion of the proposals with the board, with the objective of narrowing the proposals to one or two finalists. Once we had a short list of qualified finalists, Stroudwater began negotiations for best and final offers.

The nursing home assets were sold to a well-capitalized nursing home real estate investment trust partnered with a reputable nursing home operating company. Stroudwater facilitated the transfer of operations of the nursing homes to the new operator to coordinate with the closing of the hospital transaction to avoid having a period of time where the local healthcare authority boards would be responsible for the nursing home operations. Included in the efforts to transfer operations and ownership in a timely way was Stroudwater’s facilitation of environmental testing and procurement of a state agency endorsement of the existing condition and transferability of vital assets.

In addition to marketing and selling the nursing home assets, Stroudwater provided key post-transaction services for the two hospital authority boards. Those services primarily included post-closing collection and reconciliation of patient service receivables and final settlements of state-sponsored reimbursement programs.

There are many reputable and well-capitalized nursing home operators searching select strategic markets for additional facilities to add to their portfolio of assets. A [Kaiser Family Foundation study](#) showed that in 2015, more than half (56.9 percent) of skilled nursing facilities were owned or leased by multi-facility organizations (operator chains that have two or more facilities). For a hospital operator contemplating monetizing post-acute care assets such as a nursing home/skilled nursing facility, now may be an auspicious time to consider the opportunity. There is significant incentive for nursing home operators to work collaboratively with local acute-care hospitals because the hospital is a significant source of patient volume for the nursing home, and effective care coordination programs between the local hospital and the nursing home can improve quality of care and reduce costly acute-care readmissions.

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[Doug Johnson](#) is an accomplished healthcare professional with more than 20 years of transaction, business development, and financial accounting experience. Throughout his career, Doug has consistently demonstrated his ability to direct sensitive and complex transactions and to prepare clear, accurate, and management-focused deliverables. He is particularly effective at building relationships with prospective clients and disseminating their needs and concerns, as well as identifying leaders and decision-makers within organizations.

Doug served as vice president, Acquisitions & Development at Capella Healthcare where he was responsible for all activities pertaining to the development, structure, and completion of general acute-care hospital transactions. He has also held executive positions at Quorum Health Resources, Centerre Healthcare, and Community Health Systems.