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The Greying of Maine: Real Estate Needs for an Aging Population

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NURSING HOMES AND ASSISTED LIVING-----MAINE '08

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First some statistics, since 1994, the number of nursing home beds has shrunk from approximately 11,000 to 7,125, a 35% decrease. The number of assisted living/residential care beds has increased from 3356 in 1998 to 4382…a 30% increase. The average annual rate for a nursing home bed was $75,928.approximately 11% higher than the national average. The average annual rate for assisted living is $49,240….approximately 36% higher than the national average. More than half of Maine's nursing homes are over 30 years old. The average number of beds in a nursing home is 108 for the nation….in Maine it is 65 beds. Since 2000, there have only been two nursing homes built and those two homes were created by the closing of 5 nursing homes. The payment source for nursing homes is 70% MaineCare (Medicaid) and for residential care it is 78%. The average nursing home loses $11.00 / day on each MaineCare resident.

Needless to say, there has been tremendous downward pressure on NF's (nursing homes). The state of Maine's Dept. of Human Services (DHS) controls the nursing home world because of their regulations and payment. It is fair to say that the regulations are increasingly strenuous and difficult to meet and their payment rate is about 85% of the actual cost of care. And you ask how can any nursing home survive…..let's just say that it can't be done by greater volume. The key to survival is by providing other than nursing home services such as skilled nursing care (reimbursed by Medicare), cost shifting, assisted living, Alzheimer's care, congregate care, residential care, etc. All of these offer opportunities to break free from the high percentage of Medicaid involvement and the concurrent losses

In 1994 the state needed some budget cuts and did so by reducing the number of NF beds. The strategy was that by increasing the requirements for admission to a NF, it would force the closing of NF beds as nursing homes need to run at about 90 to95% occupancy to survive. The strategy was successful as indicated by the aforementioned statistic. Many NF's converted nursing home beds to residential care or simply closed wings or went out of business. When a NF is closed, often the owner will sell the license bed rights and convert the building to another use. In order for me to build Durgin Pines in Kittery, I had to use the licensed beds at Homestead Nursing Home, Harbor Home and the 12 bed NF that was part of Sentry Hill. The key is to remain Medicaid neutral. That is, the Medicaid payments to these three nursing homes is not exceeded by the cost (Medicaid reimbursement) of the new facility.

The complexity of buying or selling a nursing home is such that it creates quite a daunting series of hoops to jump through and more fail than succeed. I have 38 years of nursing home experience and my latest new nursing home took me 8 years to complete. I bought the Homestead and Harbor Home facilities in 2000 and just opened the replacement facility (Durgin Pines) May 7th of this year. There are good reasons for the negative decline in nursing beds in Maine and most have to do with the State of Maine's Dept. of Human Services. One of the chief nursing home bureaucrats proudly displayed a large graph proudly showing the declining number of nursing home beds.

ASSISTED LIVING

So where did all these folks go that once were cared for in nursing homes? They went to a lower level of care known by the following names: boarding home, assisted living, residential care, congregate housing, etc. The DHS figured that with the lower rate they paid these type of facilities, they would save money by moving the healthiest (relatively speaking) nursing home residents to these lower staffed (therefore lower cost) facilities. It was a wrenching period as there were not always available yet beds and services for the nursing home patients who were kicked out of their nursing home bed. The overall affect was an increase in the number of these residential care beds and the cost as the staffing had to increase to care for the more acute care resident moving from nursing homes.

The same problem exists for these more residential care facilities than exists for nursing homes. Those homes that rely on mostly Medicaid patients are in danger of closing as the DHS has not given enough rate nor cost of living increases to keep pace with their increasingly heavy care patients and general rising cost of services. Like nursing homes, the only way to survive is to attract enough privated pay residents. For any appraisal to be worthwhile, the two factors of most import are: 1. how close is the operational costs (per day /per patient) to the Medicaid reimbursement and 2.how many private pay patients are there? Private pay patients are the key to any successful long term care business.

One must be mindful of the different words used to describe this service. In the real world of long term care, we use different terms than the DHS. For us providers, the term assisted living means private pay apartments with varying levels of services. Residential care means a single room sometimes shared with another and both Medicaid and private pay reimbursement. The DHS has appropriated the name assisted living and clumped all the non-nursing home services such as residential care, congregate housing, etc. under the name assisted living.

SUMMARY

When buying or selling a facility that receives Medicaid funding or is licensed by the DHS, be prepared to pay considerable legal and accounting bills and dig in for the long haul. It is advisable to use lawyers who are familiar with the process as it is a veritable rat's nest of rules and regulations to maneuver through. With the boomers coming of age, the growing number of elderly with Alzheimer's disease and the over 85 population growing the fastest due to better medical care……it would lead one to believe that the long term care business would be a good investment. The big problem however, is how will people pay for it. Only 14% of nursing home residents are private pay and only 22% for assisted living. Medicare only pays for short term (no more than 100 days) rehabilitation although many believe that Medicare will pay for their nursing home care.