

Case Study: Florence Home

Property Type:

Continuing Care
Retirement Community

Location:

Omaha, Neb.

Project Objective:

Refinance

Financing Amount:

\$7.16 million

Source of Funding:

Taxable notes insured by
the FHA Sec. 232/223(f)
program

Background and Challenges

Florence Home is a nonprofit organization with a long history of providing services to the geriatric community in Omaha. In 2002, Florence Home worked with Lancaster Pollard to issue \$9.1 million in bonds to build a state-of-the-art, 64-unit dementia care facility called House of Hope and fund renovations to the adjacent Royale Oaks assisted living facility.

The highly leveraged House of Hope project generated only modest cash flows due to a sizeable Medicaid payor mix. As a result, Florence Home supported the project's debt service with resources from other parts of the organization. As the letter of credit backing the 2002 bonds expired, Florence Home took the opportunity to investigate financing options to reduce debt service and reposition its balance sheet.

Financial Solution

Knowing that Florence Home had future projects planned, Lancaster Pollard recommended refinancing House of Hope and Royale Oaks with HUD mortgage insurance, which is non-recourse to Florence Home. With a fixed rate of 5.6% and a 35-year amortization, the non-recourse financing reduces annual debt service and isolates cash flow risk associated with Medicaid. With risk isolated and guaranteed by HUD, the repositioned organization is able to pursue new opportunities using its stronger credit profile.

Experience and due diligence were critical components of the HUD refinancing process. Lancaster Pollard's bankers performed a comprehensive analysis working with industry valuation experts before offering Florence Home a well-researched refinancing proposal that met their goals. The upfront work resulted in a smooth HUD application process and favorable outcome.

Outcome

The non-recourse structure means Florence Home has a stronger credit profile and debt capacity to plan renovation projects at its other facilities. It also enables Florence Home to operate House of Hope and Royale Oaks as an operating lease and continue offering quality assisted living and memory care services to a large Medicaid population in an underserved area of Omaha.

Financing Progress

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