

# PENUMBRA

FOR SELLERS AND BUYERS OF SMALL ADULT CARE, FAMILY CARE FACILITIES, AND HOME CARE AGENCIES



## Market Watch

### Labor Loss: Seniors Stuck Home Alone as Aides Flee to Higher Paying Jobs

The *Washington Post* reported that as demand rises for seniors to “age in place,” personal aides are fleeing the home healthcare industry for higher-paying jobs. Many seniors are left alone in their homes. Many seniors lack the needed assistance for activities for daily living. And the situation is worsening. The Covid-19 pandemic worsened the pre-pandemic national staffing shortage in the home care industry. When the pandemic hit, demand for home care services spiked as lockdowns, uncontrolled infections, and death frightened people away from nursing homes. At the same time, because of the tight national labor market, personal care aides who typically earn relatively low wages than workers in (cont'd)

## Exit Plan for Caregivers

### Tax Savings verses Earnings Impact: Which is Better

Many Caregiver-owners work closely with their CPAs. Owners are careful in tracking and itemizing business deductions to maximize their tax savings. The less one has to pay the Government, the better. Maximizing your eligible tax deductions improves your operation's cash flow. Even though the tax return reports operating losses, this tax strategy generally benefits small operations in their early years. When it comes to Exit Planning, this approach may not be the best approach.

As a Caregiver-owner begins to view Exiting the operation, Enterprise Value becomes more important that tax savings. For Caregiver-owners of (cont'd)

## Financing

### Major Contraction in NC SBA 7a Loans as Recession Looms

The US Small Business Administration's (SBA's) fiscal year ended September 30, 2022. Data for NC shows that SBA 7a loan volume in the Tar Heel state contracted 9.9% to just 982 approved loans. Loan volume in NC has been trending mostly downward since 2017. SBA 7a dollar volume for 2022 dropped a staggering 27.3% to \$751.7 million. However, this dollar volume is inline with similar activities in 2018 and 2020. NC SBA 7a loans reached a peak dollar volume in 2021 at \$1.03 billion. This was primarily due to the expansion in lending under the Paycheck Protection Program which expired May 31, 2021. Loans for acquiring adult care facilities, family care (cont'd)

## Regulatory Watch

### NCDHHS Delays Medicaid Managed Care Tailored Plans

To ensure beneficiaries can seamlessly receive care on day one, NCDHHS will delay implementing the NC Medicaid Managed Care (MMC) Behavioral Health and Intellectual / Development Disabilities Tailored Plans until April 1, 2023. Originally scheduled for a December 1, 2022 launch, the plans will provide the same services as Standard Plans in MMC with additional specialized services for individuals with significant behavioral health conditions, intellectual or developmental disabilities, and traumatic brain injury. The delayed start will allow Local Management Entity / Managed Care Organizations more time to (cont'd)

## et cetera

- CVS to buy home health giant Signify Health for about \$8 billion. Signify offers patient care through virtual and in-person health care services. Signify expects to visit nearly 2.5 million patients this year.

- In September, the CDC updated its recommendations stating that facilities in regions without high transmission can “choose not to require” all doctor, patients, and visitors to mask. Community transmission refers to measures of the presence and spread of SARS-CoV-2.

(cont'd)



### Exit Plan cont'd

assisted living facilities or family care homes, every dollar of operating profit is worth, on average, \$2.70 in Enterprise Value. So, \$1,000 in extra operating profit could mean an increase in Enterprise Value of \$2,700. In the time leading to Exiting the operation, reducing discretionary spending and operating more cost-efficient should be the emphasis, not maximizing tax savings.

Some argue that expensing as much as possible through the business is still the best approach. Buyers adjust for these extra expenses through their recasting process (i.e., converting tax returns into economic statements). What this view fail to realize is that such a strategy puts the Seller at a negotiation disadvantage. The Seller must explain why one's tax returns do not represent economic reality. Poor tax returns could lead to heavy price discounting by Buyers or, even worse, not attracting Buyers who would normally consider purchasing the operation.

Use sound business practices in your Exit Plan. Those practices should promote rational business-only spending, minimize waste, and discourage unnecessary discretionary spending. Does the proposed activity drive profitability and, in turn, value? Does it enhance the operation's reputation or quality of service? Is the spending needed to cure an existing detriment to the operation (e.g., deferred maintenance) so to preserve Enterprise Value? Focus on these Earnings Impact activities when developing your Exit Plan.

### Regulatory Watch (cont'd)

contract with additional providers to support member choice and to validate that data systems are working appropriately. Although the start of Tailored Plans will be delayed, specific new services through Tailored Care Management (TCM) will still go live December 1, 2022.

TCM provides eligible beneficiaries a single designated care manager supported by a multidisciplinary team to provide integrated care management that addresses the beneficiary's whole-person health needs. Beneficiaries set to receive care through Tailored Plans will continue to receive services and I/DD and TBI supports via LME/MCO just as they do today.

### Market Watch cont'd

other industries began job hopping to higher-paying industries. PHI, a non-profit industry watch group, reported that in 2021 the national median pay for personal care aides was just \$14.27 per hour. Workers can earn higher wages working at The Home Depot, McDonald's, Amazon warehouse, and Uber. And those jobs are less stressful than what personal care aide do such as bathing, dressing, and feeding seniors. National trade groups and state groups are lobbying to block spending cuts for home care under Medicare. Because a third of home care workers are foreigners, Congress may be considering allowing special temporary visas.



### Financing cont'd

homes, and home care agencies are generally SBA 7a eligible. Excluding 2021, average loan amount for NC 7a loans continued its rise in 2022.



Assisted living facility and family care home transactions usually involve the sale of the residential property. Home care agency transactions usually do not. SBA 7a loans typically require 20% to 25% equity injection and pledging of business assets including the residential property.



### et cetera (cont'd)

In September, CDC agreed to provide Oregon \$1.1 billion in new federal funds to pilot first-in-the-nation changes to the State's Medicaid program over the next 5 years. The new funds would focus on inadequate food, housing and other root-cause issues that lead to poor health for people and families struggling to make ends meet. The funds also expand the Oregon Health Plan coverage for young children, as well as extends eligibility for youth and adults.

- Dr. Scharre at Ohio State University reports that a simple at-home test, Self Administered Gerocognitive Examiner or SAGE, may be an effective screening tool to identify people who would eventually develop dementia, probably six months earlier than the most used screening tools. SAGE is a paper and pencil test.
- CDC is phasing out some temporary waivers linked to COVID-19 and the public health emergency.

