Supplemental Revenue Streams Guidance

The following guidance pertains to states with various supplemental payment programs and guidelines for including such revenue streams in underwriting.

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| California | QASP (Quality Accountability Supplemental Payment Program)Quality-based revenue add on which can be included in appraisal/underwriting.QASP has no association with a hospital and is a quality related income stream. It does not need to be counted separately for value. It can be counted as a part of the regular revenue stream. The IGT/UPL chart does not need to be included in the Lender Narrative or Loan Committee Memo for projects that include QASP.**Does not require IGT/UPL chart in LN/LCM.** |
| Indiana\* | IGT/UPL income needs to be capped separately, and the income cannot be used in Debt Cover calculations. *Successful applications have had less than 10-15% of supplemental revenue as a percentage of value for loan sizing.***Include IGT/UPL chart in LN/LCM.** |
| Michigan | Enacted the Nursing Facility Quality Measure Incentive (QMI) in 2017. In essence, QMI is a fund paid into by facilities with Medicaid beds and redistributed to facilities based on quality measures through a Medicaid add-on payment.* Appraised NOI: QMI income and expenses should be included in the NOI, no separate capitalization of the income stream is required;
* Lender’s DSC NOI: The lender should adjust the NOI to remove the QMI revenue but include the QMI expenses;
* Historic NOI: Historic NOI can reflect the actual reimbursements and expenses.

**Does not require IGT/UPL chart in LN/LCM.** |
| Montana\* | IGT/UPL income needs to be capped separately, and the income cannot be used in Debt Cover calculations. Third party appraiser may not separate out this revenue stream, which is acceptable. Lender to complete table and demonstrate separation of the supplemental income. *Successful applications have had less than 10-15% of supplemental revenue as a percentage of value for loan sizing***Include IGT/UPL chart in LN/LCM.** |
| Texas\* | QIPP (Quality Incentive Payment Program)IGT/UPL income needs to be capped separately, and the income cannot be used in Debt Cover calculations. *Successful applications have had less than 10-15% of supplemental revenue as a percentage of value for loan sizing***Include IGT/UPL chart in LN/LCM.** |
| Utah\* | IGT/UPL income needs to be capped separately, and the income cannot be used in Debt Cover calculations. *Successful applications have had less than 10-15% of supplemental revenue as a percentage of value for loan sizing***Include IGT/UPL chart in LN/LCM.** |
| Wyoming\* | IGT/UPL income needs to be capped separately, and the income cannot be used in Debt Cover calculations. *Successful applications have had less than 10-15% of supplemental revenue as a percentage of value for loan sizing***Include IGT/UPL chart in LN/LCM.** |

*\*IGT/UPL transactions in these states require that the facility operator sign an Operator Regulatory Agreement and an Operator Security Agreement, in addition to the hospital operator signing these agreements. Special conditions outlining those requirements will be included in Firm Commitments on these transactions.*

Other Resources:

* Email Blast 6/30/2021 (including February 24, 2021, June 24, 2015 and June 27, 2012 Email Blasts by reference).



FAQ Guidance posted on HUD.gov regarding Quality Incentive Reimbursement Payments:

*Lenders are reminded that additional underwriting scrutiny is applied as the percentage of NOI derived from supplemental income sources increases, and conservative underwriting represents having little to no inclusion of these revenue streams in value for loan sizing, given the long-term nature of Section 232 insured mortgages.*

\*Special Conditions

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| **ALL PROGRAMS, as applicable** | **Operator Regulatory Agreement** (1/16) **Use when it is determined that the Management Agent must sign the Operator Regulatory Agreement.*****\*IGT/UPL/QIPP transactions: If the project participates in an IGT/UPL/QIPP program the “facility operator” must sign the Operator Regulatory Agreement, in addition to the hospital signing an Operator Regulatory Agreement. Note: the reference to “Management Agent” in the condition language may need to be adjusted to reflect the term being used in the specific transaction, e.g., “Sub-Operator”, or “Sub-tenant”, “Sub-landlord” etc., as applicable.*** | **Operator Regulatory Agreement:** In addition to the Borrower, the Management Agent must sign the Operator Regulatory Agreement. |

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| **ALL PROGRAMS, as applicable** | **Operator Security Agreement** (\*\*\*\*) **Use when the project participates in an IGT/UPL/QIPP program.** | **Operator Security Agreement:** Any entities signing an Operator Regulatory Agreement in the transaction must also sign an Operator Security Agreement. These Operator Security Agreements must include language that the revenues from IGT/UPL transactions that are not considered excluded proceeds (as defined by the transaction specific agreements) are included in the definition of Government Payments and are available for delinquencies and other project operating needs.  |

Sample Operator Security Agreement language

Hospitals:

1. **SPECIAL PROVISIONS RELATING TO QIPP PROCEEDS.**

(a) The Healthcare Facility, through Operator, participates in the [*insert program name, e.g., Quality Incentive Payment Program for Nursing Homes (“****QIPP****”)*] administered through the [*insert adminstering entity*] and codified at [*insert applicable reference*].

(b) Notwithstanding anything contained in this Agreement to the contrary, the Lender shall have no right or claim to receive or encumber any Excluded [*insert program name reference, e.g., QIPP*] Proceeds. As used herein “**Excluded [*insert program name reference*] Proceeds**” shall mean any payment received by Operator with respect to the Healthcare Facility from CMS, the State of [*insert State*], or any of their respective intermediaries or contractors, including Medicaid managed care organizations, for participation in [*insert program name reference*] or any successor program, as amended and as may be amended in the future, for services provided to Medicaid residents of the Healthcare Facility that are in excess of the standard Medicaid reimbursement rates for nursing facilities, established by [*insert administering entity*], including, without limitation, payments related to [*insert program name reference*] [*insert any specific payment structure, e.g., component one, component two, component three, component four, and lapsing quality metrics funds*], as well as the amount of any and all intergovernmental transfers made by Operator, directly or indirectly, to [*insert administering entity*] (or any successor agency) pursuant to [*insert program name reference*].

(c) In accordance with Section 26(b) above, if Excluded [*insert program name reference*] Proceeds are deposited into an account subject to this Agreement after the Lender obtains control of the account pursuant to a DACA, the Lender agrees that the Excluded [*insert program name reference*] Proceeds are to be transferred as instructed by Operator within three (3) business days after receiving written notice from Operator.

(d) For avoidance of doubt, the parties agree and acknowledge that Government Payments that are not Excluded [*insert program name reference*] Proceeds are available for delinquencies and operating needs of the Healthcare Facility.

Facility Operators:

Add language to the definition of “Government Payments” in Section 2(h) to call out the facility operator IGT/UPL/QIPP proceeds.  For example:

* 1. “…As used herein, “**Government Payment**” means a payment from a governmental entity and shall include, without limitation, payments governed under the Social Security Act (42 U.S.C. §§ 1395 *et seq.*), including payments under Medicare, Medicaid and TRICARE/CHAMPUS, and payments administered or regulated by the Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services, and the [*insert entity and program name reference, e.g., Sublandlord’s QIPP*] Proceeds.”