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July 10, 2017

VIA EMAIL

Mark Cummings
CliftonLarsonAllen
300 Crown Colony Drive
Quincy, MA 02169

Re: Chelsea Jewish Nursing Home, Inc. Significant Change - Project #4-1514.2

Dear Mr. Cummings:

This letter is in response to your request for a Significant Change to approved Determination of Need (DoN) Project #4-1514 pursuant to 105 C.M.R. §§ 100.635(A)(3). Your request on behalf of Chelsea Jewish Nursing Home, Inc. (Chelsea or Holder) was received on May 19, 2017. The DoN authorizes renovations to a 123 bed long-term care facility located at 17 Lafayette Avenue, Chelsea, MA.

Background

Chelsea received approval for substantial renovations to its existing facility including all nursing units, the kitchen, lobby, and laundry (the Project). The Project was approved in 2009 with a maximum capital expenditure (MCE) of \$6,346,039 (June 2009 dollars) and 43,043 gross square feet (GSF) of renovations.

Chelsea filed for and received approval of an Amendment in 2014. That Amendment authorized an increase in MCE to \$12,518,692 (November 2013 dollars) on the grounds that, following extensive programmatic planning and development Chelsea decided to implement the household or small house model of care in which residents live in smaller nursing units in a more homelike environment with decentralized kitchen and common areas on each unit. As a result, Chelsea proposed additional space for renovation, to convert 2 larger units into 3 smaller units, and to permanently remove 3 beds from service.

Proposed Significant Change

The Holder comes to the Department with a request for a Significant Change pursuant to the regulation in effect as of January 2017 which requires, *inter alia*, an analysis of whether the proposed change or modification falls within the scope of the Notice of Determination of Need as previously approved by the Department, and whether the proposed change is reasonable; a review of the Holder's description

of the proposed change and associated cost implications, both to the Holder, as well as to the Holder's existing Patient Panel; and a detailed narrative, comparing the approved project to the proposed Significant Change, and the rationale for such change. See, 105 CMR 100. 635(A)(3).

The request for Significant Change describes two categories of changes to the Project as it was approved in 2009 and amended in 2014.

1. Unforeseen Circumstances

The Holder provided a detailed description of unforeseen circumstances that led to cost overruns and delays in progress. During demolition, many unforeseen issues were uncovered that required redesign and remediation to accomplish the Project and comply with regulatory standards. These include: settlement of the first floor slab by as much as 18 inches; the presence of asbestos materials on all three floors; deficiencies in previous work; patches in load bearing walls; deficient seismic connections between structural concrete and masonry walls; water damage causing rust to structural concrete floors around plumbing in bathrooms; and deficient electrical feeders and transfer switches. Additionally, structural beams, columns and clearances were discovered that were either different from or absent from the as-built plans which forced the redesign of infrastructure elements. These issues added to the cost and delayed the sequencing of subcontractors doing infrastructure work including wall framing, and central kitchen removal, and necessitated the redesign of all the rooms on the first floor.

2. Inflation Adjustment and Changes to the approved maximum capital expenditure ("MCE")

The Holder is requesting an inflation adjustment to the approved costs. When the inflation adjustment factor of 1.059314 is applied to the approved MCE of \$12,518,692 (November 2013 dollars), the MCE increases to \$13,261,230 (May 2017 dollars).

In addition, and to account for the increases in costs, the Holder is requesting an increase of 11.2% in the MCE to \$14,749,356 (May 2017 dollars), as shown below.

	Inflation Adj. Approved MCE 5/17	Requested 5/17	% change
Depreciable Land Development	\$300,845	\$31,790	-89.43%
Construction Contract (Incl. bonding)	10,741,463	\$12,740,882	18.61%
Architectural	741,520	1,040,340	40.30%
Pre- and Post- Filing Planning & Dev.	104,342	64,195	-38.48%
Net Interest Exp .During Construction	441,053	431,459	-2.18%
Major Movable Equipment	<u>529,657</u>	<u>397,634</u>	<u>-24.93%</u>
Total Construction	12,858,881	14,706,300	14.37%
Cost of securing Financing	<u>402,349</u>	<u>43,056</u>	<u>-89.30%</u>
Total MCE & Requested Change	\$13,261,230	\$14,749,356	11.22%

The Holder states that the Project's cost increases result from increases to the construction contract and architectural fees to address the unforeseen infrastructure issues described heretofore due to deterioration related to the age of the building and upgrades required to meet building codes. Changes to *Depreciable Land Development* fees are a result of rolling much of those costs into the *Architectural* fees. Additionally, lower *Planning & Development* costs are a result of costs being less than anticipated.

Finally, the *Major Movable Equipment* amount originally assumed replacement of more equipment than is actually necessary so the Holder has achieved cost savings there.

Chelsea asserts that the proposed change will not have a negative cost implication for the facility, or its patient panel, and that the patients served will be similar to those who have been served in the past. Chelsea does not expect that the payer mix of its patient panel will change as a result of this amendment. Payments for care include a mix of payer models. The fixed or case-mix based rates from Medicare and third party payers will not change. The MassHealth rate will experience an increase in the capital payment rate which is capped at \$35.23.

Finding

In accordance with the 2017 Regulation, 100 CMR 100.635, the Department has reviewed: the Holder's description of the proposed change; a narrative comparing the approved Project to the proposed change; the rationale for such change; and associated cost implications, both to the Holder, and to the Holder's existing Patient Panel. Additional requirements of the regulation, including the submission of the application to parties of record, and the filing of a Certificate of Truthfulness and Proper Submission pursuant to 105 C.M.R. §100 have been fulfilled.

Based upon the information reviewed, the Department finds: 1) that the proposed change falls within the scope of the Notice of Determination of Need as previously approved by the Department; and 2) that the proposed change is reasonable.

Pursuant to 105 CMR 100.635(A)(3), the Department grants approval of the Request for Significant Change to Chelsea Jewish Nursing Home, Inc. Project # 4-1514.2. The approved MCE shall be \$14,749,356 (May 2017 dollars). The approved GSF shall remain unchanged at 50,925 GSF.

All other terms and conditions of the originally approved Determination of Need and prior amendments apply.

Sincerely,



Monica Bharel, MD, MPH
Commissioner

cc: Alice Bonner, EOE
Stephen Davis, HCFLC
Daniel Gent, HCFLC
Sherman Lohnes, HCFLC
Patty McCusker, CHIA
Kate Mills, HPC
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Thomas Lane, MassHealth
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