

Memorandum to the Commissioner

Applicant: Ascentria Care Alliance, Inc.
14 East Worcester Street, Suite 300

Re: Lutheran Home of Jamaica Plain, Inc. d/b/a Laurel Ridge Rehabilitation and Skilled Care Center
174 Forest Hills Street
Jamaica Plain, MA 02130

Project Number: ACA-20192808-CL

Filing Date: November 1, 2021

Introduction

This memorandum presents, for Commissioner review and action, the Determination of Need (DoN) Program's recommendation regarding a request by Lutheran Home of Jamaica Plain, Inc. d/b/a Laurel Ridge Rehabilitation and Skilled Care Center (LRRSCC), for approval of renovations and construction at the facility. The Proposed Project includes renovations of patient care units, and construction of additions designed to create the space necessary to de-densify resident rooms to come into compliance with new Department of Public Health (DPH) de-densification licensure requirements for long-term care facilities set out in 105 CMR 150 (the "De-Densification Requirements"). The capital expenditure for the project is \$12,739,902. The Community Health Initiative (CHI) commitment is \$127,399.02. The Applicant is a non-profit charitable corporation organized under existing law of the Commonwealth of Massachusetts.

On April 28, 2021, DPH issued a memo¹ noting that construction or renovation at a long-term care facility that is planned solely to reduce the number of beds per room to come into compliance with the de-densification requirements set out in 105 CMR 150 are considered Conservation projects for the purposes of applying for a Notice of DoN. Conservation Projects are defined as "Construction that consists solely of a project(s) that would Sustain or Restore a Health Care Facility or service for its designated purpose, and to its original functionality, without Modernization, Addition, or Expansion."² The construction included in this Proposed

¹ <https://www.mass.gov/doc/long-term-care-notice-pdf/download>

² For the purposes of Conservation Project, the following words shall mean:

(1) Sustain. The maintenance and repair activities necessary to keep a Health Care Facility or service in good working order. It includes regularly scheduled adjustments and inspections, preventive maintenance tasks, and emergency response and service calls for minor repairs. It also includes major repairs or replacement of facility components that are expected to occur periodically throughout the life cycle of said Health Care Facility or service. This work includes, but is not limited to, regular roof replacement, refinishing of wall surfaces, repairing and replacement of heating and cooling systems, replacing tile and carpeting, and similar types of work. It does not include environmental compliance

Project is solely to enable the facility to come into compliance with the updated De-Densification Requirements and is therefore appropriately submitted as a Conservation Project. Pursuant to 105 CMR 100.210(B)(2), Factors 1, 2, and 5 do not apply to Conservation Projects. Therefore, Staff reviewed this proposal in the context of Factors 3 (Compliance), 4 (Financial Feasibility), and 6 (Community Health Initiatives). Pursuant to 105 CMR 100.630, this Application has been delegated by the Department for review and Final Action by the Commissioner.

Background

Ascentria Care Alliance, Inc. (Applicant) is a nonprofit charitable corporation based in Worcester, Massachusetts that owns and operates a wide range of health care and social services facilities, including five senior residential centers, in every New England state except Rhode Island.³ The Applicant states its mission is to break the cycle of poverty and build thriving communities where everyone has the chance to achieve their full potential, regardless of background or disadvantage. Through its Equipped to Thrive holistic care model, the Applicant focuses on providing wrap-around services that empower vulnerable individuals and families in transition to navigate successfully through life's challenges and beyond. As one of the Applicant's senior care service providers, this facility contributes materially to its mission. The facility continuously endeavors to promote the health of the elderly and frail in its service area with a goal of continuing this mission for many years to come.

The Applicant's facility, LRRSCC, was originally built in the 1960s and opened in the early 1970s. LRRSCC is a long-term care facility that predominantly serves the elderly and disabled in the immediate area in and surrounding the Jamaica Plain section of Boston. Currently, the facility has three nursing units that house 120 beds spread across three floors. Most of the rooms in the facility are three- and four-bed rooms. The first- and second-floor units provide Level II care (continuous skilled nursing care) and the third-floor unit provides Level III care (routine nursing services with periodic availability of skilled nursing). The building is approximately 35,400 square feet. The 2021 payer mix was 3% private, 11% Medicare, 17% HMO, and 69% Medicaid. The facility's occupancy was 94.28% in 2019 and 83% in 2021.

costs, facility leases, or other tasks associated with facilities operations, such as custodial services, grounds services, waste disposal, and the provision of central utilities.

(2) Restore. To return a Health Care Facility or service to such a condition that it may be used for its designated purpose or to, but not beyond, the Health Care Facility or service's original functionality. This may include coming into compliance with all applicable federal, state, and local licensure, safety, and building requirements including nationally recognized Health Care facility construction guidelines and accreditation standards, such as those issued by the Facility Guidelines Institute, the American Institute of Architects, or the Joint Commission.

(3) Modernization. The alteration, Addition, Expansion, or replacement of all, or part, of a Health Care Facility or service to accommodate new or increased functionality, or to replace components of a Health Care Facility or service beyond that necessary to Sustain or Restore said facility or service.

³ "OUR SERVICES." Ascentria Care Alliance. Retrieved Nov. 12, 2021 <https://www.ascentria.org/our-services>

The Proposed Project

Through the Proposed Project, the Applicant states it aims to renovate existing patient care units and build small additions solely to reduce the number of beds per room to comply with the amended long-term care facility regulation, which prohibits rooms with more than two beds. The Facility proposes to accomplish this through the realignment and renovation of existing spaces, along with two small additions to the existing structure. Extensive renovation will be required in both resident care areas, as well as support areas of the Facility. The result is all private and semi-private rooms. The Applicant notes that as designed, the Proposed Project will allow the Facility to meet the regulatory requirements of de-densification and maintain its total complement of 120 operating beds, which is significant given the historical and projected need for the Facility's services.

Current facility configuration:

Three nursing units composed of 120 Level II and Level III licensed beds (including 12 four-bedded rooms and 21 three-bedded rooms)

- 40-bed Level II unit on the first floor
- 40-bed Level II unit on the second floor
- 40-bed Level III unit on the third floor

The Project will result in:

Three nursing units composed of 120 Level II and Level III licensed beds (all rooms 1 bed or 2 bed)

- 41-bed Level II unit on the first floor (20 2-bed rooms; 1 1-bed room)
- 38-bed Level II unit on the second floor (18 2-bed rooms; 2 1-bed rooms)
- 41-bed Level III unit on the third floor (20 2-bed rooms; 1 1-bed room)
- Zero three-bed or four-bed rooms in the facility
- Relocating functional areas (including activities space, dining areas, central supply, and offices)
- Filling in a steep ledged area and adding two small, four-story additions ~~(each featuring two semi-private rooms)~~, which will ensure that the number of beds in the facility (120) does not change
- Demolishing the current parking area bridge connection (to make room for the new additions) and building a new bridge connection on the third floor
- Reconfiguration of the basement

The Applicant expects construction to begin in April/May 2022 and anticipates completion by December 2023. The Applicant has presented sufficient information to support the position that the proposed construction fits within the definitions in the DoN Regulation of Sustain and/or Restore; that this proposed Conservation Project is necessary to maintain the original functionality of the facility; and does not add any new beds, services, or capacity.

Factor 3

The Applicant has certified that it is in compliance and in good standing with federal, state, and local laws and regulations, including, but not limited to M.G.L. c. 30, §§ 61 through 62H and the applicable regulations thereunder, and in compliance with all previously issued notices of Determination of Need and the terms and conditions attached therein.

Factor 4

Under Factor 4, the Applicant must demonstrate that it has sufficient funds available for capital and operating costs necessary to support the Proposed Project without negative effects or consequences to the existing Patient Panel. Documentation sufficient to make such a finding must be supported by an analysis conducted by an independent CPA.

The Applicant submitted a report performed by CliftonLarsonAllen LLP (CPA Report). The CPA Report notes that because it was not required to verify the accuracy of the information provided by the applicant, it does not express an opinion with regard to the projected financial statements and assumptions.

The CPA Report reflects a review and analysis of LRRSCC's current financial position and industry metrics. Additionally, the CPA presented financial projections (2022-2026) and supporting documentation, including underlying assumptions prepared by Management.^{4,5}

Projected revenue consists of revenue from operating the Nursing Home and is derived from interim financial data for the current period as well as management's historical experience of operating the facility. COVID-19 has had a major impact on nursing homes nationwide. In the Commonwealth, six nursing homes closed in 2021 and two have announced that they will close in 2022 (as of Feb. 10).⁶ LRRSCC states that the principal impact of COVID-19 has been a decline to its occupancy rate (from 95% in 2017 to 83% in 2021) and therefore a decline in its revenue. According to the CPA Report's projections, the occupancy rate will gradually return to pre-COVID levels in the projected year ending June 30, 2025 and thereafter. Other effects of COVID on LRRSCC include additional costs from maintaining COVID protocols, potential shortages of health care personnel, and increased labor costs.⁷ Future years were projected utilizing assumptions for rate increases and operating expenses and any known changes for operating the renovated facility during the projection period.

⁴ The projections included in the CPA report assume, among other things, that the applicant will: complete the project as presented; obtain financing consistent with the plans presented in the CPA report; and achieve the occupancy, payer mix, and average rates detailed in the CPA report.

⁵ Providers in Suffolk County were used to benchmark projections.

⁶ "Information about nursing home closures." Retrieved Feb. 10, 2022. <https://www.mass.gov/service-details/information-about-nursing-home-closures>

⁷ Including costs for emergency preparedness, disease control and containment, potential shortages of health care personnel, additional wages, or loss of revenue due to reductions in certain revenue streams.

The CPA also reviewed the Applicant's projected operating expenses and states that baseline projected expenses for the first year of the projection (2022) were derived from financial data of the facility for the current period and historical experience of operating the facility. Additionally, the report reviews several domains where costs are expected to increase.⁸ The CPA states that historically, LRRSCC's cost structures are between the median and 75th percentile. The CPA Report states that the CPA did not examine or review the projected financial statements and does not provide any form of assurance on the projections presented by LRRSCC in the report.

The CPA also reviewed past and present capital expenditures and cash flow to determine whether the Applicant will likely have sufficient funds to service the debt and to reinvest in the facility in order to maintain the investments associated with this Proposed Project. According to the documents reviewed by the CPA, the Project will be financed by a loan (secured by an additional mortgage) of approximately \$11,734,000, and existing cash and cash equivalents (approximately \$1,158,000).⁹

Moreover, the key financial ratios featured in the CPA Report (EBIDA, days cash on hand, debt service coverage ratio, and working capital ratio) improve over the projection period. In 2020, LRRSCC's EBIDA margin was in the top quartile of Worcester County facilities, its days cash on hand ratio was in the second quartile for the county, and its Debt Service Coverage Ratio was close to the state median. These key ratios suggest that the proposed project is not likely to have a negative effect on the patient panel or result in a liquidation of assets.

Factor 6

The Community Health Initiative (CHI) component of the DoN regulation requires long-term care facilities completing a conservation project contribute 1% of the total value of the project to the CHI Healthy Aging Fund. Payment ~~may shall~~ be made ~~in full at the time of project approval or~~ in two equal installments with the first payment due ~~at the time within 30 days~~ of receipt of a duly approved Notice of Determination of Need ~~(or upon receipt of a payment letter from DPH)~~, and the second, on the first anniversary of the ~~approved~~ Notice ~~of Determination of Need~~. Any deviation from this payment schedule will require program approval. For this proposed Conservation Project, the CHI contribution will be \$127,399.02. Based on the Applicant's compliance with the above requirement, the Applicant meets the terms of Factor 6.

⁸ Including labor, overhead/administration, dietary services, plant operations, and utilities.

⁹ Approximately \$15,000 of existing pre-planning construction in progress costs were funded prior to the projection period.

Overall Findings

Based upon a review of the materials submitted, the Department finds that the Proposed Project at LRRSCC complies with the requirements of a Conservation Project and has met applicable DoN Factors 3, 4, and 6 as required in the regulation 105 CMR 100.210(B)(2). As a result, this Application for \$12,739,902 in capital expenditures for a Conservation Project at LRRSCC is approved, subject to all Standard Conditions as provided in the Regulations. All standard conditions apply except 100.310(A)(10).

Conditions

1. All Standard Conditions apply except 105 CMR 100.310(A)(10).
2. Of the total required CHI contribution of \$127,399.02, the full amount will be directed to the CHI Healthy Aging Fund in accordance with the payment schedule outlined below in Condition 3.a. ~~\$31,849.76 will be directed to the CHI Statewide Initiative~~
~~b. \$95,549.26 will be dedicated to local approaches to the DoN Health Priorities~~
3. To comply with the Holder's obligation to contribute to the ~~CHI Healthy Aging Fund Initiative~~, the Holder must submit ~~payment a check for \$31,849.76~~ to Health Resources in Action (the fiscal agent for the CHI Statewide Initiative) ~~in two equal installments of \$63,699.51 as follows:~~
 - a. The Holder must submit the ~~funds first~~ check for \$63,699.51 to HRiA within 30 days from the date of the ~~approved~~ Notice of Determination of Need.
 - b. The Holder must submit the second check for \$63,699.51 to HRiA on the first anniversary of the approved Notice of Determination of Need.
 - c. The Holder must promptly notify DPH (CHI contact staff) when ~~the~~each payment has been made.