

Memorandum to the Commissioner

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

Re: Lutheran Housing Corporation-Brockton d/b/a Lutheran Rehabilitation and Skilled Care Center
26 Harvard St, Worcester, MA 01609

Project Number: ACA-21092912-CL

Filing Date: November 24, 2021

Introduction

This memorandum presents, for Commissioner review and action, the Determination of Need (DoN) Program's recommendation regarding a request by Ascentria Care Alliance, Inc. – Lutheran Housing Corporation – Brockton d/b/a Lutheran Rehabilitation and Skilled Care Center (LRSCC), 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 \$7,450,550.00. The Community Health Initiative (CHI) commitment is \$74,505.50. 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 Project is solely to enable the Facility to come into

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 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.

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 services, this facility contributes materially to its charitable 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.

~~Originally built in the 1800s, the LRSCC has been licensed as a long-term care facility since the late 1960s.~~ LRSCC primarily provides care for the elderly and the “frail elderly” in its service area. The Facility is comprised of three connected buildings that house a total of 150 licensed beds within three nursing units. The site was recently acquired by the Applicant as of July 2021.⁴ According to data provided by the Applicant, their Level II (Skilled Nursing Care) service’s average length of stay was 56.4 days, Level III (Supportive Nursing Care) was 154.5 days, and Level IV (Residential care) was 249.7 days.⁵ The Facility’s 2020 total facility occupancy rate was 86% and the payer mix was 6.3% private, 5.1% Medicare, 84.4% Medicaid, and 4.2% HMO/ Other.

The Proposed Project

Through the Proposed Project, the Applicant aims to de-densify the Facility’s **107 Level II and Level III beds** located in the Olander building by renovating two existing nursing units **in this building and building constructing small an additions** in order to reconfigure its rooms to comply with the amended long-term care facility regulation, which prohibits rooms with more than two beds. The Applicant states that the project is planned solely to reduce the number of beds per room in order to comply with this new regulation.

In order to achieve this, the Applicant asserts the need to build a new ground floor Level II nursing unit, due to the current high concentration of three-bedded rooms in the current nursing units in the Olander building. The other two buildings at the Facility, Lille and Jepson, which house 43 rest home (Level IV) licensed beds, will not be affected by the Proposed Project.

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

⁴ <https://www.wbjournal.com/article/ascentria-acquires-its-fifth-nursing-home-facility-lutheran-rehab-for-216m>

⁵ 105 CMR 150.001: Levels of Long-term Care Facilities or Units

The Project will result in:

- Conversion of all current three-bedded rooms on the second and third floor of the Olander building to semi-private rooms and conversion of existing ancillary space on the second floor to an additional semi-private room. These conversions will result in:
 - 20 semi-private (two-bedded rooms) and 1 private Level III room on the second floor
 - 21 semi-private (two-bedded rooms) and 1 private Level II room on the third floor
- Creation of a new 23-bed Level II nursing unit on the ground floor, consisting of:
 - 11 private rooms and 6 semi-private two-bedded rooms
 - Nurse station
 - Day room
 - Ancillary space
- Creation of a courtyard between new and existing spaces
- Renovation as necessary within and around the existing nursing units in the Olander building and the two other buildings at points of connection to the new ground unit

The Applicant expects construction to begin in April or May of 2022 and anticipates this to be completed 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 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 the CPA was not required to verify the accuracy of the information provided by the applicant, the CPA Report does not express an opinion with regard to the projected financial statements and assumptions.

The CPA Report reflects a review of the Facility's financial statements, current financial position, and industry metrics. Additionally, the CPA presented the financial projections (2022-2026) and supporting documentation, including underlying assumptions prepared by Management.^{6,7}

⁶ 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.

⁷ Providers in ~~Worcester~~ ~~Suffolk~~ County were used to benchmark projections.

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 have announced that they will close in 2021 and two have announced that they will close in 2022 (as of Jan. 6).⁸ 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 LRSCC include additional costs from maintaining COVID protocols, potential shortages of health care personnel, and increased labor costs.⁹ 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.

The CPA also reviewed the Applicant's projected operating expenses and states that baseline projected expenses for the first year of the projection (the year ending June 30, 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.¹⁰ 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 the Applicant 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 construction fund of approximately \$3,075,000 which is part of a long-term debt agreement made with the Massachusetts Development Finance Agency through a long-term debt agreement made** in July of 2021 for \$56,730,000 in Revenue Bonds Series 2021.

Benchmarking metrics (projected to June 2026) for LRSCC:

1. **Occupancy/ Payer Mix/ Revenue per Patient Day**
 - a. **Medicare mix is projected to be between the median and upper quartile, while Medicaid mix is projected to be above the upper quartile¹¹ in relation to facilities in Worcester, MA.**
 - b. **Projected occupancy rate and Medicaid, Medicare rate are all projected to be in between the median and the upper quartile and exceed the upper quartile¹² in relation to facilities in Worcester, MA.**
2. **Expenses (Historical and Projected Operations)**

⁸ "Information about nursing home closures." Retrieved Nov. 12, 2021. <https://www.mass.gov/service-details/information-about-nursing-home-closures>

⁹ 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.

¹⁰ Including labor, overhead/administration, dietary services, plant operations, and utilities.

¹¹ Per the CPA report <https://www.mass.gov/doc/application-pdf-ascentria-care-alliance-lutheran-housing/download>

¹² Per the CPA report <https://www.mass.gov/doc/application-pdf-ascentria-care-alliance-lutheran-housing/download>

- a. Cost structures are consistent with the median and costs are at a reasonable range compared to comparable facilities in the area, without significant foreseeable changes
- 3. Key Financial Ratios
 - a. Earnings Before Interest, Depreciation and Amortization (EBIDA)- projected to be above the Worcester County 75th percentile for the stabilized year 2026
 - b. Day's Cash on Hand- projected to be above the 75th percentile in 2026
 - c. Debt Service Coverage Ratio- projected to be above MA's state median in 2026
 - d. Working Capital Ratio - projected ratio by June 30, 2026 is 1.45 (above the standard indicator of potential future liquidity problems, which is less than 1.0)

As a result of the foregoing, the CPA determined that the projections are reasonable and feasible, and not likely to have a negative impact 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 to contribute 1% of the total value of the project, to the CHI statewide 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. ~~The Applicant has chosen the option to pay in two equal installments.~~ Any deviation to this payment schedule will require program approval. For this proposed Conservation Project, the CHI contribution will be \$74,505.50. Based on the Applicant's compliance with the above requirement, the Applicant meets the terms of Factor 6.

Overall Findings

Based upon a review of the materials submitted, the Department finds that the Proposed Project at the LRSCC facility 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 \$7,450,550 in capital expenditures for a Conservation Project at LRSCC 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 contributions of \$74,505.50, the full amount will be directed to the CHI statewide Healthy Aging Fund in accordance with the payment schedule outlined below in Condition 3.
 - a. ~~\$18,626.38 will be directed to the CHI Statewide Initiative~~
3. ~~\$55,879.12 will be dedicated to local approaches to the DoN Health Priorities~~
4. To comply with the Holder's obligation to contribute to the CHI statewide ~~CHI Initiative Healthy Aging Fund~~, the Holder must submit a ~~check for \$18,626.38 payment~~ to Health Resources in Action (HRiA); (the fiscal agent for the CHI Statewide Initiative) in two equal installments of \$37,252.75 as follows:

- a. The Holder must submit the ~~fund~~ first check for \$37,252.75 to HRiA within 30 days ~~from of receipt the date~~ of the approved Notice of Determination of Need.
- b. The Holder must submit the second check for \$37,252.75 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 each payment has been sent.