

Memorandum to the Commissioner

Applicant: Alliance Health, Inc.

Project Number: DoN 18102408-CL

Date of Application: October 24, 2018

Introduction

This memorandum presents, for Commissioner review and action, the Determination of Need (DoN) Program's recommendation in connection with a request by Alliance Health, Inc. (Alliance Health, or Applicant) for approval of \$3,690,000 in capital expenditures at its 101-bed long term care facility, Alliance Health of Southeastern Massachusetts, Inc. d/b/a Alliance Health at Braintree (Alliance-Braintree), located at 175 Grove Street, Braintree, MA 02184. The Applicant, a nonprofit corporation, is the sole corporate member of Alliance-Braintree.¹ This Application is presented as a Conservation Project, which means "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 Pursuant to 105 CMR 100.210(B)(2), Factors 1, 2, and 5 do not apply to Conservation Projects. Pursuant to 105 CMR 100.630, this Application has been delegated by the Department for review and Final Action by the Commissioner.

Background

Alliance Health, Inc. is the parent of the facility that is the subject of this DoN, which is known as Alliance-Braintree. Alliance Health, Inc. provides both long-term and short-term skilled

¹ This Application was initially submitted by Alliance Health of Southeastern Massachusetts, Inc. Pursuant to the Regulation, specifically 105 CMR 100.425, Alliance Health filed an amendment to change the Applicant from the subsidiary to, as required by the Regulation, the sole corporate member. This change does not alter the Proposed Project in nature, scope, costs, or financing nor does it alter or affect the Department evaluation.

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.

nursing and rehabilitation care through the operation of skilled nursing facilities for elders and through its specialized and therapeutic foster care programs³ for children with medical and/or emotional needs. It owns and operates seven skilled nursing and rehabilitation facilities in Massachusetts that are certified by Medicare and Medicaid and are Joint Commission accredited.⁴

Alliance-Braintree is a licensed 101-bed rehabilitation and skilled nursing facility that was constructed in 1997.⁵ The building has three floors and 38,611 gross square feet (GSF). The proposed project will not add any beds or GSF to the existing facility. Rather, it will restore and sustain aging elements of the current facility to provide an improved environment for patients and a more efficient facility for staff to work in that will be more cost effective to operate.

Conservation Projects are not subject to analysis under factor 1 of the DoN regulation, which looks, *inter alia*, at patient panel or need. However, for context, we provide the following information. The majority of the patients at Alliance-Braintree come from Braintree and ten surrounding towns in the south shore of Boston.⁶ Sixty percent of the patients are female and 70% are 80+ years old. Overall, the current patient payer mix shows that Alliance-Braintree has 56.7% Medicaid, 24.4% Medicare part A, 10% insurance/HMO, and 8.9% Private Pay patients. When looking at case-mix intensity, higher intensity case-mix rehabilitation patients comprise approximately 21% of patients⁷; 14.5% of patients receive skilled nursing care⁸; and 65% are the less intensive longer-term patients.⁹

The Proposed Project

The Applicant states that the Alliance-Braintree building is 21 years old and, as a result of its age, needs upgrades to systems and finishes to sustain or restore it to its designated purpose and original functionality. In working with an architect, the Applicant identified systems that are past their useful life, identified shortcomings related to current building practices, and identified initiatives that will lower utility costs that improve resident's quality of life.

The Applicant reports that issues with the HVAC cause resident discomfort in treatment rooms and in resident rooms. The building systems that are nearing or past their useful life and/or that need replacement to meet current standards include:

1. Hot water boilers supplying the kitchen, laundry and resident rooms;
2. Air systems on the rooftop and first floor;
3. Pass through air conditioning units in resident rooms;

³ Alliance Health, Inc.'s foster care programs are owned and operated in California and Ohio only.

⁴ Those facilities are: Abbott House, Baldwinville, Devereux, Marina Bay, Rosewood, West Acres and Braintree.

⁵ Originally approved for 82 Level II beds in 1997, it was expanded to 101 beds in 2005.

⁶ The south shore of Boston is a region generally described as including Quincy, Braintree, Weymouth, Dorchester, Milton, Randolph, Hanover and Hingham.

⁷ For whom care is covered primarily by Medicare part A.

⁸ For whom care is covered by primarily by Medicare part A, HMO or private insurance.

For whom care is covered primarily by by Medicaid.

4. Fire and carbon monoxide devices and security/telephone/data/TV systems which are not up to code or other standards and are beyond their useful lives;
5. Water damage due to leaking plumbing in some bathrooms; and
6. Lighting to address areas which are under-lit and require new/additional ceiling fixtures.

The Applicant asserts that both interior and exterior components of the building need repairs or replacement. The exterior siding of the building the roof membrane, egress doors and frames all need replacement. During that replacement process, they will add insulation and airtight flashing which comports with current building practices. These restorations will contribute to energy efficiencies and improved comfort for residents and staff and will generate minimal incremental cost. Additionally, due to wear and tear, interior finishes, handrails, counters, base cabinets in the nurses' station, resident rooms and dining/activity areas and bathrooms need repairs and replacement, and will be restored to their original functionality.

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; and that because of these repairs and replacements, the building will be more efficient, leading to lower utility and maintenance costs.

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 Applicant¹⁰ 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 an analysis of Alliance-Braintree performed by Cohen & Co. and updated January 16, 2019¹¹ (CPA Report).

In order to assess the reasonableness of assumptions used, and the feasibility of the projections for the proposed project, the CPA Report reflects a review and analysis of Alliance-Braintree's

¹⁰ Alliance-Braintree is managed by Alliance Health Management Services, LLC, and is under the auspices of Alliance Health, Inc. (Alliance Health), a 501(c)3 corporation. Because the operations of each of the Alliance Massachusetts based LTC facilities are separate from each other, and because the feasibility of this proposed project is demonstrated to be independent of any other Alliance LTCF, staff agrees that the appropriate subject of the factor 4 CPA analysis is Alliance-Braintree.

¹¹ Amended date to reflect the Applicant as Alliance Health, Inc.

audited financial statements, current financial position, and industry metrics. Additionally, the CPA reviewed the 2018-2023 Six-Year Budget Forecast and supporting documentation, including underlying assumptions prepared by management, and determined they were reasonable.

Projected revenue, the CPA reports, is based on historical operations, and adjustments have been made to account for anticipated changes to commercial and governmental reimbursement rates. Projected occupancy rates and payer-mix remain consistent with historical performance. Based on the foregoing, the CPA's opinion is that the growth projections for Alliance-Braintree reflect a reasonable estimation of future revenues.

The CPA also reviewed projected operating expenses. The CPA report states that those projections are based on historical annual line items, and notes one decrease in administrative payroll due to organizational staffing changes. Overall, the majority of expenses are projected to increase 2% annually, except for health insurance, which is projected to increase at 5% per year based on historical growth rates. Since the Applicant expects patient volume at Alliance-Braintree to remain steady, operating expenses are expected to increase proportionally with inflation. After review of these categories of expenses, the CPA's opinion is that the projections of the Applicant are reasonable.

The CPA also reviewed capital expenditures and cash flows to determine whether there will be sufficient funds to service the debt and to reinvest in the facility in order to maintain the renovations associated with this Proposed Project. The financing of the Project will be rolled into a HUD insured refinance of existing debt which will be amortized over 35 years. These two factors combined, according to the CPA, result in a cumulative reduction in net operating income as a percentage of cumulative revenue from 7.9% to 7.5%. 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 at Alliance Braintree."

Factor 6

The Community Health Initiative (CHI) component of the DoN regulation requires Long-Term Care Facilities doing a Conservation project to contribute 1% of the total value of the project, to a CHI Healthy Aging Fund. Payment may be made in full at the time of project approval or in 2 equal installments with the first payment due at the time 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 Notice. Any deviation to this payment schedule will require program approval. For this proposed Conservation Project, the CHI contribution will be \$36,900 in two equal payments of \$18,450.

Findings

Based upon a review of the materials submitted, the Department finds that the proposed project at Alliance-Braintree 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 100.715B(2). As a result, this Application for \$3,690,000 in expenses for a Conservation Project at Alliance-Braintree, located at 175 Grove Street, Braintree, MA 02184 is approved, subject to all standard conditions as provided in the Regulations.