

## Memorandum to the Commissioner

**Applicant:** Long Term Centers of Lexington, Inc.  
30 Watertown Street  
Lexington, MA 02421

**Re:** Pine Knoll Nursing Center  
30 Watertown Street  
Lexington, MA 02421

**Project Number:** 22032813-CL

**Filing Date:** June 3<sup>rd</sup>, 2022

### Introduction

This memorandum presents, for Commissioner review and action, the Determination of Need (DoN) Program's recommendation regarding a request by Long Term Centers of Lexington, Inc. for approval of renovations and construction at Pine Knoll Nursing Center. The Proposed Project includes renovations of patient care units and construction of an addition 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 Applicant is also proposing to use its one-time regulatory allowance of an additional twelve beds. The capital expenditure for the project is \$6,216,750. The CHI commitment is \$62,167.50. The Applicant is a for-profit corporation organized under existing law of the Commonwealth of Massachusetts.

On April 28, 2021, DPH issued a memo<sup>1</sup> 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." The construction included in this Proposed Project is solely to enable the facility to come into compliance with the 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

Long Term Centers of Lexington, Inc. (Applicant) is a for-profit corporation located in Lexington, MA that owns and operates Pine Knoll Nursing Center (the Facility). The Applicant's facility, Pine Knoll Nursing Center, is an 81-bed skilled nursing facility and rehabilitation center located in Lexington Massachusetts.

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

Pine Knoll Nursing Center is a two-story, 47,492 square foot skilled nursing facility that was constructed in 1964 with no additions since opening. The Facility provides long-term skilled nursing care, rehabilitative care, and hospice and respite care to its residents.

The average length of stay (ALOS) for all residents discharged in 2021 was approximately one and a half years. Based on the 2021 payer mix, the majority of all residents have their care covered by Medicaid (85%), followed Medicare (10%), and private pay (5%). The Applicant states that historically, Pine Knoll has maintained an occupancy over 90%; the Facility occupancy rate was 95.8% in 2019. Despite the level of competition and admission limitations caused COVID-19, the Facility has maintained an occupancy rate of 83.2% in 2020, and 79.1% in 2021.

The Facility is comprised of 81 Level II licensed beds within three nursing units on the first floor of the Facility. The Facility has five private rooms, 16 semi-private rooms, and 11 four-bedded rooms. The Applicant states that the De-densification Requirements, would reduce Pine Knoll’s licensed bed count from 81 to 59. The bed configuration of the Facility is presented in Table 1 below.

Table 1: Pine Knoll Nursing Center Current Bed Configuration

Current Facility Bedroom Configuration					
Unit	Private	Two-bedded	Three-bedded	Four-bedded	Total Beds
West Unit (secure)	3	4	0	4	27
Central Unit	1	6	0	3	25
North Unit	1	6	0	4	29
Total	5	16	0	11	81

The second floor of the facility houses administrative functions, including office space for the administrator, facilities director, director of nursing, activities director, and social worker and the Facility has a basement which includes laundry and storage areas.

**The Proposed Project**

Through the Proposed Project, the Applicant aims to improve the quality of patient care and quality of life for all existing and future residents of Pine Knoll Nursing Center. The Applicant is proposing to construct a forty-one bed, 16,900 square foot addition to the existing Facility in order to comply with the Department’s De-densification Requirements. The Facility will relocate 22 beds from the four-bedded rooms to the new addition. The new addition would accommodate all of the beds in the four-bedded rooms and twelve additional beds under the Facility’s one-time regulatory allowance, for a total of 93 licensed beds. All 11 four-bedded rooms will be eliminated.

The Proposed Project also includes renovations/upgrades to the existing structure to meet the discharge needs of area hospitals and communities.

The proposed bed configuration is presented in Table 2 below.

Table 2: Pine Knoll Nursing Center Proposed Bed Configuration

Proposed Facility Bedroom Configuration					
Unit	Private	Two-bedded	Three-bedded	Four-bedded	Total Beds
West Unit (secure)	3	8	0	0	19
Central Unit	1	9	0	0	19

North Unit	1	10	0	0	21
New Addition	2	16	0	0	34
Total	7	43	0	0	93

The Applicant expects construction related to the DON project will commence within 18 months of the receipt of the DON approval letter but has stated that the start date is dependent on COVID-19 conditions to ensure the safety of staff and residents. The Applicant outlined processes that will be used to minimize disruption of patient care and ensure patient safety and well-being during construction. 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. The Proposed Project will add 12 new beds under the Facility’s one-time regulatory allowance, which will increase the licensed bed count to 93 beds.

**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 John P. Sanella, CPA (CPA Report).<sup>2,3</sup> The scope of the analysis and conclusions in the CPA Report are based upon a detailed review of all relevant information, including financial projections (projection years ending December 2022 through 2026) and the related supporting documentation.<sup>4</sup>

The CPA reports that the projected revenue consists primarily of net patient service revenue. Revenue projected for the first year of operation is based on financial data for the current period, Management’s historical experience with operating the Facility, and current reimbursement and nursing home reimbursement rates and regulations. Future years were projected utilizing best assumptions for changes in reimbursement rates, payor mix, and occupancy.

The CPA reviewed the projected operating expenses and states that baseline expenses for the first year of the projection were derived from financial data relevant to current and historical operations of the

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<sup>2</sup> The CPA states it was *prepared in accordance with the attestation standards established by the American Institute of Certified Public Accountants* for the projected operation of the Pine Knoll Nursing Center.

<sup>3</sup> Reasonableness is defined within the context of this report as supportable and proper, given the underlying information. Feasibility is defined as based on Management achieving the hypothetical assumptions used, the plan is expected to result in “sufficient funds available for capital and ongoing operating costs necessary to support the Proposed Project without negative impacts or consequences to the Applicant’s existing Patient Panel” (per Determination of Need, Factor 4(a)).

<sup>4</sup> During the year ended December 31, 2021, the Nursing Home received forgiveness on a loan for approximately \$1,417,451 through the Federal Paycheck Protection Program. These amounts are not included in the Projection Period.

facility and review of each expense category.<sup>5</sup> Subsequent years factored in anticipated inflation and increases for all expenses.

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. According to the documents reviewed by the CPA, the Project will be financed by a construction loan with a 25 year amortization period.

As a result of the foregoing, the CPA stated *“Based upon my review of the relevant documents and analysis of the projected financial statements, I determined the Projections operating surpluses are reasonable expectations based upon achieving the hypothetical assumptions that Management has included in the Projections. Accordingly, I determined that the Projections are financially feasible and sustainable and not likely to have a negative impact on the patient panel.”*

### **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 Healthy Aging Fund. The Applicant has chosen the option to pay in two equal installments. Payment may must be made in two equal installments with the first payment due within six months of receipt of a duly-approved Notice of Determination of Need, 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 \$62,167.50. 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, staff finds that the Proposed Project at Pine Knoll Nursing Center has met each applicable DoN Factor and recommends that the Commissioner approve this Application for Determination of Need, subject to all Standard Conditions as provided in the Regulations except for 105 MR 100.310(A)(10) and the Other Conditions, set out below.

### **Conditions**

1. All Standard Conditions apply except 105 CMR 100.310(A)(10).
2. The total required CHI contribution of \$62,167.50 will be directed to the Massachusetts Healthy Aging Fund.
3. To comply with the Holder’s obligation to contribute to the Massachusetts Healthy Aging Fund, the Holder must submit payment to Health Resources in Action (the fiscal agent for the CHI Statewide Initiative) in two equal installments of \$31,083.75 as follows:
  - a. The Holder must submit the first check to HRiA within six months from the date of the approved Notice of Determination of Need.
  - b. The Holder must submit the second installment of funds to HRiA on the first anniversary of the approved Notice of Determination of Need.

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<sup>5</sup> Including salaries and benefits, supplies, depreciation and interest expenses.

- c. The Holder must promptly notify DPH (CHI contact staff) when each payment has been made.

Payment should be sent to:  
Health Resources in Action, Inc. (HRIA)  
2 Boylston Street, 4th Floor  
Boston, MA 02116  
Attn: Ms. Bora Toro