

Memorandum to the Commissioner

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

Re: Fair Havens, Inc. d/b/a Quaboag Rehabilitation and Skilled Care Center
47 East Main St.
West Brookfield, MA 01585

Project Number: ACA-21092816-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 Fair Havens, Inc. d/b/a Quaboag Rehabilitation and Skilled Care Center (QRSCC), for approval of renovations and construction at the facility. The Proposed Project includes renovations of patient care units, and construction of two small 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 \$6,111,556. The Community Health Initiative (CHI) commitment is \$61,115.56. 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 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

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 is a non-profit human service organization offering programs and services. The Applicant's 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. The Facility is one of the Applicant's critical senior care service providers, and as such, it 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, Quaboag Rehabilitation and Skilled Care Center (QRSCC) has been licensed as a long-term care facility since the late 1960s. QRSCC primarily provides care for the elderly and the "frail elderly" in its service area (in and around West Brookfield, Massachusetts). Currently, the facility has three floors and 147 beds: 104 Level II beds (which provide continuous skilled nursing care) and 43 Level III beds (which provide routine nursing services and periodic availability of skilled nursing). The Facility's 43-bed Level III unit is housed in the converted residential space at the North side of the building across the first and second levels. The Facility's two Level II units are housed in an L-shaped addition at the South side of the building: a 49-bed unit is on the first floor, and a 55-bed unit is on the second floor. Among the three units, there are currently 16 three-bedded rooms. The facility's occupancy was 96.96% in 2019 and 91.57% in 2020. The 2021 payer mix was 4% HMO, 11% private, 14% Medicare, and 71% Medicaid.

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

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>

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 to comply with this new regulation. 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 will be 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 147 operating beds, which is significant given the historical and projected need for the Facility's services.

Current facility configuration:

Three nursing units composed of 147 Level II and Level III licensed beds (including 16 three-bedded rooms)

- 49-bed Level II unit on the first floor
- 55-bed Level II unit on the second floor
- 43-bed Level III unit (spread across both floors)

The Project will result in:

Three nursing units composed of 147 Level II and Level III licensed beds (all rooms 1 bed or 2 bed)

- 51-bed Level II unit on the first floor
- 57-bed Level II unit on the second floor
- 39-bed Level III unit on the third floor
- Zero three-bedded rooms in the facility
- Relocating functional areas (including storage, dining areas, and office space)
- Relocation and renovation of the facility's main entrance to the ground floor, which will also be renovated
- Construction of two small additions (each featuring two semi-private rooms on each of the two resident care levels) to ensure that the number of beds in the facility will not change

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 (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 QRSCC's current financial position and industry metrics. Additionally, the CPA presented the 2022-2026 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 (as of Feb. 10⁶) two have announced that they will close in 2022. QRSCC 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 QRSCC 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.

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. The facility reports a cost structure between the median and 75th percentile both historically and in its projections, without significant foreseeable changes. Additionally, the report reviews several domains where costs are expected to increase.⁸ 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 (expenses or revenues) presented by QRSCC in the report.

⁴ The projections included in the CPA report assume, among other things, that the applicant will: complete the project as presented; fund the project 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 Worcester 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.

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

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 (approximately \$4,925,000), which was part of the proceeds of a refinancing in July 2021, in addition to \$1,160,000 of existing cash.⁹

Moreover, three of the key financial ratios featured in the CPA Report (EBIDA, days cash on hand, and working capital ratio) improve over the projection period, while only one (debt service coverage ratio) has a negative trend. In 2020, QRSCC's EBIDA margin (earnings before interest, depreciation, and amortization) was in the top quartile of Worcester County facilities in 2020, as was its days cash on hand ratio. In 2020, QRSCC's Debt Service Coverage Ratio was better than 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 be made in full at the time of project approval or in two 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 \$61,115.56. 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 QRSCC 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 \$6,111,556 in capital expenditures for a Conservation Project at QRSCC is approved, subject to all Standard Conditions as provided in the Regulations. All standard conditions apply except 100.310(A)(10).

Conditions

1. Of the total required CHI contribution of \$61,115.56:
 - a. \$15,278.89 will be directed to the CHI Statewide Initiative
 - b. \$45,836.67 will be dedicated to local approaches to the DoN Health Priorities

⁹ Approximately \$441,000 of preplanning costs were funded prior to the projection period.

2. To comply with the Holder's obligation to contribute to the Statewide CHI Initiative, the Holder must submit a check for \$15,278.89 to Health Resources in Action (the fiscal agent for the CHI Statewide Initiative).

a. The Holder must submit the funds to HRIA within 30 days from the date of the Notice of Approval.

b. The Holder must promptly notify DPH (CHI contact staff) when the payment has been made.