

Memorandum to the Commissioner

Applicant:

Royal Nursing Center, LLC
1080 Washington Street
Hanover, MA 02339

Re: Royal Falmouth Nursing & Rehabilitation Center
359 Jones Road
Falmouth, MA 02540

Project Number: #22031614-CL

Filing Date: May 18, 2022

Introduction

This memorandum presents, for Commissioner review and action, the Determination of Need (DoN) Program’s recommendation regarding a request by Royal Falmouth Nursing & Rehabilitation Center (Royal Falmouth) for approval of renovations and construction at the facility. The Proposed Project includes additions off the facility’s first and second floors designed to create the space necessary to come into compliance with Department of Public Health (DPH) de-densification licensure requirements for long-term care facilities set out in 105 CMR 150 (the “De-Densification Requirements”). Additionally, the Proposed Project would overhaul the facility’s mechanical and electrical systems. The capital expenditure for the project is \$4,001,290. The CHI commitment is \$40,012.90. The Applicant is a limited liability corporation organized under existing law of the Commonwealth of Massachusetts.

On April 28, 2021, DPH issued a memo¹ noting that construction or renovations 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

Royal Nursing Center, LLC (Applicant) is limited liability corporation located in Hanover, Massachusetts that owns and operates ten skilled nursing facilities (SNFs) in eastern and southeastern Massachusetts and Cape Cod. The Applicant also manages another SNF in Canton, Massachusetts and owns and operates two nursing facilities in Rhode Island.

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

The Applicant's facility in Falmouth is a 120-bed skilled nursing and rehabilitation center built in 1988. The 47,492 square foot facility provides long-term skilled nursing care, dementia-specific care, rehabilitative care, hospice care, respite care, and transportation services. The two-story building has 36 one-bed rooms, 24 two-bed rooms, and 12 three-bed rooms; 80 beds are Level II beds and 40 are Level III beds. Prior to COVID-19, the facility was 86% occupied.

The Proposed Project

Through the Proposed Project, the Applicant aims to come into compliance with the De-densification Requirements in 105 CMR 150 and rehabilitate Royal Falmouth's mechanical and electrical infrastructure. The Applicant states that the proposed project will preserve its bed count, enhance the quality of its patient care, and improve its competitive position. The Proposed Project includes renovations to convert three-bed rooms to two-bed rooms and construction to create new two-bed rooms.

Currently, the facility has 36 one-bed rooms, 24 two-bed rooms, and 12 three-bed rooms (for a total of 120 beds) on two floors. To comply with the De-Densification Requirements, the Applicant proposes to convert the three-bed rooms to two-bed rooms and add 6 two-bed rooms in a new addition off both floors. After the project, Royal Falmouth will have 36 one-bed rooms and 42 two-bed rooms. The proposed project envisions one 36-bed unit and two 42-bed units (because these units would exceed the regulatory limit of 41 beds, a separate waiver request is being submitted to the Department). In addition to these changes to room configuration, the proposed project would overhaul the facility's mechanical and electrical systems. The Applicant states that the project is designed to avoid major bed reductions during construction and that it will be phased to ensure continuity in operations. The Applicant does not anticipate that the proposed project will have an impact on its prices. The Applicant expects construction to begin by late 2023/early 2024 but has stated that the start date is dependent on numerous factors, including financing timelines and regulatory approvals.

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 that the proposal 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 Marcum LLP (CPA Report). The CPA Report notes that because it was not required to audit the information provided by the applicant, it does not express an opinion with regard to the projected financial statements and assumptions. 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 Royal Falmouth's financial statements, current financial position, and industry metrics. Additionally, the CPA reviewed the financial projections for 2023-2027 and supporting documentation, including underlying assumptions prepared by Management, and determined they were reasonable.

Projected revenue is based on historical data, with adjustments to reimbursement rates, payor mix, and occupancy rates. The Applicant projects that occupancy will increase to 92% after the Proposed Project is implemented. Additionally, the Applicant projects that the share of Medicaid patients will decline, while the share of Medicare and private pay patients will increase (as the facility attracts more of these patients with additional 2-bed rooms). The CPA found that these assumptions were reasonable. Projected expenses are based off historical financial data from the Applicant. Due to inflation² and staffing shortages, management expects expenses to continue increasing, with inflation lessening over time.

The CPA found that the estimated cost of financing the Proposed Project is properly included in the Applicant's projections and that assumed loan terms (20 years at an interest rate of 5.5%) are reasonable. The CPA also found that the Proposed Project's maximum capital expenditure (\$4,001,290) is reasonable for the scope of work involved.

According to the financial projections put forth by the Applicant, the facility's operating margin will improve from -1.7% in 2023 to 5.1% in 2027. Additionally, its liquidity ratio is projected to increase from 1.35 in 2023 to 4.06 in 2027; its days available cash is projected to improve from 5.29 to 45.41. The facility's Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) is projected to improve from -\$194,677 to \$860,039.

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 significant 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 Healthy Aging Fund. Payment 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 due on the first anniversary of the Notice. Any deviation from this payment schedule requires program approval. For this proposed Conservation Project, the CHI contribution will be \$40,012.90. 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 Applicant has met each applicable DoN Factor and recommends that the Commissioner approve this Application for Determination of

² The inflationary factors used ranges from two percent to three percent depending on the type of expense.

Need subject to all Standard Conditions as provided in the Regulations except for 105 CMR 100.310(A)(10) and the Other Conditions set out below.

Other Conditions

1. All standard conditions apply except 105 CMR 100.310(A)(10).
2. The total required CHI contribution of \$40,012.90 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 \$20,006.45 as follows:
 - i. The Holder must submit the first check to HRiA within six months from the date of the approved Notice of Determination of Need.
 - ii. The Holder must submit the second installment of funds to HRiA on the first anniversary of the approved Notice of Determination of Need.
 - iii. 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