

Memorandum to the Commissioner

Applicant: Royal Norwell Nursing & Rehabilitation Center, LLC
329 Washington Street
Norwell, MA 02061

Project Number: 22031611-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 Norwell Nursing & Rehabilitation Center, LLC, for construction of an addition to the facility. The Proposed Project includes relocating eight (8) beds currently in three-bedded rooms within the facility by constructing an eight-bed addition designed to create the space necessary to de-densify resident rooms 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"). The capital expenditure for the project is \$3,579,537.00 (March 2022 dollars). The CHI commitment is \$35,795.37. The Applicant is a limited liability corporation that delivers health care and related services for elders and disabled persons in 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." 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 Norwell Nursing & Rehabilitation Center, LLC, (Applicant) is a limited liability corporation located in Norwell, MA that owns and operates ten (10) skilled nursing facilities in Massachusetts and manages one other facility. The facility was purchased by the Royal Health Group in 2013; it was formerly known as Norwell Knoll. The Applicant provides its services through the operation of its skilled nursing facilities for elders and disabled persons who need skilled nursing care, long term care services, dementia-specific care, and rehabilitation. The Massachusetts-owned facilities are in Eastern and Southeastern Massachusetts and on Cape Cod. All the skilled nursing facilities are dually-certified by Medicaid and Medicare.

Royal Norwell has had a 90% occupancy rate over the past few years. The Applicant noted it has had a 49% increase in admissions (161 to 240) between 2020 and 2021. The average length of stay (ALOS) for

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

all residents discharged in 2021 was 111 days. ALOS ranged from 32 days for Medicare A patients to 515 days for Medicaid patients. In 2021, a majority of the facility’s residents (76.8%) were covered by Medicaid,² 8.3% were private pay, 8.0% managed care, 3.1% Medicare Part A or Medicare Part A hospice, and 3.8% were paid for by the PACE program or hospice private. Royal Norwell’s return home rate is above the national average, 73.6% and 52.9, respectively, which the Applicant states it reflects its strong post-acute, rehabilitative services. The facility, a 27,701 square foot, is comprised of two nursing units. In 1994, the East Wing, a 12 bed, short-term, sub-acute transitional care unit was built.

The Applicant’s facility is an 86-bed, 3-unit skilled nursing and rehabilitation center and provides both short-term, sub-acute transitional care (TCU) and long-term care services. The configuration for licensed beds is presented in Table 1 below.

Table 1: Royal Norwell Nursing & Rehabilitation Center Current Bed Configuration

Current Facility Bedroom Configuration				
Unit	Private	Two-bedded	Three-bedded	Total Beds
East Wing	12	0	0	12
North Wing	1	9	7	40
South Wing	1	15	1	34
				86

The Proposed Project

Through the Proposed Project, the Applicant aims to come into compliance with the De-Densification Requirements limiting nursing facilities to no more than two beds and updates spacing/square footage room requirements. The Applicant states that this would reduce its 86 licensed beds by eight (8) beds to 78 beds, thus, the Applicant proposes to de-densify the eight (8) beds in three-bedded rooms within the facility (seven (7) in the North Wing and one (1) in South Wing). The Applicant states that the Proposed Project will bring the facility into compliance with De-densification Requirements and maintain all 86 licensed beds.

The Facility proposes to accomplish this through the following:

- relocate the eight (8) beds to a constructed eight bed, 2,527 square foot addition off the East Wing;
- all the beds will be private (as are all existing beds in the East Unit); and
- new addition also include access to the Needlepoint Bipolar Ionization (NPBI) to provide high quality air purification and designed with infection control measures and features.

The proposed bed configuration is presented in Table 2 below.

Table 2: Royal Norwell Nursing & Rehabilitation Center Proposed Bed Configuration

Proposed Facility Bedroom Configuration				
Unit	Private	Two-bedded	Three-bedded	Total Beds
East Wing	12	0	0	12
North Wing	1	16	0	33

² This represents primarily longer stay residents who were either admitted to the facility on Medicaid or who spent down their private resources over time and then converted to Medicaid.

Proposed Facility Bedroom Configuration				
Unit	Private	Two-bedded	Three-bedded	Total Beds
South Wing	1	16	0	33
East Wing New Addition	8	0	0	8
				86

The Applicant noted that the addition would be able to accommodate skilled short-term, subacute transitional care (TCU) patients, who are about 26% of the population, and meet the growing discharge needs of the area hospitals and community. Also, this Proposed Project will include renovations and upgrades to the existing facility structure and systems (2,770 gross square feet). The Applicant will change only one (1) bed from a Level III to a Level II bed.

The Applicant stated that because the proposed addition will be added to the existing East Unit, it will not have a significant impact on existing resident quality of care during the construction project. 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.

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). 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 Norwell Nursing & Rehabilitation Center, LLC audited financial statements, current financial position, and industry metrics. Additionally, the CPA reviewed the (projections years ending December 2023 through December 2027) financial projections and supporting documentation, including underlying assumptions prepared by Management, and determined they were reasonable.

The CPA reports that the projected revenues are based on historical information, current available reimbursement rates and/or known / expected changes to commercial and governmental reimbursement rates. Future years were projected utilizing Management’s assumptions of historical data with adjustments to reimbursement rates, payor mix and patient occupancy percentages. Based on the foregoing, the CPA’s opinion is that the growth projections for Royal Norwell Nursing & Rehabilitation Center, LLC reflect a reasonable estimation of future revenues.

The CPA reviewed the projected operating expenses and states that projected expenses were derived by comparing historical financial data provided by the Applicant and Strategic Care Solutions (SCS),

inflationary factors utilized³ and categorization of variable expenses versus fixed. Management expects expenses to remain increasing with the inflation factor decreasing over time.

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 loan and assumes a 20 year amortization period.⁴

As a result of the foregoing, the CPA stated 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 Healthy Aging Fund. Payment must be made in two equal installments with the first payment due within 6 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 \$35,795.37. 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 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 100.310(A)(10).
2. The total required CHI contribution of \$35,795.37 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 to Health Resources in Action (the fiscal agent for the CHI Statewide Initiative) in two equal installments of \$17,897.68 as follows:
 - i. The Holder must submit the first check to HRiA within 6 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

³ inflationary factors used ranges from two percent to three percent depending on the type of expense

⁴ amortization at an interest rate of 5.5%