

Memorandum to the Commissioner

Applicant: Next Step Healthcare, LLC
400 Trade Center Suite 7950
Woburn, MA 01801

Re: 8 Colonial Drive Operator, LLC d/b/a Westborough Healthcare
8 Colonial Drive
Westborough, MA 01581

Project Number: NSH-22031320-CL

Filing Date: April 27, 2022

Introduction:

This memorandum presents, for Commissioner review and action, the Determination of Need (DoN) Program's recommendation regarding a request by Next Step Healthcare LLC, for approval of renovations and construction at Westborough Healthcare (the Facility). 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 capital expenditure for the project is \$6,730,000.00. The Community Health Initiative (CHI) commitment is \$67,300.00. The Applicant is a for-profit limited liability company (LLC) 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

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.

The construction included in this Proposed 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

Next Step Healthcare, LLC (NSH) is a locally owned, for profit nursing home operator established in 2008. The Applicant states that its principals each have more than 30 years of experience in the long-term care industry. NSH operates 21 skilled nursing facilities and one assisted living facility in Massachusetts. NSH owns and operates Westborough Healthcare Facility, the site of the Proposed Project.

The Applicant’s facility is a four-story, 117-bed skilled nursing facility located in Westborough, MA and serving the town of Westborough and surrounding area.^{3,4} The Facility, built in 1976, is a long-standing resource for the community, and serves a high mix of government payers, as represented in the payer mix of its patient population: 84% Medicaid, 11% Medicare, 2% Private and 3% HMO/Other. The Facility’s occupancy is 74%. The Facility provides short-term and long-term skilled nursing care, and specialized services to residents requiring geriatric-psychiatric and Alzheimer’s care in a locked environment. The first floor of the Facility is a locked geri-psych unit. The Applicant states that the unit has a consistently high operating capacity (95-100% capacity) and is an essential resource to the community, including UMass Memorial Medical Center and MetroWest Medical Center. The geri-psych unit will continue to operate after the completion of Proposed Project.

The Facility is a 34,961 square building located on 221,059 square feet of land. The ground floor consists of a kitchen, laundry room, salon, storage space, and other administrative offices. Resident Rooms are located on the first, second, and third floors of the Facility. The current facility bedroom configuration appears in Table 1.

Table 1: Current Facility Bedroom Configuration

Current Facility Bedroom Configuration					
Floor	Privates	Two-bedded	Three-bedded	Four-bedded	Total Beds
1st	1	3	6	4	41
2nd	1	9	0	4	35
3rd	1	3	6	4	41
Total	3	15	12	12	117

(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.

³ The Applicant notes that the top five zip codes of its residence are within a 12-mile radius of the Facility.

⁴ The Applicant notes that it had always served as a Department of Public Health (DPH) licensed long-term care facility.

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 to provide for better physical distancing of nursing home residents to protect against the spread of COVID-19. The Applicant will de-densify the existing 12 four bedded and 12 three-bedded rooms at the Facility. The Applicant states that the Proposed Project will bring the Facility into compliance with de-densification requirements and maintain 115 of its current 117 licensed beds.

The Facility proposes to accomplish this through the following:

- Construction of a 7,000 square foot addition (Addition) to the south side of the existing building containing a stairwell allowing for easier staff navigation between floors, and reconfiguration of the existing room and common area space.
- Construction of five new two-bedded units on each floor in the Addition.
- Conversion of existing resident rooms and common area spaces to one private room and 18 or 19 two-bedded rooms per floor, with a private toilet in each resident room.
- Reconfiguration of dining, activity, and common area space and removal of existing bed with associated bedhead equipment and wall lighting.

The Applicant states that upon project completion, the Facility will have three private rooms and 56 two-bedded rooms. This configuration is displayed in Table 2 below.

Table 2: Proposed Project Facility Bedroom Configuration

Proposed Project Facility Bedroom Configuration					
Floor	Privates	Two-bedded	Three-bedded	Four-bedded	Total Beds
1 st	1	18	0	0	37
2 nd	1	19	0	0	39
3 rd	1	19	0	0	39
Total	3	56	0	0	115

The Applicant is also proposing to do maintenance and repairs at the Facility to keep it in good working order. This will include upgrading the building mechanics including but not limited to plumbing, HVAC, and electrical; enclosing and converting the covered drive on the ground floor to a new lobby and dining room; and converting a rehabilitation office to a new activity space.

The Applicant expects construction to begin in on or about the Fall of 2023 and anticipates completion in one year 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 does not expect that the Proposed Project will result in significant changes to the Facility’s operating costs because the overall bed and potential resident count will not substantially change.

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 finding must be supported by an analysis conducted by an independent CPA.

The Applicant submitted a report performed by CliftonLarsonAllen LLP (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 Next Step Healthcare, LLC current financial position, and industry metrics. Additionally, the CPA reviewed the financial projections (projection years ending December 2022 through 2026) and supporting documentation, including underlying assumptions prepared by Management, and determined they were reasonable.⁵

Projected revenue consists of revenue from operating the nursing home. The CPA reports that baseline revenue projected for the first year of the projection (2022) is based on interim financial data for the current period, Management's historical experience of operating the Facility, and current reimbursement and nursing home regulation. In addition, the estimated impact of COVID-19 on operations, was utilized to project and establish a baseline for the projection. The report states that COVID-19 is impacting parts of Next Step Healthcare, LLC operations and financial results.⁶ Management incorporated estimated temporary impacts of COVID-19 for the year ending 2022 primarily related to census and occupancy decline. Census impact is removed starting in 2022 through the end of the Projection Period to an assumed 90% occupancy by 2026. 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. Based on the foregoing, the CPA's opinion is that the growth projections for NSH reflect a reasonable estimation of future revenues.

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. This information and the estimated impact of COVID-19 on operations, was used to project and establish a baseline for the projection.⁷ After review of these categories of expenses, the CPA's opinion is that the projections of the Applicant are reasonable.

⁵ Providers in Worcester County were used to benchmark Management's projections.

⁶ Including additional 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.

⁷ Additional expenditures related to increased staffing and wages, personal protective equipment, testing, infection control measures and other 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 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 Loan in the amount of \$4,875,000 and contributions of ~ \$1,936,000.⁸

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.”

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 shall be made in full in two equal installments with the first payment due within 30 days of receipt of a duly approved Notice of Determination of Need, and the second, on the first anniversary of the approved Notice of Determination of Need. Any deviation to this payment schedule will require program approval. For this proposed Conservation Project, the CHI contribution will be \$67,300.00. 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 Westborough Healthcare 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) and recommends that the Department approve this Application for Determination of Need, subject to all Standard Conditions as provided in the Regulations except for 105 CMR 100.310(A)(10) and the Other Conditions, related to CHI, set out below.

Conditions

1. All Standard Conditions apply except 105 CMR 100.310(A)(10).
2. Of the total CHI contribution of \$67,300.00, the full amount will be directed to the CHI Healthy Aging Fund in accordance with the payment schedule outlined below in Condition 3.
3. To comply with the Holder’s obligation to contribute to the 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 \$33,650 as follows:
 - a. The Holder must submit the first check for \$33,650 to HRiA within 30 days from the date of the approved Notice of Determination of Need.
 - b. The Holder must submit the second check for \$33,650 to HRiA on the first anniversary of the approved Notice of Determination of Need.

⁸ Subsequent to Project completion, it is assumed the Construction Loan will be converted to a mortgage payable in monthly installments.

- 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