BRIEFING MEMO
Sanford Senior Care Operations, LLC
Construction of Replacement Nursing Home
Subsequent Review

DATE: August 9, 2019

TO: Jeanne M. Lambrew, Commissioner, DHHS

THROUGH: Sarah Taylor, Director, Division of Licensing and Certification

FROM: Larry Carbonneau, Manager, HealthCare Compliance and Operations
Richard Lawrence, Senior Health Care Financial Analyst

SUBJECT: Subsequent Review of Certificate of Need Issued April 8, 2019 for Sanford Senior Care Operations, LLC


REGISTERED AFFECTED PARTIES: None

I. BACKGROUND:

Southern Maine Health Care (“SMHC”) currently owns and operates Newton Center, a 74-bed nursing home located on the SMHC Sanford campus, as well as previously operating Hillcrest Gardens, a 14-bed residential care facility (RCF) program located within the Newton Center main building, and The Pavilion, an attached 24-bed RCF. Hillcrest Gardens and The Pavilion were closed in Spring 2018, and the associated bed rights and MaineCare revenues streams were conveyed by SMHC to its parent, MaineHealth. SMHC, MaineHealth and Sandy River Company (“Sandy River”) have entered into an Agreement whereby SMHC will convey the associated MaineCare revenue stream from the Newton Center, and MaineHealth will convey the associated MaineCare revenue stream from Hillcrest Gardens and The Pavilion to Sanford Senior Care Operations, LLC (“Sanford Senior Care”). SMHC will also convey land on the SMHC campus in Sanford.

The development and ownership of Sanford Senior Care is a joint venture between the ownership of two successful Maine companies: Sandy River Company, headquartered in Portland, and North Country Associates (“North Country”), an operator and manager of over 25 senior care facilities throughout Maine and headquartered in Lewiston.

The structure for the joint venture will include an operating entity (Sanford Senior Care Operations, LLC) and a real estate entity (Sanford Senior Care Development, LLC). There will be a lease agreement between the two entities. The actual name of the new facility has yet to be determined.

Sanford Senior Care Operations, LLC was issued a Certificate of Need (CON) on April 8, 2019 to construct a new, 64,000 square foot building to replace an existing nursing home as well as other changes outlined in the CON application.
On August 1, 2019 Sanford Senior Care Operations, LLC requested a subsequent review. The subsequent review request is due to increased construction costs and a resulting change in financing requirements.

II. PROJECT DESCRIPTION:

The joint venture will utilize the acquired MaineCare revenue streams and acquired land to construct a new state-of-the-art, licensed 64-bed skilled nursing care center combined with a 30-bed assisted living unit specializing in Memory Care.

Newton Center, originally built in 1974, is outdated in today’s skilled nursing facility standards. The proposed new facility will be a one-story design of approximately 64,000 square feet, on approximately 9 acres of land abutting the existing Newton Center.

It is anticipated the new facility will take approximately 14 months to construct, with an estimated opening date in the 3rd Quarter 2020, or sooner if possible. Once constructed, the existing residents of Newton Center will be transferred to the new facility if they so choose or into other area facilities.

The original project budget was estimated at $23,629,254. According to the applicant they have been working diligently with both the design team and construction managers to remain in budget. However, the current cost of construction in Maine is challenging. The amended construction budget includes an increase of $1,914,427, primarily in site preparation and construction costs. The total revised budget is now $25,543,681. This includes the acquisition of the MaineCare income stream of Newton Center from SMHC, and the acquisition of the MaineCare income stream of Hillcrest Gardens and The Pavilion from MaineHealth, as well as land being acquired from SMHC. In addition to the available MaineCare income streams acquired from SMHC and MaineHealth, the joint venture will also acquire MaineCare income stream from Lincoln Health to satisfy the need for MaineCare budget neutrality.

<table>
<thead>
<tr>
<th>Project Costs Use of Funds</th>
<th>Updated CON Filing</th>
<th>Original CON Filing</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site Acquisition</td>
<td>440,000.00</td>
<td>440,000.00</td>
<td>0.00</td>
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<tr>
<td>MaineCare bed rights</td>
<td>2,634,503.00</td>
<td>2,560,541.00</td>
<td>73,962.00</td>
</tr>
<tr>
<td>Site Work</td>
<td>3,244,432.00</td>
<td>2,862,390.00</td>
<td>382,042.00</td>
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<tr>
<td>Building Construction</td>
<td>14,114,637.00</td>
<td>12,582,252.00</td>
<td>1,532,385.00</td>
</tr>
<tr>
<td>Major Furnishings and Equipment</td>
<td>1,207,500.00</td>
<td>1,207,500.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Vehicle</td>
<td>37,500.00</td>
<td>37,500.00</td>
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<tr>
<td>Architect and Engineering</td>
<td>725,000.00</td>
<td>725,000.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Application Fees</td>
<td>153,000.00</td>
<td>153,000.00</td>
<td>0.00</td>
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<tr>
<td>Environmental and Geotechnical</td>
<td>25,000.00</td>
<td>25,000.00</td>
<td>0.00</td>
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<tr>
<td>Environmental Phase I</td>
<td>20,000.00</td>
<td>20,000.00</td>
<td>0.00</td>
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<tr>
<td>Utility Fees</td>
<td>225,000.00</td>
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<td>0.00</td>
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<tr>
<td>Testing and inspections</td>
<td>30,000.00</td>
<td>30,000.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Wetlands, Traffic, Survey, DEP</td>
<td>190,000.00</td>
<td>190,000.00</td>
<td>0.00</td>
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<tr>
<td>Appraisal/Market Studies</td>
<td>15,000.00</td>
<td>15,000.00</td>
<td>0.00</td>
</tr>
<tr>
<td>--------------------------</td>
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<td>------</td>
</tr>
<tr>
<td>Title and Recording</td>
<td>30,000.00</td>
<td>30,000.00</td>
<td>0.00</td>
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<tr>
<td>Legal and Accounting</td>
<td>175,000.00</td>
<td>175,000.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Taxes During Construction</td>
<td>35,000.00</td>
<td>35,000.00</td>
<td>0.00</td>
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<tr>
<td>Builders Risk Insurance</td>
<td>40,000.00</td>
<td>40,000.00</td>
<td>0.00</td>
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<tr>
<td>Development Fees</td>
<td>750,000.00</td>
<td>750,000.00</td>
<td>0.00</td>
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<tr>
<td>Financing Fees</td>
<td>130,000.00</td>
<td>130,000.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Interest Carry</td>
<td>400,000.00</td>
<td>400,000.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Permit Fees</td>
<td>40,000.00</td>
<td>40,000.00</td>
<td>0.00</td>
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<tr>
<td>Startup Costs</td>
<td>300,000.00</td>
<td>300,000.00</td>
<td>0.00</td>
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<tr>
<td>Preopening Marketing</td>
<td>226,038.00</td>
<td>300,000.00</td>
<td>(73,962.00)</td>
</tr>
<tr>
<td>Operating Reserve</td>
<td>156,071.00</td>
<td>156,071.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Contingency</td>
<td>200,000.00</td>
<td>200,000.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Total Project Budget</strong></td>
<td><strong>25,543,681.00</strong></td>
<td><strong>23,629,254.00</strong></td>
<td><strong>1,914,427.00</strong></td>
</tr>
</tbody>
</table>

The projected increase in cost will result in additional borrowing and paid in capital contribution from the applicant as shown below:

<table>
<thead>
<tr>
<th>Sources of Capital</th>
<th>Updated</th>
<th>Original</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Financing (Commercial Bank)</td>
<td>$17,880,576</td>
<td>$16,540,478</td>
<td>$1,340,098</td>
</tr>
<tr>
<td>Southern Maine Health Care/Maine Health (Seller Financing)</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
<td>$0</td>
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<tr>
<td>Paid in Capital</td>
<td>$6,663,105</td>
<td>$6,088,776</td>
<td>$574,329</td>
</tr>
<tr>
<td><strong>Total Sources of Capital</strong></td>
<td><strong>$25,543,681</strong></td>
<td><strong>$23,629,254</strong></td>
<td><strong>$1,914,427</strong></td>
</tr>
</tbody>
</table>

MaineCare neutrality is maintained for this project by utilizing funding from the purchase of MaineCare revenue stream from Lincoln County Health Care as follows:
<table>
<thead>
<tr>
<th>Facility</th>
<th>Beds</th>
<th>Days</th>
<th>Occupancy</th>
<th>Utilization</th>
<th>MaineCare Rate</th>
<th>MaineCare Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newton Center</td>
<td>74</td>
<td>365</td>
<td>0.95</td>
<td>25660</td>
<td>$220.53</td>
<td>$5,658,690</td>
</tr>
<tr>
<td>Hillcrest</td>
<td>14</td>
<td>365</td>
<td>0.95</td>
<td>4855</td>
<td>$107.48</td>
<td>$521,815</td>
</tr>
<tr>
<td>Pavilion</td>
<td>24</td>
<td>365</td>
<td>0.76</td>
<td>6658</td>
<td>$144.87</td>
<td>$964,487</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>$7,144,991</strong></td>
</tr>
<tr>
<td>Sanford SNF/NF</td>
<td>64</td>
<td>365</td>
<td>0.95</td>
<td>22192</td>
<td>$285.30</td>
<td>$6,331,378</td>
</tr>
<tr>
<td>Sanford RCF</td>
<td>30</td>
<td>365</td>
<td>0.95</td>
<td>10403</td>
<td>$176.58</td>
<td>$1,836,873</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>$8,168,251</strong></td>
</tr>
<tr>
<td><strong>Updated MaineCare Funding Required</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>$1,023,260</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Lincoln County Health Care Funding</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>$1,023,260</strong></td>
<td></td>
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<tr>
<td><strong>Additional Funding Needed</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>$0</strong></td>
<td></td>
</tr>
</tbody>
</table>

The applicant submitted updated financial projections, financial forecasts and a revised pro forma MaineCare cost report. CON Unit (CONU) reviewed the underlying assumptions behind the revised data and finds it reasonable.

### III. HIGHLIGHTS:

- **Letter of Intent dated:** November 15, 2018
- **Technical Assistance meeting held:** Waived
- **CON application filed:** January 7, 2019
- **CON Approval Issued:** April 9, 2019
- **Subsequent Review requested:** August 1, 2019
- **Decision Period Ends:** September 1, 2019

### IV. RECOMMENDATION:

The CONU recommends approval of Sanford Senior Care Operations, LLC requests for changes to its initial CON to incorporate the scope of the subsequent review request as summarized below:
<table>
<thead>
<tr>
<th>Sanford Senior Care Operations, LLC</th>
<th>Updated CON Filing</th>
<th>Original CON Filing</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Capital Expenditure</td>
<td>$25,343,681</td>
<td>$23,429,254</td>
<td>$1,914,427</td>
</tr>
<tr>
<td>Maximum Contingency</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$0</td>
</tr>
<tr>
<td>Total Capital Expenditure with Contingency</td>
<td>$25,543,681</td>
<td>$23,629,254</td>
<td>$1,914,427</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Updated CON Filing</th>
<th>Original CON Filing</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>SNF/NF Cost</td>
<td>$16,154,703</td>
<td>$14,941,161</td>
<td>$1,213,542</td>
</tr>
<tr>
<td>Residential Care Cost</td>
<td>$8,601,882</td>
<td>$7,955,638</td>
<td>$646,244</td>
</tr>
<tr>
<td>Other Costs</td>
<td>$791,952</td>
<td>$732,455</td>
<td>$59,497</td>
</tr>
<tr>
<td>Total</td>
<td>$25,548,681</td>
<td>$23,629,254</td>
<td>$1,919,427</td>
</tr>
</tbody>
</table>