Department of Health and Human Services  
Division of Licensing and Certification  
State House Station #11, Augusta, Maine  
Preliminary Analysis

Date: October 24, 2019

Proposal by: Pinnacle Group of Hudson Valley

Prepared by: Larry Carbonneau, Health Care Compliance and Operations, DLC  
Richard Lawrence, Senior Health Care Financial Analyst, DLC

Directly Affected Party: None

Certificate of Need Unit Recommendation: Approval

<table>
<thead>
<tr>
<th></th>
<th>Proposed Per Applicant</th>
<th>Approved CON</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Capital Expenditure</td>
<td>$ 4,050,000</td>
<td>$ 4,050,000</td>
</tr>
<tr>
<td>Maximum Contingency</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Total Capital Expenditure with Contingency</td>
<td>$ 4,050,000</td>
<td>$ 4,050,000</td>
</tr>
<tr>
<td>Pro-Forma Marginal Operating Costs</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>MaineCare Neutrality Established</td>
<td></td>
<td>Yes</td>
</tr>
</tbody>
</table>
I. Abstract

A. From Applicant

Pinnacle Group of Hudson Valley is seeking approval to acquire substantially all the assets of C.H. Wright, Inc. d/b/a Varney Crossing Nursing Care Center (Varney) and Greenwood Nursing Care Center, Inc. (Greenwood) and operate the facilities.

Varney operates a 64-bed nursing care facility located in North Berwick, Maine. Richard Boisvert and the estate of Christine Boisvert (the Boisverts) own the land, building, and certain building improvements (Varney Real Estate) which are leased to Varney.

Greenwood operates an 86-bed nursing care facility located in Sanford, Maine. Sanford Health Care Associates, an unrelated entity, owns the land, building, and certain building improvements located at 1142 Main Street in Sanford. Greenwood leases these assets from Sanford Health Care Associates.

Pinnacle Group of Hudson Valley headquartered in Monsey, New York, intends to acquire from Varney, the Boisverts, Greenwood, and Sanford Health Care Associates substantially all the property and assets. The following entities have been established for the acquisition:

<table>
<thead>
<tr>
<th>Purchaser</th>
<th>Seller</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pinnacle Group of Hudson Valley III LLC – Operating Company</td>
<td>C.H. Wright, Inc. d/b/a Varney Crossing Nursing Center</td>
</tr>
<tr>
<td>Elm St. Realty LLC – Realty Company</td>
<td>Richard Boisvert and the estate of Christine Boisvert (the Boisverts)</td>
</tr>
<tr>
<td>Pinnacle Group of Hudson Valley II LLC – Operating Company</td>
<td>Greenwood Nursing Care Center</td>
</tr>
<tr>
<td>Main St. Realty LLC – Realty Company</td>
<td>Sanford Health Care Associates</td>
</tr>
</tbody>
</table>

Exhibit I and II are the Asset Purchase Agreements.

The Pinnacle Group Companies have served in several management and ownership capacities for over a decade, most recently acquiring and now operating Pinnacle Health and Rehab in Canton, Maine.

There will be no change in the type or number of licensed beds in the facilities and services provided will not be adversely affected by this change in ownership.

Capital Costs and Financing Plan

The total agreed upon purchase price is $4,050,000. An asset purchase agreement has been executed for $2,200,000 for the acquisition of Varney, Varney Real Estate, and Greenwood. A separate real estate purchase and sale agreement for $1,850,000 has been executed for property owned by Sanford Health Care Associates of which Greenwood currently leases a portion of the
property. The portion currently leased by Greenwood has been allocated a purchase price of $1,800,000.

The acquisitions will be financed with a commercial loan equal to 85% of the purchase price, the remaining 15% will be financed via a loan from the member. The allocation of debt will be based upon the allocation percentages of the purchase.

**Allocation of Purchase Price**

<table>
<thead>
<tr>
<th>Greenwood</th>
<th>Varney Realty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and Improvements</td>
<td>Land $158,158</td>
</tr>
<tr>
<td>Vehicles</td>
<td>Building $1,452,444</td>
</tr>
<tr>
<td>Furniture and Fixtures</td>
<td>Subtotal $1,610,602</td>
</tr>
<tr>
<td>Fixed Equipment</td>
<td></td>
</tr>
<tr>
<td>Land Improvements</td>
<td></td>
</tr>
<tr>
<td>Moveable</td>
<td></td>
</tr>
<tr>
<td><strong>Total Greenwood</strong></td>
<td><strong>Varney</strong></td>
</tr>
<tr>
<td>$200,855</td>
<td>Furniture &amp; Fixtures $27,895</td>
</tr>
<tr>
<td>$10,841</td>
<td>Fixed Equip $26,364</td>
</tr>
<tr>
<td>$11,405</td>
<td>Bldg Improve $237,965</td>
</tr>
<tr>
<td>$20,441</td>
<td>Vehicles $5,125</td>
</tr>
<tr>
<td>$521</td>
<td>Land Improve $13,658</td>
</tr>
<tr>
<td>$1,425</td>
<td>Moveable equip $33,196</td>
</tr>
<tr>
<td><strong>Total Sanford Health Care Associates</strong></td>
<td><strong>Subtotal $344,111</strong></td>
</tr>
<tr>
<td>$273,406</td>
<td><strong>Total Varney</strong> $1,954,713</td>
</tr>
<tr>
<td>$1,526,594</td>
<td></td>
</tr>
<tr>
<td>$1,800,000</td>
<td></td>
</tr>
<tr>
<td>Land - Schiavi Parcel</td>
<td>$45,000</td>
</tr>
<tr>
<td>Land - Cole Parcel</td>
<td>$5,000</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>Total SHCA</strong> $1,850,000</td>
</tr>
<tr>
<td>$50,000</td>
<td></td>
</tr>
</tbody>
</table>

**CONU Comment #1:**

According to 22 M.R.S.A §329 (1) a certificate of need is required for:

Transfer of ownership; acquisition by lease, donation, transfer; acquisition of control.
II. Fit, Willing and Able

A. From Applicant

Pinnacle Group of Hudson Valley, Ltd (Pinnacle Group) is a for-profit corporation based out of Monsey, New York. Israel Nachfolger is the CEO and primary member of Pinnacle Group of Hudson Valley, Ltd. Pinnacle Group is the management company of Pinnacle Group of Hudson Valley, LLC (d/b/a Pinnacle Health and Rehab) and Pleasant Street Realty, LLC (combined, the Companies).  

On December 31, 2015, Pinnacle Group of Hudson Valley, LLC purchased Redding Homes and Pleasant Street Realty purchased Redding Realty in Canton, Maine. Pinnacle Health and Rehab provides nursing and rehabilitation services and is licensed by the State of Maine, Department of Health and Human Services. 

Since the purchase by Pinnacle Group, Pinnacle Health and Rehab has had strong occupancy rates and the combined companies have realized respectable margins. The total margin for the Companies was 2.79% in 2018, 3.10% in 2017 and 1.45% in 2016, excluding startup costs in 2016. It is well documented that rural facilities in Maine have recently been under financial stress due to reimbursement challenges and the implementation of the new statewide minimum wage increases. Multiple facility closures attest to the difficulties that similar facilities have faced. Despite these factors, Pinnacle has been able to successfully operate the facility in Canton, while simultaneously investing more than $500,000 in capital improvements since 2016, such as a newly renovated 1,100 sq. ft. rehab center and a renovated parking lot.

Table 1 details historical skilled nursing facility occupancy rates of Pinnacle Health and Rehab as compared to other Region 2 facilities.

Table 1: Historical Occupancy - Pinnacle Health and Rehab

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pinnacle</td>
<td>90.88%</td>
<td>89.66%</td>
<td>90.09%</td>
</tr>
<tr>
<td>Region 2</td>
<td>90.26%</td>
<td>89.94%</td>
<td>91.13%</td>
</tr>
</tbody>
</table>

In addition, the Company’s financial statements reflect current ratios of 1.25 in 2018, 1.12 in 2017 and 1.03 in 2016 which demonstrates the continued progression and combined financial health of the Companies and its ability to meet future cash obligations.

Since purchasing the facility in 2016, Pinnacle Health and Rehab has consistently maintained 4 and 5-star ratings as specified by the Centers for Medicare & Medicaid Services. While these ratings are variable and change monthly due to numerous factors, it attests to the fact that Pinnacle provides clinical services at the highest level. Pinnacle Health and Rehab’s Administrator, Mark Jacobs, has also earned the national Eli Pick Facility Leadership award in both 2018 & 2019. (See Exhibit III) Pinnacle maintains active membership in the Maine Health
Care Association and is a frequent contributor to initiatives spearheaded by this essential organization.

Pinnacle has also implemented a host of forward-thinking changes at the facility to best address the specific challenges of a rural facility. Recognizing the inherent difficulty in procuring specialty services in an isolated region, Pinnacle partnered with Tapestry Telehealth to bring cutting-edge technology to offer services that were simply unavailable before. Building on the directive of CMS which has continually expanded support of telemedicine services, Pinnacle became the first long-term care facility in Maine to utilize telemedicine to provide full medical director services, in additional to enhanced consultation availability. This has resulted in unprecedented access to definitive care including Geriatricians, Behavioral/Psych Services, Cardiology, Pulmonology, Gastroenterology, Endocrinology, Dermatology, Nephrology, and a host of other specialty practice areas. In addition, a dedicated Nurse Practitioner provides consistent care to the residents on a daily basis.

While Pinnacle has set itself apart on a technological level, it has also created synergistic partnerships with local facilities to address the unique needs of the local community. In one recent instance, Central Maine Medical Center (CMMC) contacted Pinnacle to see if they could assist in placement of a bariatric resident who had languished in the hospital for over 6 months without placement. While Pinnacle did not have bariatric capabilities at the time, it recognized that bariatric services represented an unfulfilled need in the region. This was evident by the inability of the hospital to place this resident for over 6 months, at great cost to the State. With that in mind, Pinnacle worked collaboratively with both DHHS and CMMC to initiate a comprehensive bariatric program at the facility. After successfully getting the resident transferred, the patient continues to make progress and now has a comfortable setting in which to reside. Other referring hospitals have taken notice and an additional two bariatric referrals have been received in recent weeks. Pinnacle continues to monitor the unique needs of the local population in conjunction with its allied health partners.

Pinnacle Group will seek to create these synergistic partnerships and employ these same types of technological advances to improve the quality of care at Pinnacle II and Pinnacle III.

Pinnacle Group and Israel Nachfolger are fit, willing, and able to provide the proposed services and same quality of care as he has demonstrated at Pinnacle Health and Rehab.

References

Rick Erb, President
Maine Health Care Association
317 State St.
Augusta, ME 04330
rebr@mehca.org
207-223-1146

Lori Boulay, President
Strategic Talent Management, Long Term Care Consultants
18 Pleasant St.
Brunswick, ME 04011
lboulay@strategictalentmanagement.com
207-798-1732

In addition to the experience Israel has with Pinnacle Health and Rehab he also brings a unique mix of clinical and operational expertise. (See Exhibit IV, Israel Nachfolger Resume)

Initially getting his EMT-B certification in his early 20’s, Israel’s love for patient care led him to embark on NREMT & Paramedic certification which enabled him to gain a wealth of actual field experience caring for patients of all acuities. Simultaneously, Israel was employed by one of the largest SNF operators in NYS, Centers for Specialty Care Group. Israel’s employment in Centers for Specialty Care marked a torrid growth period in which multiple distressed facilities were purchased and turned around into profitable, sustainable operations. In 2009, after being involved in 10 facility turnarounds with Centers for Specialty Care, Israel decided to embark on his own, creating a management and consulting company, Pinnacle Group of Hudson Valley, Ltd.

Israel lives in Rockland County, NY with his wife & six children. He is still very active locally as a volunteer paramedic and Registered Nurse. Israel has recently completed the coursework prerequisites which are required for the Licensed Nursing Home Administrator certification and expects to sit for the exam before the end of the year.

Pinnacle intends for current administrators of the respective facilities to continue in their capacity. Resumes of current Greenwood and Varney administrators are included as Exhibit V.

Anne Ambler-Cote began working at Greenwood as the Director of Nursing in 2005 and continued in that role until September 2012 when she Anne entered the Administrator in Training Program. Anne has been the Nursing Home Administrator since July 2013. Greenwood currently has a five-star overall rating and quality rating as specified by the Centers for Medicare & Medicaid Services.

Cheryl Lancaster has been the administrator of Varney since July 2018, she came to Varney from another facility where she was the quality improvement coordinator for more than 6 years before becoming an Administrator. Varney has a five-star overall rating and a four star rating for quality measures as specified by the Centers for Medicare & Medicaid Services

Other members of Pinnacle’s management and advisory team will include:

Rosalina Zaloba, RN, BSN, MSN, CRNAC

With over 30 years of experience in healthcare, Ms. Zaloba has collaborated with Israel on numerous projects over the years. As an expert in the field of MDS & clinical documentation, Ms. Zaloba functions as the clinical lead for Pinnacle Group’s operations. As a former corporate MDS/Clinical Reimbursement Director for 24 facilities, Ms. Zaloba provides unmatched oversight of Medicare, Managed Care & Medicaid operations while ensuring compliance and integrity of all nursing interventions.
Tzali Stern, PT
Chaim Milman, EMT-P, M.A.

Tzali & Chaim are principals of Stern Therapy Group who provide rehabilitation services to many of the facilities that Pinnacle manages. With a portfolio of 27 skilled nursing facilities across the Northeast, they have developed a systematic approach to ensuring improved patient outcomes. Both Tzali & Chaim are close acquaintances of Israel and they share the same enthusiasm and desire to enhance the quality of life of the patients and residents in the skilled nursing setting.

David Silber, Controller, CPA
Jo Silber, Controller, CPA
Ruth Markowitz, Medicare, Medicaid, HMO Billing & Collections

David & Ruth provide Pinnacle Group’s back office support to ensure all financial and billing related activities are handled appropriately. Aside from day to day billing and finance activities, David & Ruth provide cash flow and projection data to management to allow for CapEx planning and execution. Other responsibilities include filing of annual Medicare & Medicaid cost reports in addition to preparation of company financial statements.

B. Certificate of Need Unit Discussion

i. CON Standards

Relevant standards for inclusion in this section are specific to the determination that the applicant is fit, willing and able to provide the proposed services at the proper standard of care as demonstrated by, among other factors, whether the quality of any health care provided in the past by the applicant or a related party under the applicant’s control meets industry standards.

ii. CON Unit Analysis

Pinnacle Group of Hudson Valley (Pinnacle) plans to purchase two existing nursing homes. Varney Crossing Nursing Care Center (Varney) a 64-bed SNF/NF located in Sanford, Maine and Greenwood Nursing Care Center (Greenwood), an 86-bed SNF/NF located in North Berwick, Maine. Although headquartered in Monsey, NY, Pinnacle acquired Victorian Villa located in Canton, ME in September of 2015. (Please see the September 8, 2015 preliminary analysis located on the CON website https://www.maine.gov/dhhs/dlc/e_0_n/2015/index.shtml). This facility is currently named Pinnacle Health and Rehab. CON utilized the nursing home compare website to look at several performance measures related to this facility. A summary table is provided below:
Facility | Overall | Health Inspections | Staffing | Quality Ratings |
---|---|---|---|---|
Pinnacle Health & Rehab | 5 | 4 | 4 | 5 |

Nursing Home Compare (www.medicare.gov/NursingHomeCompare) provides details on nursing homes across the country. Nursing Home Compare features a star rating system that gives each facility a rating between 1 and 5 stars for health inspections, staffing and quality of resident care measures. The Centers for Medicare & Medicaid Services also calculates an overall rating. This information is important due to the variation in the quality of care and services each nursing home provides to their residents. This data is updated on a monthly basis.

Facility ratings are determined using these criteria:

- The best 10 percent in each State receive a five-star rating.
- The middle 70 percent of facilities receive a rating of two, three, or four stars, with an equal number (approximately 23.33 percent) in each rating category.
- The worst 20 percent receive a one-star rating.

The above table indicates that Pinnacle has solid ratings in all four categories and is in the middle 70 percent of all facilities nationally with regards to health inspections ratings.

The Division of Licensing and Certification, as the State survey agency, investigates all complaints of regulatory violation regarding health care facilities, agencies and services subjected to its licensing and certification authority. The Division then evaluates whether or not the complaints can be substantiated and initiates whatever action is necessary.

**Recertification Survey:**

The latest Federal recertification survey was conducted at Pinnacle Health and Rehab from 5/6/19 through 5/8/19 for the purpose of conducting the annual Long-Term Care Survey Process. As of 7/1/2019 it was determined that Pinnacle Health and Rehab was in substantial compliance with 42 CFR 483, Subpart B – Requirements for Long Term Care Facilities.

**Complaint Investigation:**

On 8/6/19, an unannounced on-site visit was conducted at Pinnacle health and Rehab for the purpose of investigating facility reported incidents. It was determined that pinnacle health and Rehab was in substantial compliance with 42 CFR 481, Subpart B – Requirements for Long Term Care Facilities.

Survey data for this facility can be accessed at Medicare.gov and is on file at CONU.

The Commissioner can rely on data available to the Department regarding the quality of health care provided by the applicant as allowed at M.R.S. 22 §337 (3)
Deeming of Standard

As provided for at 22 M.R.S. § 335 (7)(A), if the applicant is a provider of health care services that are substantially similar to those services being reviewed and is licensed in the State, the requirements of this paragraph are deemed to have been met if the services previously provided in the State by the applicant are consistent with applicable licensing and certification standards.

Pinnacle has provided SNF/NF services in Maine since 2015. The services provided are consistent with applicable licensing and certification standards in the State. The Deeming of Standard provisions apply to this CON application.

iii. Conclusion

The Certificate of Need Unit recommends that the Commissioner find that the applicant is fit, willing and able to provide the proposed services at the proper standard of care as demonstrated by, among other factors, whether the quality of any health care provided in the past by the applicant or a related party under the applicant’s control meets industry standards.
III. Economic Feasibility

A. From Applicant

Pinnacle has provided financial forecasts of the income statements for the first three full years of operations for the combined Pinnacle II and Main St. Realty (Pinnacle II Combined) and combined Pinnacle III and Elm St. Realty (Pinnacle III Combined). The results presented below as Pinnacle II and Pinnacle III include the combined results of the operating companies and realty companies. These detailed financial forecasts are included as Exhibit VI.

The following tables are summarized income statements for the forecast period, 2020 through 2022.

### Pinnacle II Combined

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$7,275,040</td>
<td>$7,443,070</td>
<td>$7,594,693</td>
</tr>
<tr>
<td>Expenses</td>
<td>7,053,500</td>
<td>7,006,988</td>
<td>7,180,255</td>
</tr>
<tr>
<td>Net Income</td>
<td>$221,540</td>
<td>$426,082</td>
<td>$414,438</td>
</tr>
</tbody>
</table>

### Pinnacle III Combined

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$6,657,781</td>
<td>$6,800,248</td>
<td>$6,945,916</td>
</tr>
<tr>
<td>Expenses</td>
<td>6,154,071</td>
<td>6,091,274</td>
<td>6,242,266</td>
</tr>
<tr>
<td>Net Income</td>
<td>$503,710</td>
<td>$709,974</td>
<td>$703,650</td>
</tr>
</tbody>
</table>

EBITA margins through the forecast period are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pinnacle II Combined</td>
<td>5%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Pinnacle III Combined</td>
<td>10%</td>
<td>13%</td>
<td>13%</td>
</tr>
</tbody>
</table>

The facilities’ respective debt service coverage ratios through the forecast period are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pinnacle II Combined</td>
<td>5.16</td>
<td>4.63</td>
<td>4.52</td>
</tr>
<tr>
<td>Pinnacle III Combined</td>
<td>7.07</td>
<td>6.52</td>
<td>6.47</td>
</tr>
</tbody>
</table>

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Forecasted of balance sheets of the Pinnacle II Combined and Pinnacle III Combined as of December 31, 2020 are included as Exhibit VII and a summary is as follows:

Summarized forecasted balance sheets as of December 31, 2020:

<table>
<thead>
<tr>
<th></th>
<th>Pinnacle II Combined</th>
<th>Pinnacle III Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>$1,839,442</td>
<td>$2,074,852</td>
</tr>
<tr>
<td>Long term asset</td>
<td>2,021,777</td>
<td>1,875,970</td>
</tr>
<tr>
<td>Total assets</td>
<td>$3,861,219</td>
<td>$3,950,822</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>$662,731</td>
<td>$632,493</td>
</tr>
<tr>
<td>Long term liabilities</td>
<td>2,976,948</td>
<td>2,814,619</td>
</tr>
<tr>
<td>Equity</td>
<td>221,540</td>
<td>503,710</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>$3,861,219</td>
<td>$3,950,822</td>
</tr>
</tbody>
</table>

- The forecasted current ratios as of December 31, 2020 for Pinnacle II Combined is 2.8 and Pinnacle III Combined is 3.3. These strong current ratios indicate the forecasted financial health of the facilities and demonstrate their ability to meet current obligations.
- The forecasted days cash on hand from operating sources as of December 31, 2020 is 47.03 for Pinnacle II Combined and 72.14 for Pinnacle III Combined. The 2018 average days cash on hand (operating) for BerryDunn Maine nursing facility clients was 22.75 in 2018.

Pro-forma cost reports for the year ending December 31, 2020 are included as Exhibit VIII

- The pro-forma cost reports for the year ending December 31, 2019 projects a MaineCare Rate of $210.33 for Pinnacle II and $240.21 for Pinnacle III.

Detailed assumptions utilized to prepare the forecasted income statements, balance sheets, and pro-forma costs report are listed in detail at Exhibit IX. Of note are the following:

1. There will be no changes to the licensed capacity of the facilities. No significant changes to programming will be implemented during the forecast period and no capital improvements have been incorporated into this Certificate of Need application. Although superficial improvements will be made to address aesthetic needs, improve functionality and meet survey requirements, they are not anticipated to materially impact the financial forecasts, nor do they impact MaineCare neutrality.
2. Total occupancy of 95% has been assumed as required by the Department of Licensig and Regulatory Services (DLRS). Payor mix assumed is weighted between Region 1 averages and historical experience.
3. 85% of the total purchase price will be financed with a five-year term note with interest at a fixed rate approximated to be 5.31%. Payments will be made in accordance with a 25 year amortization schedule. The remaining acquisition cost will be financed via a 5.31% loan from the member with no formal repayment terms.

This acquisition is subject to MaineCare neutrality. MaineCare neutrality is computed by comparing 2018 utilization of MaineCare resources and rates in effect as of July 1, 2019 to the forecasted MaineCare resources calculated in the 2020 pro-forma cost reports on the combined
MaineCare utilization of Pinnacle II and Pinnacle III. Below is a summarization of MaineCare rates pre- and post-acquisition:

<table>
<thead>
<tr>
<th></th>
<th>Greenwood (Pinnacle II)</th>
<th>Varney (Pinnacle III)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate paid pre-acquisition (7/1/19)</td>
<td>$ 235.80</td>
<td>$ 226.10</td>
</tr>
<tr>
<td>Rate paid post-acquisition</td>
<td>$ 210.33</td>
<td>$ 240.21</td>
</tr>
<tr>
<td>Savings (disallowance)</td>
<td>$ 25.47</td>
<td>$(14.11)</td>
</tr>
</tbody>
</table>

The combined Mainecare utilization for Pinnacle II Combined and Pinnacle III Combined post-acquisition results in MaineCare savings of $11.36 per day. The anticipated acquisitions will not negatively impact MaineCare neutrality.

A detailed neutrality calculation is included as Exhibit X.

Detailed assumptions relative to the preparation of the forecasted balance sheets, income statements and pro-forma cost reports are included as Exhibit IX.

B. Certificate of Need Unit Discussion

i. CON Standards

Relevant standards for inclusion in this section are specific to the determination that the economic feasibility of the proposed services is demonstrated in terms of the:

- Capacity of the applicant to support the project financially over its useful life, in light of the rates the applicant expects to be able to charge for the services to be provided by the project; and
- Applicant's ability to establish and operate the project in accordance with existing and reasonably anticipated future changes in federal, state and local licensure and other applicable or potentially applicable rules.

ii. CON Unit Analysis

The sale of Greenwood and Varney will be structured as an asset purchase (The Asset Purchase Agreement is on file at CONU). Pinnacle Group will be the operator and will hold the license and provider agreements. Two new real estate entities Elm Street Realty LLC and Main Street Realty LLC will hold title to the real property of Pinnacle II – Greenwood and Pinnacle III – Varney. Pinnacle Group will lease the real property from the two real estate entities. The total purchase price for this transaction is $4,050,000. Approximately 85% of the purchase will be funded with a commercial loan with a fixed interest rate of 5.31% for five years and an amortization period of
25 years. The remaining financing will come from a Pinnacle Group member with an identical interest rate and no formal terms. The current book value of Varney and Greenwood assets are $342,933, as of December 31, 2018. Since this transaction is structured as an asset sale there will be a step-up in cost basis when this transaction is concluded. According to Principle 18.2.3.8 of the Principles of Reimbursement for Nursing Facilities this asset purchase may be subject to depreciation recapture. The final amount of any depreciation recapture will be determined by DHHS Division of Audit prior to closing.

In order to support the financial feasibility of this project the applicant supplied financial projections for the first three full years of operations of the acquired facilities. In addition, the applicant submitted cost reports for the first full year of operations. CONU reviewed the underlying assumptions utilized in financial projections and found them reasonable. The documentation submitted by the applicant supports the assertion that this project is financially feasible. Final reimbursement rates associated with this transaction will be computed by DHHS Rate Setting and DHHS Office of Audit.

MaineCare Neutrality

This project is subject to MaineCare neutrality. MaineCare neutrality is computed by comparing the utilization of MaineCare resources between Varney and Greenwood ($12,049,403) and Pinnacle III – Varney and Pinnacle II – Greenwood. ($11,602,991). The decrease in MaineCare utilization is $446,412. These calculations are based on 95% occupancy. See below for calculation:

<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>Varney</td>
<td>64</td>
<td>365</td>
<td>0.95</td>
<td>22192</td>
<td>$226.10</td>
<td>$5,017,611</td>
</tr>
<tr>
<td>Greenwood</td>
<td>86</td>
<td>365</td>
<td>0.95</td>
<td>29821</td>
<td>$235.80</td>
<td>$7,031,792</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>$12,049,403</strong></td>
</tr>
</tbody>
</table>

<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>Pinnacle III -Varney</td>
<td>64</td>
<td>365</td>
<td>0.95</td>
<td>22192</td>
<td>$240.21</td>
<td>$5,330,740</td>
</tr>
<tr>
<td>Pinnacle II -Greenwood</td>
<td>86</td>
<td>365</td>
<td>0.95</td>
<td>29821</td>
<td>$210.33</td>
<td>$6,272,251</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>$11,602,991</strong></td>
</tr>
<tr>
<td><strong>Decrease</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>$446,412</strong></td>
</tr>
</tbody>
</table>

This transaction results in a reduction in MaineCare utilization, therefore MaineCare neutrality has been achieved.

Deeming of Standard

As provided for at 22 M.R.S. § 335 (7)(B), if the applicant is a provider of health care services that are substantially similar to those services being reviewed and is licensed in the State, the applicant is deemed to have fulfilled the requirements of this subparagraph if the services provided in the
State by the applicant during the most recent 3-year period are of similar size and scope and are consistent with applicable licensing and certification standards.

Pinnacle has been a provider of SNF/NF nursing services since 2015. The operations of the purchased facilities are of similar size and scope and are consistent with applicable licensing and certification standards.

**Changing Laws and Regulations**

Certificate of Need Unit staff is not aware of any imminent or proposed changes in laws and regulations that would impact the project.

### iii. Conclusion

Certificate of Need Unit staff recommend that the Commissioner determine that the applicant has met their burden to demonstrate: (1) the capacity of the applicant to support the project financially over its useful life, in light of the rates the applicant expects to be able to charge for the services to be provided by the project; and (2) the applicant's ability to establish and operate the project in accordance with existing and reasonably anticipated future changes in federal, state and local licensure and other applicable or potentially applicable rules.
IV. Public Need

A. From Applicant

The following table provides a history of payor mix and occupancy percentages for Greenwood and Varney for the years 2016 to 2018 compared to averages for Region 1 for 2016 to 2018:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Greenwood</td>
<td>Varney</td>
<td>Region 1</td>
<td>Greenwood</td>
</tr>
<tr>
<td>NF - MCD</td>
<td>81%</td>
<td>80%</td>
<td>66%</td>
<td>82%</td>
</tr>
<tr>
<td>NF - MGR</td>
<td>7%</td>
<td>4%</td>
<td>12%</td>
<td>6%</td>
</tr>
<tr>
<td>NF - Other</td>
<td>12%</td>
<td>19%</td>
<td>22%</td>
<td>12%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>81%</td>
<td>91%</td>
<td>90%</td>
<td>74%</td>
</tr>
</tbody>
</table>

Sources: 2016, 2017, and 2018 as filed Greenwood and Varney cost reports were utilized for occupancy and payor mix percentages. BerryDunn’s database which is a compilation of all as filed cost reports was utilized for Region 1 averages.

As evidenced in the table above, both Varney and Greenwood are meeting a need in the community as well as in the region they service. Varney’s occupancy rates for 2016 through 2018 were nearly comparable to, or better than, regional averages and MaineCare utilization has historically been higher than the region due to the community Varney serves and its historical programming focus. While Greenwood’s occupancy rates are lower than its peers in Region 1 during 2016-2018, it does serve a much higher Medicaid population than its peers in Region 1. Management has forecast 95% occupancy for each facility in 2020 as required by DLRS and payor mix to improve and result in a MaineCare percentage between historical actual and Region 1 percentages.

There is a demonstrated need for skilled nursing services in Maine and the York County area. Maine’s State Plan Aging Report 2016-2020 reports the percentage of Maine’s Population 65 and older was 19% in 2016, and growing faster than either New England or the National average. The report also states by 2030, Maine’s population over age 65 will reach 28%. According to the Muskie School of Public Policy by 2025, the number of Mainer’s age 85 and over will grow by 4,000 people or a 14% increase.

Source: University of Southern Maine-Muskie School of Public Service. CHARTBOOK- Adults Using Long Term Services and Supports: Population and Service Use Trends in Maine.

The Muskie School of Public Policy projects the population of adults 65 and older in York County will increase from 19.9% in 2017 to 23.6% in 2022 and 27.4% in 2027, this increase in aging population will increase the demand for SNF/NF beds in York County. DLRS recently approved the replacement of the Newton Center in Sanford with Sanford Senior Care Center, which will reduce the number of SNF/NF beds in the York County Service area by 10 beds. The SNF/NF occupancy percentage in York County was 88.85% in 2018 and 88.03% in 2017, which demonstrates the need to retain beds in York County to allow for the availability of admissions as needed. Retaining the current SNF/NF beds in York County will have a positive impact on the population.
B. **Certificate of Need Unit Discussion**

i. **CON Standards**

Relevant standards for inclusion in this section are specific to the determination that there is a public need for the proposed services as demonstrated by certain factors, including, but not limited to:

- Whether, and the extent to which, the project will substantially address specific health problems as measured by health needs in the area to be served by the project;
- Whether the project will have a positive impact on the health status indicators of the population to be served;
- Whether the services affected by the project will be accessible to all residents of the area proposed to be served; and
- Whether the project will provide demonstrable improvements in quality and outcome measures applicable to the services proposed in the project.

ii. **CON Unit Analysis**

The applicant is proposing to purchase and operate two existing nursing homes with no changes in licensed capacity or the addition of new services. In order to confirm a continued public need, CONU analyzed demographic and service use trends in proposed Sanford facility’s service area (York County, Maine). CONU utilized the *Older Adults with Physical Disabilities: Population and Service Use Trends in Maine, 2012 Edition* and the *Adults Using Long Term Services and Supports: Population and Service Use Trends in Maine, 2014 Edition* prepared by the Muskie School of Public Service and the U.S. Census Bureau’s website located at [https://www.census.gov/quickfacts/](https://www.census.gov/quickfacts/)

York County Maine has an estimated population of 206,229 as of July 1, 2018 with approximately 20.5% of the population age 65 or older. This population is the primary consumer of nursing home services. Maine’s 65 and above age group continues to grow at a rate faster than New England and the USA as a whole. The forecasted growth in York County’s older population between 2015 and 2025 is an increase of 11,460 people (52%) between the ages of 65-74, an increase of 7,703 people (71%) between the ages of 75-84 and an increase of 1,046 people (22%) over 85. With the projected increase in the 65+ population it is likely that SNF/NF beds will continue to be required over the next ten years. Retaining SNF/NF beds will substantially address specific health problems associated with an aging population which is increasingly requiring more intensive care. These facilities will handle both a long-term care population and a short stay rehabilitation population. This will have a positive impact on the health status indicators of the population to be served. CONU examined the latest occupancy data available for nursing services in York County (based on 8/15/2019 Roster Date):
<table>
<thead>
<tr>
<th>Town</th>
<th>Nursing Facility</th>
<th>Total Capacity</th>
<th>Total Occupancy</th>
<th>% Occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kittery</td>
<td>Durgin Pines</td>
<td>81</td>
<td>73</td>
<td>90.12%</td>
</tr>
<tr>
<td>Saco</td>
<td>Evergreen Manor</td>
<td>42</td>
<td>36</td>
<td>85.71%</td>
</tr>
<tr>
<td>Sanford</td>
<td>Greenwood Center</td>
<td>86</td>
<td>76</td>
<td>88.37%</td>
</tr>
<tr>
<td>Kennebunk</td>
<td>Kennebunk Center</td>
<td>78</td>
<td>63</td>
<td>80.77%</td>
</tr>
<tr>
<td>Kennebunk</td>
<td>RiverRidge</td>
<td>62</td>
<td>51</td>
<td>82.26%</td>
</tr>
<tr>
<td>Seal Rock</td>
<td>Saco</td>
<td>105</td>
<td>92</td>
<td>87.62%</td>
</tr>
<tr>
<td>Southridge</td>
<td>Biddeford</td>
<td>62</td>
<td>60</td>
<td>96.77%</td>
</tr>
<tr>
<td>St. Andre</td>
<td>Biddeford</td>
<td>96</td>
<td>83</td>
<td>86.46%</td>
</tr>
<tr>
<td>Sanford</td>
<td>Newton Center</td>
<td>74</td>
<td>56</td>
<td>75.68%</td>
</tr>
<tr>
<td>North Berwick</td>
<td>Varney Crossing</td>
<td>64</td>
<td>60</td>
<td>93.75%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>750</td>
<td>650</td>
<td>86.75%</td>
</tr>
</tbody>
</table>

In 2010 York County had 24 nursing beds per 1,000 persons age 65 and above as compared to the State average of 33 beds per 1,000 persons age 65 and above. The available beds in York County is below the State average. The most recently available occupancy statistics above show an average occupancy of 86.75% for nursing homes clearly demonstrating a continuing need for SNF/NF and RCF services in the York County area. This project does not add additional beds to the system but involves a change of ownership.

The applicant will offer the services affected by the project to all residents of the area proposed to be served and therefore will ensure accessibility of the service.

The project will provide demonstrable improvements in the outcome measures for patients that require skilled and long-term services. The demographics of this region show an increased population base that will require these services.

**iii. Conclusion**

The Certificate of Need Unit recommends that the Commissioner find that the applicant has met their burden to show that there is a public need for the proposed project.
V. Orderly and Economic Development

A. From Applicant

The proposal for the acquisition of Varney and Greenwood by Pinnacle meets the budget neutrality requirements for nursing homes in Maine. The facilities will operate at their existing licensed capacity, Pinnacle II (Greenwood) at 86 beds and Pinnacle III (Varney) at 64 beds. It is not likely that more effective, more accessible or less costly alternatives or methods of service delivery may become available.

There is no practicable alternative to a change in ownership of Varney and Greenwood, the proposed change in ownership as described in Section I: Abstract is the most seamless to the quality of care and outcomes at the respective facilities.
B. Certificate of Need Unit Discussion

i. CON Standards

Relevant standards for inclusion in this section are specific to the determination that the proposed services are consistent with the orderly and economic development of health facilities and health resources for the State as demonstrated by:

- The impact of the project on total health care expenditures after taking into account, to the extent practical, both the costs and benefits of the project and the competing demands in the local service area and statewide for available resources for health care;

- The availability of state funds to cover any increase in state costs associated with utilization of the project's services; and

- The likelihood that more effective, more accessible or less costly alternative technologies or methods of service delivery may become available.

ii. CON Unit Analysis

This transaction involves a change in ownership of two existing nursing homes in a region that clearly needs these services. Both Pinnacle II - Greenwood and Pinnacle III – Varney provide long-term care and skilled rehab services. This project will have minimal impact on health care expenditures in this region because no change in services or increases in occupancy are projected. In addition, no large capital expenditures are required for this project because existing nursing home buildings will be maintained.

As discussed in the Economic Feasibility section of this analysis, a decreased utilization of MaineCare is projected for this transaction... This project will not increase total healthcare costs, therefore additional State funding is not required.

Greenwood and Varney have provided necessary services in the York County area for decades. This transaction will allow these facilities, under new ownership, to continue to provide long-term care and rehabilitation services with no interruption in services and no disruption to current residents. As stated previously utilizing existing infrastructure minimizes capital expenditures and start-up costs. Based on these factors it is unlikely that a more effective, more accessible or less costly alternative for providing needed SNF/NF services is available.

iii. Conclusion

The Certificate of Need Unit recommends that the Commissioner find that the applicant has met its burden to demonstrate that the proposed project is consistent with the orderly and economic development of health facilities and health resources for the State.
VI. Outcomes and Community Impact

A. From Applicant

Varney and Greenwood have the highest overall rating of 5-stars from the Medicare.gov Nursing Home Compare website. Pinnacle intends for current administrators of the respective facilities to continue in their capacity. The current management team has a history of providing quality care and excellent outcomes. Additionally, as discussed in Section II, Fit, Willing and Able, Pinnacle has implemented many initiatives to improve the quality of care at Pinnacle Health and Rehab including a telemedicine program, and plans to expand this programming and other similar initiatives to these facilities.

Pinnacle has partnered with Tapestry Telehealth to implement a telemedicine model that assigns a dedicated practitioner to the facility. Clinicians are available on weekdays and on call to work virtually with on-site nursing teams as part of regularly scheduled rounds.

Having daily virtual access to an on-site medical team in rural nursing homes helps to avoid unnecessary hospitalizations when medical conditions change. It also reduces the need for long, costly and uncomfortable trips outside the facilities for basic evaluations or specialty consults and eliminates delays in waiting for an open appointment.

Pinnacle has an easy-to-use, portable telemedicine cart that puts medical professionals at the bedside as part of daily rounds or in moments when conditions change, or concerns emerge. The stations are designed for quick visits and simple setup to save nurses time and making seeing patients easy.

A large monitor allows residents and medical professionals to see and speak directly with each other in real time. Working closely with facility nursing staff, clinicians examine patients using a digitally enhanced stethoscope to listen to the heart, lungs and chest; an otoscope to examine the throat and ears; and a high-definition camera to examine even the smallest wound or skin irritation.

The facility nurse and telehealth clinician also work cooperatively to conduct thorough abdominal, musculoskeletal and neurological examinations. The telehealth clinicians can order tests, start treatments and monitor conditions, and because they are dedicated to the facilities, they stay involved every step of the way to ensure patients get healthy and families stay informed.

Pinnacle will implement telemedicine at Pinnacle II and Pinnacle III to improve the quality of care and improve outcomes.

Pinnacle has also established a precedent of working with referring hospitals to create partnerships to place patients who would be otherwise be confined to a hospital setting. Pinnacle will continue to work on these types synergistic partnerships as they expand their services into York County.

B. Certificate of Need Unit Discussion

i. CON Standards
Ensures high-quality outcomes and does not negatively affect the quality of care delivered by existing service providers.

ii. CON Unit Analysis

Greenwood and Varney have provided quality long-term care and rehabilitation services in the York County area for many years. The new ownership, Pinnacle, plans to retain skilled managers and experienced staff where possible to continue this tradition. This is the approach Pinnacle utilized when assuming ownership of Victorian Villa in 2015. The applicant also plans to build upon past success by introducing new technology and encouraging partnerships with other health care providers to improve the quality of patient care. Continuing necessary services in the current geographic area will have a positive impact on the quality of care. Since there will be no change in services and no change in the number of licensed SNF/NF beds or a change in services provided, existing service providers will not be negatively impacted.

iii. Conclusion

Certificate of Need Unit recommends that the Commissioner find that the applicant has met their burden to demonstrate that this project will ensure high-quality outcomes and does not negatively affect the quality of care delivered by existing service providers.
VII. Service Utilization

A. From Applicant

There will be no changes in the services offered by Pinnacle II (Greenwood) and Pinnacle III (Varney) as a result of this change of ownership. Historical census data was provided in Section IV. Public Need. Management anticipates census and utilization to be reflective of current market conditions.
B. Certificate of Need Unit Discussion

i. CON Standards

Relevant standards for inclusion in this section are specific to the determination that the project does not result in inappropriate increases in service utilization, according to the principles of evidence-based medicine adopted by the Maine Quality Forum as established in Title 24-A, section 6951, when the principles adopted by the Maine Quality Forum are directly applicable to the application.

ii. CON Unit Analysis

The Maine Quality Forum has not adopted any principles of evidence-based medicine directly applicable to the application; therefore, this application meets the standard for this determination.

This project will retain 86 SNF/NF beds at Pinnacle II -Greenwood and 64 SNF/NF beds at Pinnacle III – Varney. In addition, there will be no change in services offered in the York County area. No inappropriate increases in utilization will occur as a result of this project.

iii. Conclusion

Certificate of Need Unit recommends that the Commissioner find that the applicant has met their burden to demonstrate that the project does not result in inappropriate increases in service utilization, according to the principles of evidence-based medicine adopted by the Maine Quality Forum.
VIII. Consistency with MaineCare Funding Pool

A. From Applicant
N/A

B. Certificate of Need Unit Discussion
   i. CON Standards
   In the case of a nursing facility project that proposes to add new nursing facility beds to the inventory of nursing facility beds within the State, is consistent with the nursing facility MaineCare funding pool and other applicable provisions of sections 333-A and 334-A.

   ii. CON Unit Analysis
   The applicant is not adding new nursing facility beds to the inventory of nursing facility beds within the State.
   No funding is utilized from the MaineCare funding pool.

   iii. Conclusion
   Certificate of Need Unit recommends that the Commissioner find that the applicant has met their burden to demonstrate that the project is consistent with the nursing facility MaineCare funding pool and other applicable provisions of sections 333-A and 334-A.
IX. Timely Notice

A. From Applicant

The appropriate procedures outlined in the Maine Certificate of Need Procedures Manual have been followed.

B. Certificate of Need Unit Discussion

Letter of Intent filed: August 7, 2019
Technical assistance meeting held: August 27, 2019
CON application filed: September 26, 2019
CON certified as complete: September 26, 2019
Public Information Meeting held: Waived
Public Hearing held: N/A
X. Findings and Recommendations

Based on the preceding analysis, including information contained in the record, the Certificate of Need Unit recommends that the Commissioner make the following findings:

A. The applicant is fit, willing and able to provide the proposed services at the proper standard of care as demonstrated by, among other factors, whether the quality of any health care provided in the past by the applicant or a related party under the applicant’s control meets industry standards.

B. The economic feasibility of the proposed services is demonstrated in terms of the:

1. Capacity of the applicant to support the project financially over its useful life, in light of the rates the applicant expects to be able to charge for the services to be provided by the project; and

2. Applicant’s ability to establish and operate the project in accordance with existing and reasonably anticipated future changes in federal, state and local licensure and other applicable or potentially applicable rules;

C. There is a public need for the proposed services as demonstrated by certain factors, including, but not limited to;

1. The extent to which the project will substantially address specific health problems as measured by health needs in the area to be served by the project;

2. The project has demonstrated that it will have a positive impact on the health status indicators of the population to be served;

3. The project will be accessible to all residents of the area proposed to be served; and

4. The project will provide demonstrable improvements in quality and outcome measures applicable to the services proposed in the project;

D. The proposed services are consistent with the orderly and economic development of health facilities and health resources for the State as demonstrated by:

1. The impact of the project on total health care expenditures after taking into account, to the extent practical, both the costs and benefits of the project and the competing demands in the local service area and statewide for available resources for health care;

2. The availability of State funds to cover any increase in state costs associated with utilization of the project’s services; and

3. The likelihood that more effective, more accessible or less costly alternative technologies or methods of service delivery may become available was demonstrated by the applicant;
E. The project ensures high-quality outcomes and does not negatively affect the quality of care delivered by existing service providers:

F. The project does not result in inappropriate increases in service utilization, according to the principles of evidence-based medicine adopted by the Maine Quality Forum; and

G. The project is consistent with the nursing facility MaineCare funding pool and other applicable provisions of sections 333-A and 334-A.

For all the reasons contained in this preliminary analysis and based upon information contained in the record, Certificate of Need Unit recommends that the Commissioner determine that this project should be approved.