Date: April 22, 2020

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>Proposed Per Applicant</th>
<th>Approved CON</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Capital Expenditure</td>
<td>$ 2,300,000</td>
</tr>
<tr>
<td>Maximum Contingency</td>
<td>$ 0</td>
</tr>
<tr>
<td>Total Capital Expenditure with Contingency</td>
<td>$ 2,300,000</td>
</tr>
<tr>
<td>Pro-Forma Marginal Operating Costs</td>
<td>$ 0</td>
</tr>
<tr>
<td>MaineCare Neutrality Established</td>
<td>Yes</td>
</tr>
</tbody>
</table>
I. Abstract

A. From Applicant

Project Description

Pinnacle Group of Hudson Valley IV LLC and Anthoine St. Realty LLC are seeking approval for a change in ownership of South Portland Nursing Home, Inc. (SPNH).

SPNH operates a 73-bed nursing care facility located in South Portland, Maine which provides long-term care and rehabilitative care to the elderly.

Pinnacle Group of Hudson Valley IV LLC and Anthoine St. Realty LLC headquartered in Monsey, New York, intends to acquire from SPNH substantially all the property and assets. The Asset Purchase Agreement is included as Exhibit I.

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. In addition, Pinnacle Group acquired Varney Crossing Nursing Care Center and Greenwood Nursing Care Center effective February 1, 2020.

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

Capital Costs and Financing Plan

An asset purchase agreement has been executed for $2,300,000 for the acquisition of South Portland Nursing Home, Inc.

The acquisition 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>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$10,000</td>
</tr>
<tr>
<td>Land Improvements</td>
<td>362,700</td>
</tr>
<tr>
<td>Buildings and Improvements</td>
<td>1,827,300</td>
</tr>
<tr>
<td>Furniture and Fixtures</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,300,000</strong></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, the Companies have had strong occupancy rates and realized respectable margins. The total margin for the Companies was 2.79% in 2018, and 3.10% in 2017. It is well documented that rural facilities in Maine have recently been under financial stress due challenging reimbursement and payor mix, and the implementation of annual 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 $500,000 in capital improvements since 2016, such as the brand new 1,100 sq. ft. rehab center, new phone system, IT Server and Infrastructure, as well as a new parking lot.

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

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pinnacle Health and Rehab</td>
<td>91.66%</td>
<td>90.88%</td>
<td>89.66%</td>
</tr>
<tr>
<td>Region 2</td>
<td>N/A**</td>
<td>90.26%</td>
<td>89.94%</td>
</tr>
</tbody>
</table>

** The 2019 Region 2 occupancy statistics are not available as of the date of this report

In addition, the Company’s financial statements reflect current ratios of 1.25 in 2018, and 1.12 in 2017 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. For the third consecutive year Pinnacle Health and Rehab’s Administrator, Mark Jacobs, earned the national Eli Pick Facility Leadership award. (Exhibit II) 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 addition 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 it 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, he 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. Pinnacle continues to monitor the unique needs of the local population in conjunction with its allied health partners.

On January 13, 2020, Pinnacle Group of Hudson Valley received approval for a Certificate of Need, which authorized Pinnacle Group to purchase Varney Nursing Care Center and Greenwood Nursing Care Center. Pinnacle Group closed on the sale of the two facilities effective February 1, 2020.

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
rerb@mehca.org
207-623-1146

Page 5 of 29
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. (Attached please see Exhibit III, 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 New York State, 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.

References:
Centers for Specialty Care  
CEO – Kenneth Rozenberg  
Cell: 917-468-4174  
Email: krozenberg@centershealthcare.org

CFO – Abraham Bronner  
Cell: 914-261-2614  
Email: abronner@centersbusiness.org

Pinnacle Group’s first client in 2009 was Sprain Brook Manor Rehab (Sprain Brook), a 121 bed SNF in Scarsdale, NY. Marred by numerous issues including labor, workforce and other operational challenges, Sprain Brook was in a negative cash flow state, and at risk for closure. After much diligence and hard work, Sprain Brook has regained it’s standing as a top performing facility in the Westchester region. Israel & the managing member of the facility continue to operate this facility on a day to day basis and are proud of the excellent standing the facility has in the community.

Post fiscal turnaround, Israel led the implementation of a full electronic medical records system in Sprain Brook in 2012. Recognizing the importance of data driven patient care, the facility has leveraged this investment in technology to meet critical data points set by CMS and State surveyors. In the recent NHQI initiative, Sprain Brook achieved an enviable 2.13 potentially avoidable hospitalizations per 10,000 stay days metric. This immediate improvement in patient care was achieved on the heels of the successful implementation of the Sigmacare EMR system. The facility was placed in the second quintile statewide for quality initiatives in April 2014.
Building on the success of Sprain Brook Manor Rehab, Israel’s management team was selected in 2015 among many bidders to acquire the 120 bed Michael Malotz Skilled Nursing Pavilion, in Yonkers, NY. Located on the campus of the prestigious St. John’s Riverside Hospital, this Skilled Nursing Facility contains a dedicated 8 bed ventilator unit, one of only two in the entire Westchester County. Rebranded as Adira at Riverside Rehabilitation, this facility continues to provide excellent care to the residents of Yonkers, New York. More recently, in October 2018 Israel and the managing partners have successfully won approval to build a ground up dialysis center on the campus of Adira at Riverside to provide ventilator dialysis services. This is a rare and unique specialty practice area which is highly restricted by State regulators. Based on the positive operating history, Israel and his team were proud to have been approved to embark on this project. Final plans are complete with expected groundbreaking in late 2019, pending local approvals.

References:
Sprain Brook Manor Rehab & Adira at Riverside Rehabilitation
Managing member: Allen Stein
Contact info: Cell: 917-337-0110
Email: stein1120@gmail.com

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 sometime this summer.

Pinnacle intends for the current administrator of South Portland Nursing Home to continue in his capacity. Resume of Jeff Ketchum, the current administrator, is included as Exhibit IV.

Jeff Ketchum has been the Administrator of South Portland Nursing Home since 2018. Prior to coming to South Portland Nursing Home, Jeff was the administrator of a 42 bed skilled living facility in Saco Maine. Jeff was a 2019 recipient of the Eli Pick Facility Leadership award. South Portland Nursing Home has five-star overall rating as specified by the Centers for Medicare and 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 Millman, 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 an existing nursing home, South Portland Nursing Home a 73-bed SNF/NF located at 42 Anthoine Street, South Portland, 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/c_o_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:
<table>
<thead>
<tr>
<th>Facility</th>
<th>Overall</th>
<th>Health Inspections</th>
<th>Staffing</th>
<th>Quality Ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pinnacle Health &amp; Rehab</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

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.

On January 13, 2020 Pinnacle received CON approval to purchase Greenwood Nursing Care Center an 86-bed nursing care facility located in Sanford, Maine and Varney Crossing Nursing Care Center a 64-bed nursing care facility located in North Berwick, Maine. Please see https://www.maine.gov/dhhs/dlc/c_o_n/2020/index.shtml for complete details of this transaction.

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 IV and Anthoine St. Realty (Pinnacle IV Combined). The results presented below as Pinnacle IV include the combined results of the operating company and realty company. These detailed financial forecasts are included as Exhibit V.

The following tables are summarized income statements for the forecast period, 2021 through 2023.

**Pinnacle IV Combined**

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$6,789,609</td>
<td>$6,939,637</td>
<td>$7,093,118</td>
</tr>
<tr>
<td>Expenses</td>
<td>6,462,572</td>
<td>6,645,647</td>
<td>6,834,628</td>
</tr>
<tr>
<td>Net Income</td>
<td>$327,037</td>
<td>$293,990</td>
<td>$258,490</td>
</tr>
</tbody>
</table>

EBITDA margin through the forecast period are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11%</td>
<td>10%</td>
<td>9%</td>
</tr>
</tbody>
</table>

The facility’s debt service coverage ratio through the forecast period are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.18</td>
<td>3.90</td>
<td>3.60</td>
</tr>
</tbody>
</table>

Forecasted balance sheet of the Pinnacle IV Combined as of December 31, 2021 is included as Exhibit VI and a summary is as follows:

**Summarized forecasted balance sheet of Pinnacle IV combined as of December 31, 2021:**

- Current assets: $1,640,666
- Long term asset: 2,139,092
- Total assets: 3,779,758
- Current liabilities: 550,394
- Long term liabilities: 3,241,979
Member’s deficit  (12,615)
Total liabilities and equity  $ 3,779,758

- The forecasted current ratio as of December 31, 2021 is 2.98. This strong current ratio indicates 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, 2021 is 44.81. The 2018 average days cash on hand (operating) for BerryDunn Maine nursing facility clients was 22.75.

Pro-forma cost report for the year ending December 31, 2021 is included as Exhibit VII

- The pro-forma cost reports for the year ending December 31, 2021 projects a MaineCare Rate of $248.53.

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

1. There will be no changes to the licensed capacity of the facility. 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 forecast, nor do they impact MaineCare neutrality.
2. Total occupancy has been projected to be consistent with the total occupancy for South Portland Nursing Home for the year ended December 31, 2018. 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 4.09%. Payments will be made in accordance with a 25-year amortization schedule. The remaining acquisition cost will be financed via a 4.09% loan from the member with no formal repayment terms.

This acquisition is subject to MaineCare neutrality. MaineCare neutrality is computed by comparing SPNH rate in effect as of July 1, 2019 to the forecasted MaineCare rate calculated in the 2021 pro-forma cost report. Both rates were multiplied by 95% occupancy to determine projected MaineCare resource utilization. The July 1, 2019 rate letter was utilized as it does not include the Supplemental Wage Allowance (SWA), we understand SWA may no longer be in effect at the time the transaction is proposed to close and will not be applicable to this transaction. Below is a summarization of MaineCare rates pre- and post-acquisition:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate paid before acquisition</td>
<td>$ 241.59</td>
</tr>
<tr>
<td>Rate paid after acquisition</td>
<td>$ 248.53</td>
</tr>
<tr>
<td>Disallowance</td>
<td>$ (6.94)</td>
</tr>
<tr>
<td>Utilization from Varney and Greenwood acquisition</td>
<td>$ 6.94</td>
</tr>
<tr>
<td>MaineCare neutrality</td>
<td>$ -</td>
</tr>
</tbody>
</table>
Pinnacle IV will utilize MaineCare resources which were not utilized in the Varney and Greenwood acquisition in order to achieve neutrality. As a result, the anticipated acquisition will not negatively impact MaineCare neutrality.

A detailed neutrality calculation is included as Exhibit VIII.

Detailed assumptions relative to the preparation of the forecasted balance sheet, income statement and pro-forma cost report are included as Exhibit VIII.

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 South Portland Nursing Home 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. A real estate entity, Anthoine St. Realty LLC will hold title to the real property of Pinnacle IV – South Portland. Pinnacle Group will lease the real property from the real estate entities. The total purchase price for this transaction is $2,300,000. Approximately 85% of the purchase will be funded with a commercial loan with a fixed interest rate of 4.09% 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 South Portland Nursing Home, Inc and Pinnacle IV – South Portland. The increase in MaineCare utilization is $175,670. 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>South Portland NH</td>
<td>73</td>
<td>365</td>
<td>0.95</td>
<td>25313</td>
<td>$241.59</td>
<td>$6,115,307</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$6,115,307</td>
</tr>
<tr>
<td>Pinnacle IV- South Portland NH</td>
<td>73</td>
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<td>0.95</td>
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<td></td>
<td></td>
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<td>$6,290,978</td>
</tr>
<tr>
<td>Increase</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$175,670</td>
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</tbody>
</table>

This transaction results in an increase in MaineCare utilization, therefore MaineCare neutrality has not been achieved. Based on this result the applicant revised the pro forma cost report and accompanying balance sheet and income statement with the following changes:

1. New loan terms reduced the interest rate from 4.09% to 3.55% reducing interest costs by approximately $11,100.
2. Removed service agreement fee in 2021 and reduced in half for 2022
3. Reduced contracted office support resulting in a savings of $49,000.
4. Reduced the allowable day care cost add back to the reflect the eligible expenses as of 12/31/2019.
5. As a result of the decrease in MaineCare revenue, the provider tax expense decreased by approximately $8,100.

The projected MaineCare rate for the Pinnacle IV-South Portland Nursing Home was reduced from $248.53 to $241.57 which achieves MaineCare neutrality and results in a projected savings of $446. See revised calculation below:
<table>
<thead>
<tr>
<th>Facility</th>
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<td>25313</td>
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<td></td>
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<td></td>
<td></td>
<td>$6,114,861</td>
</tr>
<tr>
<td>Decrease</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$446</td>
</tr>
</tbody>
</table>

**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 in Maine 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 South Portland Nursing Home for the years 2016 through 2018 compared to averages for Region 1 for 2016 through 2018:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SPNH</td>
<td>Region 1</td>
<td>SPNH</td>
</tr>
<tr>
<td>NF - MCD</td>
<td>83%</td>
<td>66%</td>
<td>81%</td>
</tr>
<tr>
<td>NF - MCR</td>
<td>2%</td>
<td>12%</td>
<td>0%</td>
</tr>
<tr>
<td>NF - Other</td>
<td>16%</td>
<td>22%</td>
<td>18%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Occupancy</td>
<td>95%</td>
<td>90%</td>
<td>92%</td>
</tr>
</tbody>
</table>

Sources: 2016, 2017, and 2018 as filed South Portland Nursing Home 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, South Portland Nursing Home is meeting a need in the community as well as in the region they service. South Portland Nursing Home’s occupancy rates for 2016 through 2018 were higher than regional averages and MaineCare utilization has historically been higher than the region due to the community SPNH’s serves and its historical programming focus. Management has forecast 90% occupancy for the facility in 2021 and payor mix to shift to Medicare and result in a MaineCare utilization percentage between historical actual and Region 1 percentages.

There is a demonstrated need for skilled nursing services in Maine and the Cumberland 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 Cumberland County will increase from 18.1% in 2017 to 21.2% in 2022 and 24.1% in 2027, this increase in aging population will increase the demand for SNF/NF beds in County. DLRS recently approved the replacement of the 121-bed St. Joseph's Manor in Portland with 90 beds at Fallbrook Commons, which will reduce the number of SNF/NF beds in the Cumberland County Service area by 31 beds. The SNF/NF occupancy percentage in Cumberland County was 90% in 2018 and 88% in 2017, which demonstrates the need to retain beds in Cumberland County to allow for the availability of admissions as needed. With the projected increase of adults 65 and over in the next decade, retaining the current SNF/NF beds in Cumberland County will be crucial to meeting the future demand for skilled nursing services.
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 an 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 the proposed South Portland facility’s service area (Cumberland 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/

Cumberland County Maine has an estimated population of 293,557 as of July 1, 2018 with approximately 18.4% of the population age 65 or older. This population is the primary consumer of nursing care 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 percentage of Cumberland County population over the age of 65 will rise to 24.1% in 2027. With the projected increase in the 65+ population it is likely that SNF/NF beds will be required over the next decade. Retaining SNF/NF beds while improving an existing facility will substantially address specific health problems associated with an aging population which is increasingly requiring more intensive care. The new facility 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 Cumberland County:
In 2010 Cumberland County had 41 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 Cumberland County is above the State average but the most recently available occupancy statistics (Roster Date: 12/15/2019) above show an average occupancy of 90.11%. This demonstrates a continuing need for SNF/NF services in the Cumberland County area. This project is not adding additional beds to the system but is simply an ownership change of an existing facility.

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 South Portland Nursing Home by Pinnacle meets the budget neutrality requirements for nursing homes in Maine. The facility will operate at its existing licensed capacity, of 73 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 South Portland Nursing Home, 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 an existing nursing homes in a region that clearly needs these services. Pinnacle IV – South Portland will 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.

South Portland Nursing Home, Inc. has provided necessary services in the Cumberland County area for decades. This transaction will allow this facility, 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

South Portland Nursing Home has the highest overall rating of 5–stars from the Medicare.gov Nursing Home Compare website. Pinnacle intends for current administrator to continue in his 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 make 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 IV 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 Cumberland and 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**

   South Portland Nursing Home, Inc. has provided quality long-term care and rehabilitation services in the Cumberland County service area for many years. The new ownership, Pinnacle, plans to retain skilled managers and experienced staff where possible to continue this tradition. For example, the current administrator, Jeff Ketchum will remain in place. Since assuming ownership of Victorian Villa in 2015, Pinnacle has maintained high occupancy rates and financial stability despite of being located in a rural area. The applicant 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 IV (South Portland Nursing Home) 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 73 SNF/NF beds at Pinnacle IV – South Portland. 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
Not applicable

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 applicant had followed the appropriate procedures outlined in the Maine Certificate of Need Procedures Manual.

B. Certificate of Need Unit Discussion

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
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<td>Letter of Intent filed:</td>
<td>December 12, 2019</td>
</tr>
<tr>
<td>Technical assistance meeting held:</td>
<td>December 19, 2019</td>
</tr>
<tr>
<td>CON application filed:</td>
<td>February 13, 2020</td>
</tr>
<tr>
<td>CON certified as complete:</td>
<td>February 13, 2020</td>
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<tr>
<td>Public Information Meeting held:</td>
<td>Waived</td>
</tr>
<tr>
<td>Public Hearing held:</td>
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</tr>
</tbody>
</table>
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.