



STATE OF WASHINGTON

DEPARTMENT OF HEALTH

*PO Box 47890 • Olympia, Washington 98504-7890
Tel: 360-236-4030 • TTY Relay: 800-833-6384*

November 21, 2018

CERTIFIED MAIL # 7014 2120 0002 7589 9148

Michael J. Miller, CFO and Assistant Manager
Evergreen Kitsap, LLC
C/O EmpRes Healthcare Management, LLC
4601 NE 77th Avenue, Suite 300
Vancouver, WA 98662

RE: CN 18-28

Dear Mr. Miller:

We have completed review of the Certificate of Need application submitted by Evergreen Kitsap, LLC proposing to unbank 10 beds under the full facility closure provisions of the Revised Code of Washington (RCW) 70.38.115(13)(b). The 10 unbank beds will be added to existing capacity at Northwoods Lodge located in Kitsap County. Enclosed is a written evaluation of the application.

For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided Evergreen Kitsap, LLC agrees to the following in its entirety.

Project Description:

Evergreen Kitsap, LLC is approved to add 10 nursing home beds to Northwoods Lodge located in Kitsap County by converting 10 beds banked under the full facility closure provisions of Revised Code of Washington 70.38.115(13)(b).

At project completion, the number of licensed beds at Northwoods Lodge will increase from 47 to 57 and Santé Operations, LLC will continue to manage Northwoods Lodge.

Conditions:

1. Evergreen Kitsap, LLC agrees with the project description as stated above. Evergreen Kitsap, LLC further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. Northwoods Lodge must maintain Medicare and Medicaid certification throughout the life of the facility, regardless of ownership.
3. Northwoods Lodge and any subsequent owners of the nursing home must not develop any policies or practices that preclude admission of patients based on payer source.

Michael J Miller, CFO and Assistant Manager
Evergreen Kitsap, LLC
Certificate of Need App #18-28
November 21, 2018
P a g e 2

Approved Costs:

The approved capital expenditure for this project is \$310,000.

Please notify the Department of Health within 20 days of the date of this letter whether you accept the above project description, conditions, and capital costs for your project. If you accept these in entirety, your application will be approved and a Certificate of Need sent to you.

If you reject any of the above provision, your application will be denied. The department will send you a letter denying your application and provide you information regarding your appeal rights. Your written response should be sent to the Certificate of Need Program, at one of the following addresses.

Mailing Address:
Department of Health
Certificate of Need Program
Mail Stop 47852
Olympia, WA 98504-7852

Physical Address:
Department of Health
Certificate of Need Program
111 Israel Road SE
Tumwater, WA 98501

If you have any questions, or would like to arrange for a meeting to discuss our decision, please contact Janis Sigman with the Certificate of Need Program at (360) 236-2955.

Sincerely,



Nancy Tyson, Executive Director
Health Facilities and Certificate of Need
Community Health Systems

Enclosure

EVALUATION DATED NOVEMBER 21, 2018, FOR THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY EVERGREEN KITSAP, LLC PROPOSING TO UNBANK¹ 10 SKILLED NURSING BEDS AND PLACE THEM AT NORTHWOODS LODGE SKILLED NURSING HOME LOCATED IN THE CITY OF SILVERDALE WITHIN KITSAP COUNTY

APPLICANT AND FACILITY MANAGER DESCRIPTION

Evergreen Kitsap, LLC

This application was submitted by Evergreen Kitsap, LLC². This entity is registered with the Washington Secretary of State Office as a limited liability company with UBI #602 338 955. According to public information available at the website, Evergreen Kitsap, LLC business name is Northwoods Lodge and the governing persons is EmpRes Healthcare Management. [Source:<https://www.sos.wa.gov/corps/>] Public information at the Washington State Department of Revenue also states that Evergreen Kitsap, LLC business name is Northwoods Lodge. [Source: <https://secure.dor.wa.gov/gteunauth/#2>]. For this project, Evergreen Kitsap, LLC proposes to unbank 10 beds and place them in Northwoods Lodge. The skilled nursing facility is currently managed by Santé Operations, LLC as provided in the Interim Sublease and Management Agreement provided within the application.

Northwoods Lodge

Northwoods Lodge is a 47 bed skilled nursing home located in Silverdale Kitsap County. Services provided at Northwood Lodge includes skilled nursing, physical, occupational and speech therapies services to Medicare, Medicaid, and private pay patients. [Source: Application page 7 and Supplemental information received May 3, 2018] The department historical record, and information provided within the application shows that Evergreen Kitsap, LLC; Northwoods Lodge, EmpRes Healthcare Management, Santé SNF Op Co, LLC; and Santé SNF Op Co, LLC thorough affiliations or subsidiaries owns/ manages/or operate senior care centers, skilled nursing homes, assisted living facilities, and home health agencies in California, Idaho, Montana, Nevada, Oregon, Washington, and Wyoming. [Source: CN Historical files; and May 3, 2018, supplemental information, Appendix 1]

Under the Northwoods Lodge operational organizational structure information provided within this application, NHI REIT of Washington, LLC is Northwoods Lodge landlord under a master lease agreement. According to the agreement, NHI REIT of Washington, LLC leases Northwood Lodge to Santé SNF Op Co, LLC; and Santé SNF Op Co, LLC under the same Master Lease and Landlord Sublease and Management Agreement subleases Northwoods Lodge to Evergreen Kitsap, LLLC. [Source: May 3, 2018, supplemental information, Appendix 1]

NHI-REIT Of Washington, LLC.

NHI-REIT of Washington, LLC is a real estate investment trust corporation. It specializing in sale-leaseback, joint-venture, mortgage and mezzanine financing of need-driven and discretionary senior housing and medical investments. According to the corporation web sites, NHI-REIT's portfolio consists of independent, assisted and memory care communities, entrance-fee retirement communities, skilled nursing facilities, medical office buildings and specialty hospitals. [Source: <https://www.investors.nhireit.com/corporateprofile>]

¹ Revised Code of Washington (RCW) 70.38.115(13)(b) and Washington Administrative Code (WAC) 246-310-396

² On December 6, 2017, the department agreed that documentation provided by EmpRes Healthcare Management, LLC shows that it is a subsidiary of Evergreen Kitsap, LLC. That decision allows Evergreen Kitsap, LLC to submit application to unbank beds.

NHI-REIT is registered with the Washington Secretary of State Office as foreign limited liability company with UBI 603 197 699. NHI-REIT governor's type is individual and its last name is National Health Investors. [Source: <https://www.cafs.sos.wa.gov>]

BACKGROUND INFORMATION

On August 24, 2011, the department approved Evergreen Kitsap, LLC, as the licensee and operator, of Kitsap Health Rehabilitation Center to bank the facility's 62 beds under Revised Code of Washington (RCW) 70.38.115(13)(b) and Washington Administrative Code (WAC) 246-310-396 – commonly known as full facility closure bed banking. Certificate of Need regulations, allows these beds to be banked for up to eight years. The bed banking period for Evergreen Kitsap, LLC's beds expires on July 25, 2019. [Source: BB 12-01 page 1 and CN historical files]

A master lease agreement provided within this application, shows that NHI-REIT of Washington, LLC, is Northwoods Lodge ("Landlord") and Santé SNF OP CO, LLC; Santé ALF OP CO, LLC, and Santé ILF OP CO, LLC respectively are ("Tenants"). Additionally, the master lease agreement and the Interim Sublease and Management Agreement, also provided within the main agreement, states that Santé SNF OP CO, LLC is Northwood Lodge sub lessor. [Source: CN historical files and May 3, 2018 supplemental information page 3]

For ease of reference, in this evaluation Evergreen Kitsap, LLC will be referred to as "Evergreen Kitsap".

PROJECT DESCRIPTION

Evergreen Kitsap, LLC proposes to unbank 10 of its 62 banked beds and add them at Northwoods Lodge skilled nursing home located in Kitsap County.

The 10 beds will be placed in reconfigured double occupancy rooms at Northwoods Lodge skilled nursing home. The 10 beds will serve all patients admitted to Northwoods Lodge who are eligible for Medicare and Medicaid admissions. At project completion, the number of licensed beds at Northwood Lodge will increase from 47 to 57. Northwoods Lodge will continue to be managed by Santé Operations, LLC as provided in the Interim Sublease and Management Agreement. [Source: Application, Pages 28 and May 3, 2018, Supplemental information, Appendix 5]

Services provided at Northwood Lodge include skilled nursing, physical, occupational, and speech therapies and related services. [Source: Application page 7 and Supplemental information received May 3, 2018] If this project is approved, the 10 beds will be operational at Northwoods Lodge immediately upon licensure. Under this timeline, year 2019 is first year of operation and year 2021 is the third year of operation.

The capital expenditure associated with the 10 beds is \$310,000. Of these amount \$50,000 is for furniture for nursing home and the remainder \$260,000 is for equipment. [Source: Application, page 24 and May 3, 2018, Supplemental information, Appendix 12]

APPLICABILITY OF CERTIFICATE OF NEED LAW

This application is subject to review as the change in bed capacity of a healthcare facility under Revised Code of Washington (RCW) 70.38.105(4)(e) and Washington Administrative Code (WAC) 246-310-020(1)(c).

EVALUATION CRITERIA

WAC 246-310-200(1)(a)-(d) identifies the four determinations that the department must make for each application. WAC 246-310-200(2) provides additional direction in how the department is to make its determinations. It states:

“Criteria contained in this section and in WAC 246-310-210, 246-310-220, 246-310-230, and 246-310-240 shall be used by the department in making the required determinations.

- (a) *In the use of criteria for making the required determinations, the department shall consider:*
- (i) *The consistency of the proposed project with service or facility standards contained in this chapter;*
 - (ii) *In the event the standards contained in this chapter do not address in sufficient detail for a required determination the services or facilities for health services proposed, the department may consider standards not in conflict with those standards in accordance with subsection (2)(b) of this section; and*
 - (iii) *The relationship of the proposed project to the long-range plan (if any) of the person proposing the project.”*

In the event the WAC 246-310 does not contain service or facility standards in sufficient detail to make the required determinations, WAC 246-310-200(2)(b) identifies the types of standards the department may consider in making its required determinations. Specifically WAC 246-310-200(2)(b) states:

“The department may consider any of the following in its use of criteria for making the required determinations:

- (i) *Nationally recognized standards from professional organizations;*
- (ii) *Standards developed by professional organizations in Washington State;*
- (iii) *Federal Medicare and Medicaid certification requirements;*
- (iv) *State licensing requirements;*
- (v) *Applicable standards developed by other individuals, groups, or organizations with recognized expertise related to a proposed undertaking; and*
- (vi) *The written findings and recommendations of individuals, groups, or organizations with recognized expertise related to a proposed undertaking, with whom the department consults during the review of an application.”*

The review of bed additions to a nursing home typically includes a demonstration of need for the beds within the county. However, RCW 70.38.115(13)(b) states:

“When an entire nursing home ceases operation, the licensee or any other party who has secured an interest in the beds may reserve his or her interest in the beds for eight years or until a certificate of need to replace them is issued, whichever occurs first. Certificate of need review shall be required for any party who has reserved the nursing home beds except that the need criteria shall be deemed met when the applicant is the licensee who had operated the beds for at least one year immediately preceding the reservation of the beds, and who is replacing the beds in the same planning area.”

According to the department historical records, Evergreen Kitsap, LLC was the licensee of the 62-bed Kitsap Health Rehabilitation Center for 12 months before that facility closed. When the facility closed, Evergreen Kitsap, LLC banked all 62 beds as prescribed under RCW 70.38.115(13)(b). Therefore, consistent with the statute referenced above, numeric need is deemed met. This evaluation will focus on the applicable portions under WAC 246-310-210 (Need), WAC 246-310-220 (Financial Feasibility), WAC 246-310-230 (Structure and Process of Care), and WAC 246-310-240 (Cost Containment).

TYPE OF REVIEW

This application was reviewed under the regular review timeline outlined in WAC 246-310-160, which is summarized below.

APPLICATION CHRONOLOGY

Action	Evergreen Kitsap
Letter of Intent Submitted	December 5, 2017
Application Submitted	March 15, 2018
Department's Pre-review Activities including	March 21, 2018
<ul style="list-style-type: none">• DOH 1st Screening Letter• Applicant's Screening Responses Received• DOH 2nd Screening Letter• Applicant's Screening Responses Received	April 6, 2018 May 3, 2018 May 24, 2018 June 15, 2018
Beginning of Review	June 25, 2018
<ul style="list-style-type: none">• Public hearing conducted• Public comments accepted through• Rebuttal Comment Received	N/A ³ July 30, 2018 August 14, 2018
Department's Anticipated Decision Date	September 28, 2018
Department's Actual Decision Date	November 21, 2018

AFFECTED PERSONS

Washington Administrative Code 246-310-010(2) defines "affected person" as:

"...an "interested person" who:

- (a) Is located or resides in the applicant's health service area;*
- (b) Testified at a public hearing or submitted written evidence; and*
- (c) Requested in writing to be informed of the department's decision."*

As noted above, WAC 246-310-010(2) requires an affected person to first meet the definition of an 'interested person.' WAC 246-310-010(34) defines "interested person" as:

- (a) The applicant;*
- (b) Health care facilities and health maintenance organizations providing services similar to the services under review and located in the health service area;*
- (c) Third-party payers reimbursing health care facilities in the health service area;*
- (d) Any agency establishing rates for health care facilities and health maintenance organizations in the health service area where the proposed project is to be located;*
- (e) Health care facilities and health maintenance organizations which, in the twelve months prior to receipt of the application, have submitted a letter of intent to provide similar services in the same planning area;*
- (f) Any person residing within the geographic area to be served by the applicant; and*
- (g) Any person regularly using health care facilities within the geographic area to be served by the applicant.*
- (h)*

For this project, no person or entities sought or received affected person status.

³ No Public hearing was requested or conducted

SOURCE INFORMATION REVIEWED

- Evergreen Kitsap, LLC's Certificate of Need application received on March 15, 2018
- Evergreen Kitsap, LLC's supplemental information received May 3, 2018, and June 15, 2018
- Department of Social and Health Services, Office of Rates Management Medicaid rate projections for 10 beds received March 28, 2018
- Centers for Medicare and Medicaid website nursing homes quality of care compliance history [<https://www.medicare.gov/nursinghomecompare/search.html?>]
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Washington State Secretary of State website at [<http://www.sos.wa.gov>]
- Washington State Department of Revenue website at [<https://dor.wa.gov/>]
- NHI-REIT website at [<http://investors.nhireit.com/CorporateProfile/>]

CONCLUSION

For the reasons stated in this evaluation, the application submitted by Evergreen Kitsap, LLC proposing to add nursing home beds at Northwoods Lodge using beds banked under full facility closure provisions of Revised Code of Washington 70.38.115(13)(b) is consistent with applicable criteria of the Certificate of Need Program, provided Evergreen Kitsap, LLC agrees to the following in its entirety.

Project Description:

Evergreen Kitsap, LLC is approved to add 10 nursing home beds to Northwoods Lodge located in Kitsap County by converting 10 beds banked under the full facility closure provisions of Revised Code of Washington 70.38.115(13)(b).

At project completion, the number of licensed beds at Northwood Lodge will increase from 47 to 57 and Santé Operations, LLC will continue to manage Northwoods Lodge.

Conditions:

1. Evergreen Kitsap, LLC agrees with the project description as stated above. Evergreen Kitsap, LLC further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.
2. Northwoods Lodge must maintain Medicare and Medicaid certification throughout the life of the facility, regardless of ownership.
3. Northwoods Lodge and any subsequent owners of the nursing home must not develop any policies or practices that preclude admission of patients based on payer source.

Approved Costs:

The approved capital expenditure for this project is \$310,000.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

Based on the source information reviewed and the applicant's agreement to the conditions identified in the conclusion section of this evaluation, the department determines that Evergreen Kitsap, LLC met the applicable need criteria in WAC 246-310-210.

- (1) *The population served or to be served has need for the project and other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need.*

As stated above in the Background Information section of this evaluation, numeric need is deemed met for nursing home projects that propose to use full facility closure banked beds if the applicant meets specific criteria. There are no other specific nursing home review criteria. Therefore, using its experience and expertise the department evaluates information from the application, as well as publically available utilization and occupancy data from the planning area to assess this sub-criterion.

Evergreen Kitsap

As stated above, Evergreen Kitsap was not required to provide a numeric need methodology, as the statute dictates that this portion of need is met. However, within the application, Evergreen Kitsap stated that approval of this project will enable it to have more semi-private beds that could be used to admit Medicaid patients. The department interpret this to mean that the approval of this project will promote access for nursing home residents within the planning area. Specifically, Evergreen Kitsap states

"Our census goes up and down rapidly due to our short-term population. We currently only have six semi-private rooms. We are confident with the additional semi-private beds available to us we will be able to accommodate patients that were admitted to Northwoods for rehabilitation but were unable to return to their prior residence. In addition when we receive inquires for long-term placement we will have semi-private beds available on a more routine basis". [Source: May 3, 2018 supplemental information page 5]

"... We project to have more availability of semi-private rooms with this project. Due to our smaller size we periodically reach capacity throughout the month. With the additional beds and our contracting issues resolved we expect that with continued outreach we can meet the 15%". [Source: May 3, 2018 supplemental information page 9]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

Within the application, Evergreen Kitsap stated that in 2013 it remodeled the facility and added additional rooms and space. The applicant anticipates turning the additional rooms and space to semi private. Specifically, the semi-private rooms will used to admit long term care and rehab patients who are unable to return to their residence. The department agrees that the addition beds may help the planning area residents in that regard. The applicant provided a proposed bed configuration of the nursing facility showing location of the new beds. There are eight nursing homes in Kitsap County including the applicant and the department historical records

shows that Northwoods Lodge is the only provider in the planning area with the least amount of nursing beds. Given the applicant statements above, department agrees that Evergreen Kitsap can use the additional ten beds to provide rehabilitation services to future patients who require residency in semi-private environment.

Based on the information and the lack of public comment submitted opposing this project, the department assumes the re-introduction of the 10 beds in Kitsap County would not have an unreasonable impact on the existing nursing homes and the beds has the potential to increase patient choice and access. **This sub-criterion is met.**

(2) All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.

To evaluate this sub-criterion, the department evaluates an applicant's admission policies, willingness to serve Medicare and Medicaid patients, and to serve patients that cannot afford to pay for services.

The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and assurances regarding access to treatment. The admission policy must also include language to ensure all residents of the planning area would have access to the proposed services. This is accomplished by providing an admission policy that states patients would be admitted without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical, or mental status.

Medicare certification is a measure of an applicant's willingness to serve the elderly. With limited exceptions, Medicare is coverage for individuals age 65 and over. It is also well recognized that women live longer than men and therefore more likely to be on Medicare longer.

Medicaid certification is a measure of an applicant's willingness to serve low income persons and may include individuals with disabilities.

Evergreen Kitsap

The licensee of Northwoods Lodge is Evergreen Kitsap. Northwoods Lodge is currently operational and it has 47 licensed beds. [Source: Application page 6] Information within the application states Northwoods Lodge's day to day management is provided by Santé Operations, LLC. Therefore, the licensee and the facility management must demonstrate that this nursing home would be available to all residents of the services area, including low-income, racial and ethnic minorities, handicapped and other underserved groups. In addition, as a community based nursing home, Northwoods Lodge must also participate in the Medicare and Medicaid programs.

Admission Agreement

Within the application the applicant provided Northwoods Lodge Admission Agreement. The admission agreement outlines the process for admission to the nursing facility and the roles/responsibilities for both Northwood Lodge and the patient. [Source: Application page 11, and Attachment IV.A.7]

Non Discrimination Policy

In addition to the admission policy, the applicant provided a non-discrimination policy and provided the following statements, *“Please see non-discrimination policy attached to this response as Appendix #8. The applicant will not discriminate against any of the persons in the classes you have described in your question. The services will be open to all payer types, subject to availability of gender-appropriate beds”*. [Source: May 3, 2018, Supplemental information pages 4-5]

Medicare and Medicaid Programs

The department uses Medicare certification to determine whether the elderly would have access, or continue to have access, to services. Santé Operations, LLC the management entity, currently contracts with Medicare to provide services to Medicare patients in the planning area. The financial documents provided within the application, show that Northwood Lodge intend to continue to provide services to the Medicare population. [Source: Application page 25, and May 3, 2018, Supplemental information Exhibit B]

The department uses the facility’s Medicaid eligibility or contracting with Medicaid to determine whether low-income residents would have access, or continue to have access, to services. In the application, Northwoods Lodge states that it currently contracts with Medicaid. A review of the application show that the nursing home Medicaid patient census is low. Evergreen Kitsap stated in the past it was having difficulty billing Medicaid for services provided to residents due to a variety of reasons. To assure that the nursing home will comply with this sub-criterion, Evergreen Kitsap provided the statement below.

“Northwoods Lodge has operated in Kitsap County for over twenty years. For the majority of that time period we did not have a Medicaid Contract. Northwoods has specialized in short-term rehabilitation. Due to our small size it was conducive to running a cohesive program. We went through an extensive remodel in 2013 and added additional rooms and space however retained the same bed capacity. When we obtained a Medicaid contract in 2012 we struggled to have our contract recognized in the system and therefore were unable to obtain authorization to bill. Then we underwent a CHOW in 2017 and again had to obtain a Medicaid contract. This has finally been resolved however due to our limited bed capacity, Northwoods is frequently at capacity”. [Source: May 3, 2018, Supplemental information page 5]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

Given the applicant statements that with this project it will have more semi-private beds that can be used to admit Medicare and Medicaid eligible patients, the department acknowledges that those statements are reasonable. A review of the admission agreement includes the required language that ensures that all residents of the planning area would have access to the services at the nursing home. The agreement references private pay, Medicare admissions, and includes a description of the process for amenities and services, bed hold/room hold, discharging patients home or to a higher level of care, if necessary. The agreement and exhibits provided in the application also show the applicant will admit Medicare and Medicaid eligible persons and all residents will have access to services Medicare and Medicaid services.

However, because Northwoods Lodge has not admitted Medicaid patients on a consistent basis, if this application is approved, the department will attach conditions requiring the applicant to maintain Medicare and Medicaid certification and to admit patients Medicaid patients on a consistent basis.

To ensure that Northwoods Lodge participate in both Medicare and Medicaid programs, if this project is approvable, the department would attach a condition requiring that Northwood Lodge maintain Medicare and Medicaid certification throughout the life of the facility regardless of ownership, and Northwoods Lodge and any subsequent owners of the nursing home must not develop any policies or practices that preclude admission of patients based on payer source.

Furthermore, to ensure that Northwoods Lodge continue to participate in the Medicaid program, if this project is approved, the department would attach a condition requiring that Northwoods Lodge must maintain Medicare and Medicaid certification throughout the life of the facility regardless of ownership. If the applicant agrees to the conditions attached to this project; the department acknowledged that Northwoods Lodge management and operator can comply with all rules and regulations required for the day-to-day management of the nursing facility. Based on the source information reviewed and the applicant's agreement to the conditions the department concludes **this sub-criterion is met.**

(1) The applicant has substantiated any of the following needs and circumstances the proposed project is to serve.

(a) The special needs and circumstances of entities such as medical and other health professions schools, multidisciplinary clinics and specialty centers providing a substantial portion of their services or resources, or both to individuals no residing in the health service areas in which the entities are located or in adjacent health service areas.

Department Evaluation

This criterion is not applicable to this application.

(b) The special needs and circumstances of biomedical and behavioral research projects designed to meet a national need and for which local conditions offer special advantages.

Department Evaluation

This criterion is not applicable to this application.

(c) The special needs and circumstances of osteopathic hospitals and non-allopathic services.

Department Evaluation

This criterion is not applicable to this application.

(2) The project will not have an adverse effect on health professional schools and training programs. The assessment of the conformance of a project with this criterion shall include consideration of:

(a) The effect of the means proposed for the delivery of health services on the clinical needs of health professional training programs in the area in which the services are to be provided.

Department Evaluation

This criterion is not applicable to this application.

(b) If proposed health services are to be available in a limited number of facilities, the extent to which the health professions schools serving the area will have access to the services for training purposes.

Department Evaluation

This criterion is not applicable to this application.

(3) The project is needed to meet the special needs and circumstances of enrolled members or reasonably anticipated new members of a health maintenance organization or proposed health maintenance organization and the services proposed are not available from nonhealth maintenance organization providers or other health maintenance organizations in a reasonable and cost-effective manner consistent with the basic method of operation of the health maintenance organization or proposed health maintenance organization.

Department Evaluation

This criterion is not applicable to this application

B. Financial Feasibility (WAC 246-310-220)

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the conclusion section of this evaluation, the department determines that Evergreen Kitsap, LLC met the financial feasibility criteria in WAC 246-310-220.

(1) The immediate and long-range capital and operating costs of the project can be met.

WAC 246-310 does not contain specific WAC 246-310-220(1) financial feasibility criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what the operating revenues and expenses should be for a project of this type and size. Therefore, using its experience and expertise the department evaluates if the applicant’s pro forma income statements reasonably project the proposed project is meeting its immediate and long-range capital and operating costs by the end of the third complete year of operation.

Evergreen Kitsap

To address this sub criterion, Evergreen Kitsap states, “Please see financials in Attachment IV.9. “All rates below are as calculated from financials and may deviate from published rates” [Source: Application, Page 24]

- DOH reproduced Northwood Lodge historic per diem charges

(Reproduced Table)

	2017	2016	2015
Private Pay	531.33	540.31	525.00
Medicaid	145.06	--	--
Medicare	625.35	575.00	525.00
VA			
Other	561.83	556.85	562.86

[Source: Application, Page 24]

“Projected Average Per Diem Charges for Nursing Home Patients for Each of the First Three Years of Operation.”

*(Reproduced Table)
Projected Per Diem Charge for Years 2018-2020*

	<i>2018</i>	<i>2019</i>	<i>2020</i>
<i>Private Pay</i>	<i>531.22</i>	<i>531.22</i>	<i>531.22</i>
<i>Medicaid</i>	<i>160.22</i>	<i>160.22</i>	<i>160.22</i>
<i>Medicare</i>	<i>625.12</i>	<i>612.25</i>	<i>598.96</i>
<i>VA</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
<i>Other</i>	<i>560.36</i>	<i>559.91</i>	<i>559.91</i>

[Source: Application, page 25]

“The rates on page 24 are historical rates and cover the years 2015 through 2017 and current year 2018. For prior year rates, there are no assumptions. These rates reflect the actual average rate based on revenue divided by resident days for each payer type. For 2018 current year rates, we used the actual Medicaid rate calculated by the DSHS department of rates. For Medicare, and other we used the actual for results for 2017. The only assumption is that 2018 would be at least as good as 2017. We have no reason to believe these rates will change between 2017 actual results and performance for 2018.

Our projected 2018 rate are materially the same as 2017. In our comment, "may deviate from published rates" we refer to how federal rates are set. Medicare rates are published for a provider based on 66 different categories. Our average rate is a reflection of resident acuity and resident mix. Our comment is meant only to show that financial statements may reflect a mix of rates either over time or based on acuity and reflect an average of those factors". [Source: May 3, 2018, Supplemental information page 7]

In addition to the information above, summarized below are the assumptions used by Evergreen Kitsap to project the number of admissions, patient days, and occupancy for Northwoods Lodge. [Source: Application Schedule A, and May 3, 2018, Supplemental Information page 5]

- In year 2016 operating with 47 beds the facility had a total of 15,594 patient days and 91% occupancy.
- In year 2017 the total patient days increased slightly and occupancy rate remained the same as the year before. The total patient’s days was 15,669 at 91% occupancy.
- In year 2018 when the 10 beds are added to capacity the applicant assumes a total of 16,335 patient days at 79% occupancy.
- In year 2019 the applicant assumes a slight increase in patient days and occupancy and projected 18,325 patient days at 88% occupancy.
- In year 2020 the applicant assumes slight increase in patient days and occupancy and projected 18,873 patient days at 91% occupancy.
- In year 2021 the applicant assumes another slight increase in patient days and occupancy and projected 19,420 patient days at 93% occupancy.

Using the assumptions summarized above, Evergreen Kitsap projected the number of patient days and occupancy for Northwoods Lodge. The projections are shown in Table 1 below.

Table 1
Northwoods Lodge
Projected Patients Days and Occupancy
For Years 2019 through 2020

	2019	2020	2021
Projected Number of Beds	57	57	57
Projected Number Patient Days	18,325	18,873	19,420
Project Occupancy	88%	91%	93%

To show the considerations behind its assumptions Evergreen Kitsap states, “Our assumptions were that the costs would remain steady except for inflation, but we have not included an inflation in any of the projections, as required. We have increased revenue, because we expect higher census figures, as shown in our census projections”. [Source: Application, Page 23 and Schedule G]

Furthermore, Evergreen Kitsap also provided the assumptions used to project payor source, percentages of patients and percentages of payor source for Northwood Lodge. The assumptions are summarized below.

- Private pay after expansion 4%
- Medicaid after expansion 15%
- Medicare after expansion 62%
- Other (HMO, Private pay) 19%
- Medicaid Rate: assumed at \$160.22 based on fiscal year 2019
- Medicare Rate: assumed at \$612.25 based on fiscal year 2019
- Private pay/Managed Care assumed at \$559.91 based on fiscal year 2019 [Source: Application page 25, and May 3, 2018, Supplemental Information page 9]

Projected Year 2019
Payer Source and Percentages of Patients by Payer Source

Payer	% Patients	% Payer Source
Medicare	64%	72%
Medicaid	12%	4%
Private Pay	4%	4%
VA	-	-
Other-specify	20%	20%

Using the assumptions summarized above, Evergreen Kitsap projected the revenue, expenses and net income for Northwoods Lodge. The summarized projections are shown in Table 2 below. [Source: Application, Attachment IV.9; and schedule G]

Table 2
Northwoods Lodge
Projected Years 2018 through 2021

	2018	2019	2020	2021
Net Revenue	\$10,011,876	\$10,185,267	\$10,201,463	\$10,372,609
Total Operating Expenses	\$9,875,102	\$9,901,421	\$9,902,197	\$9,909,951
Net Income/ (Loss)	\$211,860	\$360,058	\$376,621	\$541,173

Evergreen Kitsap also provided a projected balance sheets. Show in Tables 3 and Table 4 below are the summaries of the projected balance sheet for year 2019 and 2021. [Source: Application Attachment IV.9]

**Table 3
Northwoods Lodge Full Year 2019**

Assets		Liabilities	
Current Assets	\$2,206,009	Current Liabilities	\$808,603
Property/Equipment	\$545,182	Long term Liabilities	-
Accumulated Depreciation	(\$70,931)	Equity/ Fund Balance	\$1,893,106
Non-Current Assets	\$1,449	-	-
Total Assets	\$2,701,709	Total Liabilities and Equity	\$2,701,709

**Table 4
Northwoods Lodge Full Year 2021**

Assets		Liabilities	
Current Assets	\$3,179,620	Current Liabilities	\$808,603
Property/Equipment	\$545,182	Long term Liabilities	-
Accumulated Depreciation	(\$106,745)	Equity/ Fund Balance	\$2,810,903
Non-Current Assets	\$1,449	-	-
Total Assets	\$3,619,506	Total Liabilities and Equity	\$3,619,506

Public Comment

None

Rebuttal Comment

None

Department Evaluation

To evaluate this sub-criterion, the department reviews the assumptions used by Evergreen Kitsap to project its revenue and expense, and projected balance sheets. The assumptions are the foundation for the two projected statements. The 'Net Revenue' line item is gross patient, plus other operating revenue, minus any deductions from revenue. The 'Total Operating Expenses' line item includes salaries and wages and all costs associated with operations of a nursing home. The total operating expenses line also included all costs related to key clinical personnel for the facility. After reviewing the assumptions and projections use by Evergreen Kitsap, the department concludes the projected occupancy growth by the applicant is reasonable and the applicant historic and projected revenue and expenses shows the project is financially feasible.

In Washington State, the Nursing Home Rates Section of the Office of Rates Management part of the Aging and Disability Services Administration of DSHS sets Medicaid nursing facility rates. Medicaid rates for long-term care nursing facilities are set individually for each specific facility. Rates are based generally on a facility's costs, its occupancy level, and the individual care needs of its residents. The Medicaid payment rate system does not guarantee that all allowable costs relating to the care of Medicaid residents will be fully reimbursed.

The primary goal of the system is to pay for nursing care rendered to Medicaid-eligible residents in accordance with federal and state laws, not to reimburse costs by providers. A facility's overall Medicaid rate is comprised of rates for the following seven separate components:

- Direct care - nursing care and related care provided to residents
- Therapy care - speech, physical, occupational, and other therapy
- Support services - food and dietary services, housekeeping, and laundry
- Operations - administration, utilities, accounting, and maintenance
- Property - depreciation allowance for real property improvements, equipment and personal property used for resident care
- Financing allowance - return on the facility's net invested funds i.e., the value of its tangible fixed assets and allowable cost of land. [Source: Historic record of Overview of Medicaid Rate Setting for Nursing Facilities in Washington provided by DSHS]

For existing nursing homes, the component rates are based on examined and adjusted costs from each facility's cost report. [Source: DSHS WAC 388-96-713(4)]

Information obtained from the Office of Rates Management within DSHS states that facilities rates are no longer based on price as a results of its systems simplification. According to DSHS rates for a facility is now based on median facilities Direct Care and Indirect Care Cost and each facility capital cost is then calculated. For Northwoods Lodge, the 2014 Direct Median at 100% is \$56.22 and the 2014 Indirect Median at 100% is \$45.62. DSHS did not anticipate a rate increase for Northwoods Lodge. DSHS calculated that Northwoods Lodge's Medicaid reimbursement rate will be approximately \$149.78.⁴ [Source: August 3, 2018, and March 3, 2018, communication with DSHS]

Within the application, Evergreen Kitsap stated it has a Medicaid contract and it anticipate that Medicaid patients days at the nursing facility will increase. However, the department review of Evergreen Kitsap application shows that historically it provided few Medicaid patient days. Information provided by Evergreen Kitsap states the reason for the few Medicaid patient's days, was because it was having difficulty billing Medicaid for reimbursements. Evergreen Kitsap stated its Medicaid billing issue has been resolved. The applicant anticipates that if this project is approved, it will increase its Medicaid patient's days. Evergreen Kitsap stated it current average Medicaid charges per diem is \$160.22 and it does not anticipate any change. [Source: Application, page 24-25]

The department notes that the Medicaid revenue expected by Evergreen Kitsap is slightly higher than DSHS rate. The difference between Evergreen Kitsap Medicaid projected rate and DSHS rate is \$10.44 the department compared the rates differences by multiplying it with the total number of the Medicaid patient's days projected by Evergreen Kitsap per year for the first three years of operation. The result of the comparison, is provided in the table below.

Comparison of Evergreen Kitsap Rates and DSHS Rates

	Medicaid Days	Differences (\$10.44 x number of days)
Year 2019	2190	\$22,863.6
Year 2020	2555	\$26,674.2
Year 2021	2920	\$30,484.8

⁴ These rate estimates are not guaranteed rate reimbursement by DSHS. [source: DSHS]

As shown in the table above, the differences between DSHS Medicaid rate and Evergreen Kitsap Medicaid projected rate per year is not significant when compared to the applicant overall net income revenue for the same years. The department conclude that despite the difference in rates projected by the applicant, the project is financially feasible. The department did not receive any public comment related to this sub-criterion that shows this project is not financially feasible. Information provided by Evergreen Kitsap related to this sub-criterion states,

“Northwoods Lodge historically did not have a Medicaid contract. As stated previously, the facility struggled to work out the administrative issues with contracting and billing. We had 3 residents in 2017 that had Medicaid designated as their payor. We were unsuccessful billing these claims but the patients received services. In 2017 we had 17 residents, 9 in 2016 and 10 in 2015 that accessed their Medicare at NWL and Medicaid was their secondary. As stated in previous answers we project to have more availability of semi-private rooms with this project. Due to our smaller size we periodically reach capacity throughout the month. With the additional beds and our contracting issues resolved we expect that with continued outreach we can meet the 15%”. [Source: May 3, 2018, Supplemental information, page 9]

As an existing nursing home, 10 new beds will be added to the facility within the application, the applicant states when new beds are added, more patients will be admitted to its semi-private rooms. The department agrees with Evergreen Kitsap that when the 10 beds are unbanked, and the applicant increase its outreach strategies, it may see an increase in Medicaid admissions. Therefore, based on the information the department concludes the projected revenues and expenses expected for Northwoods Lodge are reasonable. The department concludes that the immediate and long-range operating costs of the project can be met. **This sub-criterion is met.**

- (2) The costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services.

WAC 246-310 does not contain specific WAC 246-310-220(2) financial feasibility criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what an unreasonable impact on costs and charges would be for a project of this type and size. Therefore, using its experience and expertise the department compared the proposed project’s costs with those previously considered by the department.

Evergreen Kitsap

To comply with the sub-criterion, the applicant provided these statements, *“The Applicant considered looking at lease-to-own options, specifically for its capital equipment needing to be purchased. But considering the relatively small scale and cost of the project, paying for the capital expenditures out of operating cash surplus made the most sense, as the facility would not be subject to interest payments, and consequently would not have an increase in ongoing operational expenses”.* [Source: Application page 21] Below in Table 5 is the breakdown of the capital expenditure.

**Table 5
Northwoods Lodge Capital Expenditure Breakdown**

Item	Cost	% of Total
Equipment	\$260,000	83.87%
Furniture	\$50,000	16.03%
Total Estimated Capital Costs	\$310,000	100.0%

The applicant also provided a letter of financial commitment from its chief financial officer and assistant manager. Below is an excerpt from the financial commitment letter.

“The facility presently has 10 semi-private rooms that are only being operated as single occupant rooms. Therefore, no construction will be necessary to accommodate the new beds. The costs necessary to bring the beds into the building will be limited to equipment (beds, furniture and the like) as well as minimal consulting and permitting fees as previously noted in the Certificate of Need application. These costs will be paid for in cash, which is available. No additional financing will be required to bring these beds into service”. [Source: June 15, 2018, Supplemental information page 6]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

The capital expenditure associated with the 10 beds is \$310,000. Of these amount \$50, 000 is for furniture and the remainder \$260,000 is for equipment. [Source: Application, page 24 and May 3, 2018, Supplemental information, Appendix 12] There is no construction involved with this project. As shown in the cost breakdown above, the majority of the costs for this project is associated with equipment for the skilled nursing home. Evergreen Kitsap stated it will use cash reserves to finance the cost for the 10 bed addition project. A review of the historical finances shows the applicant has the money to finance the project. Based on the above information, the department concludes that the costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services. **This sub-criterion is met.**

(3) *The project can be appropriately financed.*

WAC 246-310 does not contain specific source of financing criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs how a project of this type and size should be financed. Therefore, using its experience and expertise the department compared the proposed project’s source of financing to those previously considered by the department.

Evergreen Kitsap

To comply with the sub-criterion, the applicant provided this statement, *“The facility has sufficient cash to pay for the equipment”.* [Source: May 3, 2018, Supplemental information, page 10]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

As previously stated, the capital expenditure associated with this bed addition project is \$310,000. Information within the application stated Evergreen Kitsap will use cash reserve to fund the project.

The capital expenditure of \$310,000 is not expected to adversely affect the applicant reserves, total assets, total liability, or the general health of Evergreen Kitsap in a significant way. Based on the information provided, the department concludes that the project can be appropriately financed. **This sub-criterion is met.**

C. Structure and Process (Quality) of Care (WAC 246-310-230)

Based on the source information reviewed and the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department determines that Evergreen Kitsap, LLC met the structure and process of care criteria in WAC 246-310-230(3), (4), and (5).

(1) A sufficient supply of qualified staff for the project, including both health personnel and management personnel, are available or can be recruited.

WAC 246-310 does not contain specific WAC 246-310-230(1) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what specific staffing patterns or numbers of FTEs that should be employed for projects of this type or size. Therefore, using its experience and expertise the department evaluates the applicants staffing proposal to determine the reasonableness of the availability of staff.

Evergreen Kitsap

To comply with the sub-criterion, Evergreen Kitsap provided these statements,

"Northwoods Lodge is currently providing direct care staff at a 6.54 HPPD. This far exceeds the 3.4 required by the state. We are projecting by 2021 we will have 19,420 patient days. This is an average daily census of 53 residents. Our HPPD at that census for direct care staff would be 5.06 HPPD.

The facility's staffing and FTE is set on a census of 47. Due to the rapid increasing and decreasing census throughout the month the facility has sufficient staff to meet the needs of 47 residents. With its current FTE the additional projected six residents will be able to be accommodated within our current staffing numbers. It allows for nursing assistant ratios to be at a 1 aide to 8 residents on day and evening shift. The licensed nursing will be at a 1 LN to 14 resident or less on days and on nights a 1 LN to 17 residents. This projection is based on custodial Medicaid residents. The licensed nurse ratios will be able to accommodate this type of patient. With the increase of six patients the facility still exceeds the staffing ratios of nursing homes throughout the state. Nursing management will divide the extra six patients amongst them. It will only add an extra two patients to their load of each.

Outside of the direct care staff, an additional six patients will not place unnecessary burdens. The dietary department will be able to produce an extra 6 meals without additional labor. Housekeeping and maintenance will be sufficient with the current labor; we are not adding additional rooms or increasing plant size. The projection of custodial Medicaid residents will have a negligible effect on therapy services; however if they require therapy our department has enough hours in the budget to accommodate six additional clients. Clerical is able to accommodate six extra residents, and it should not cause an undue burden for receptionist, medical records or unit clerk. The HR department will not be affected due to no increase in employees..." [Source: May 3, 2018, Supplemental information page 10]

Evergreen Kitsap provided a listing of the current and projected staff for Northwoods Lodge. The table below, shows the current and projected FTEs for the nursing facility. [Source: Application, Page 25]

(Reproduced Table)

<i>Staffing</i>	<i>Current Number of Employees</i>		<i>Projected Number of Employees</i>	
	<i>Full-Time Equivalent</i>	<i>Consultant hr/week</i>	<i>Full-Time Equivalent</i>	<i>Consultant hr/week</i>
<i>Registered Nurse</i>	12.25		12.25	
<i>LPN</i>	4.5		4.5	
<i>Nurse's Aides & Assistance</i>	25.5		25.5	
<i>NURSING TOTAL</i>				
<i>Dietitians</i>		10		10
<i>Cooks</i>				
<i>Aides</i>	5		5	
<i>DIETARY TOTAL</i>				
<i>Administrator</i>	1		1	
<i>Assistant Administrator</i>	0		0	
<i>Administrator in-training</i>	0		0	
<i>HR Director</i>	.5		.5	
<i>Billing Director</i>	1		1	
<i>Activities Director</i>	.5		1	
<i>Medical Director</i>		2		2
<i>In-service Director</i>	0		0	
<i>Director of Nursing</i>	1		1	
<i>Assistant Director of Nursing</i>	1		0	
<i>Nurse Managers</i>	2		2	
<i>Clerical</i>	4		4	
<i>Housekeeping /Maintenance</i>	5.5		5.5	
<i>Laundry</i>	1.75		1.75	
<i>ADMINISTRATION TOTAL</i>				
<i>Physical Therapist</i>	4.5		4.5	
<i>Occupational Therapist</i>	3		3	
<i>Pharmacist</i>	1.5		1.5	
<i>Medical Records</i>	1		1	
<i>Social Worker</i>	1		1	
<i>Plant Engineer</i>	.5		.5	
<i>Other-Admission coordinator, Driver</i>	2.5		2.5	
<i>ALL OTHERS TOTAL</i>				
<i>TOTAL STAFFING</i>	83.5	12	84	12

Furthermore, to show compliance with this sub-criterion Evergreen Kitsap provided the following statements.

“Northwoods Lodge recruits staff in a variety of ways. When students attend clinical at Northwoods Lodge, our leaders meet with them at the beginning of their clinical assignments and at the end of their assignments. Facility leadership facilitate hiring opportunities with the students and provide them with immediate employment if applicable. The clinical environment and experience is conducive to recruitment.

In addition to serving as a clinical site, Northwoods recruits utilizing various advertising sites, social media, and our website and street level signs.

In this competitive healthcare job market the facility employs several different tactics for retention. They include; competitive wages with the senior living market, opportunities for promotion within the company, active leadership to resolve employee grievances, celebrations, empowerment, annual wage increases and educational opportunities.

Northwoods Lodge has maintained better than adequate staffing levels. Our staffing rating on CMS Nursing Home Compare is far greater than average. The facility has maintained excellent staffing ratios for the past two decades without utilizing contract staffing agencies”. [Source: May 3, 2018, Supplemental information 14]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

Evergreen Kitsap FTEs presentation in the application is broken down into three sub-total categories. For nursing staff, the applicant includes all RNs, LPNs, and nursing assistants in the ‘nursing’ category. For ‘dietary’ Evergreen Kitsap included cooks and dietary aides. For ‘administration’, Evergreen Kitsap includes the administrator, billing director, medical director, in-service director, activities director, director of nursing, housekeeping/maintenance, and laundry personnel. For the all others Evergreen Kitsap included all therapists, pharmacist social worker, other admission coordinator, and facility plant/maintenance.

As stated in the management services and sublease agreement Santé Operations, LLC is responsible for the nursing facility day-to-day operations including staffing. To assure that staffing would be available to be hired, the applicant states:

“Northwoods Lodge has a contract with Olympic College Nursing Program. We are the clinical site for Registered Nurses and Certified Nursing Assistants. In addition to Olympic College, Northwoods has a contract with Care Plus Training Center. Care Plus utilizes Northwoods Lodge for a clinical site for Certified Nursing Assistants. We have a long standing relationship with these institutions that results in a supply of nursing staff. Northwoods Lodge now has the highest staffing ratio in the county and will not need to add any staff, except a .5 FTE activities director, to provide for the new residents”. [Source: Application page 26]

In Kitsap County beside Evergreen Kitsap, Bainbridge Island Health and Rehab is the only other nursing home with similar number of beds providing services in the county. Evergreen Kitsap did not provide information about Bainbridge Island Health and Rehab direct care hour data. To compare how Evergreen Kitsap staffing pattern compare to Bainbridge Island Health and Rehab and Washington nursing homes average, the department reviewed the CMS Nursing Homes Compare staffing information. The result of that review is shown in the table below.

**Table 6
Comparison staffing Evergreen Kitsap vs. Bainbridge Island Health and Rehab**

	Northwoods Lodge	Bainbridge Island Health & Rehab	Washington Average	National Average
Average number of residents per day	42.0	52.2	74.3	85.3
Total number licensed nurse staff per day	3 hours & 9 mins	1 hour & 16mins	1 hours & 45 mins	1 hour and & mins
RN hours per resident per day	2 hours & 14 mins	1 hour & 16 mins	1 hour	41 minutes
LPN/LVN hours per resident day	55 minutes	32 minutes	45 minutes	53 minutes
Nurse aide hours per resident per day	3 hours & 13 mins	2 hours & 1 min	2 hours & 32 mins	2 hours & 20 mins
Physical therapist staff hours per resident per day	37 minutes	15 minutes	8 minutes	7 minutes

[Source: <https://www.medicare.gov/NursingHomeCompare/compare.html#>]

As shown in the table above, based on Evergreen Kitsap staffing hours and minutes, it appears the applicant staffing hours is higher than Bainbridge Island Health and Rehab, Washington; and the national average. As shown in the table below, when the ten beds are added to capacity, Evergreen Kitsap projected that the number of staff per patient will decrease slightly, but when this is compared to Washington and the national average, it show that Evergreen Kitsap nursing hours per patient day is better.

**Table 7
Northwoods Lodge Nursing Hours per Patient Day**

	# of Beds	RN	LPN	Nursing Assistants	Total
Northwood Lodge	57	2.10	1.05	6.44	6.44

As shown in the table above, based on the number of beds that will be operational at Northwoods Lodge, the department concludes that the projected nursing hours per patient day by Evergreen Kitsap is comparable to similar size nursing homes in the planning area. Based on the information, the department concludes Evergreen Kitsap has adequate staffing, and can recruit qualified staffing to the nursing home. **This sub criterion is met.**

- (2) The proposed service(s) will have an appropriate relationship, including organizational relationship, to ancillary and support services, and ancillary and support services will be sufficient to support any health services included in the proposed project.

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

Evergreen Kitsap

To comply with the sub-criterion, Evergreen Kitsap provided a listing of the healthcare facilities that it currently has ancillary and support services relationship with. Listed below are the providers and services offered.

- Lab and x-ray—Trident
- Pharmacy—Northwoods Lodge Pharmacy (in-house)
- Therapy—Northwoods Lodge Therapy (in-house)
- Oxygen—SMS
- Medical Supplies—McKesson
- Recover Care—specialty beds
- KCI—wound vacs
- DME—Bellevue Medical

Information provide by Evergreen Kitsap states, “*We do not expect any changes to the existing ancillary and support service agreements*”. [Source: May 3, 2018 Supplemental information page 12]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

Information within the application stated that Northwood Lodge is operated and managed by Santé Operations, LLC and a sublease and management contract for day-to-day operations of the skilled nursing facility was also provided. The Interim Management Agreement and Sublease outlines the specific roles and responsibilities for all the entities involved. [Source: May 3, 2018 Appendix 5]

According to the applicant, therapy and pharmacy services are provided in-house by Northwoods Lodge. The applicant provided a copy of its affiliation agreement with Olympic College Nursing Programs and a copy of its agreement with Care Plus Home health, Inc., Both agreements identifies the responsibilities of all parties involved. [Source: May 3, 2018, Supplemental information Appendix 25] Evergreen Kitsap identified Dr. Atif Mian as the medical director for Northwoods Lodge. The medical director position is compensated and the amount was identified in financial statement schedule G provided by the applicant. The applicant also provided a copy of the medical director's contract and it identifies the roles and duties of the medical director. [Source: June 15, 2018, Supplemental information page 17]

Based on the statements and the documentation provided by Evergreen Kitsap, the department concluded there is reasonable assurance that Northwoods Lodge will continue to have and maintain relationships with ancillary and support services in the community and this project would not negatively affect those relationships. **This sub-criterion is met.**

- (3) *There is reasonable assurance that the project will be in conformance with applicable state licensing requirements and, if the applicant is or plans to be certified under the Medicaid or Medicare program, with the applicable conditions of participation related to those programs.*

WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2)(a)(i). There are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

Evergreen Kitsap

To comply with this sub criterion, information provided in the application states, "See attachment C.5". [Source: Application page 27] The applicant provided a copy of its most recent Medicare/Medicaid quality of care survey. The document shows that Northwoods Lodge was cited for quality of care violations. Evergreen Kitsap provided a plan of correction, which was accepted and the facility did not have to stop operating.

Public Comment

None

Rebuttal Comment

None

Department Evaluation

As stated in the background section of this evaluation, Evergreen Kitsap, LLC has extensive affiliations with many entities and those entities also have affiliations with other entities. In the background section, it was noted that Evergreen Kitsap, LLC is the same as Northwoods Lodge and that EmpRes Healthcare Management, LLC is a subsidiary of Evergreen Kitsap. The interim management agreement provided in this application, identified Santé Operation, LLC and Santé SNF Op Co, LLC, as Northwoods Lodge nursing facility ("Tenant"), and NHI-REIT of Washington, LLC as the nursing facility ("Landlord"), and Santé Partners, LLC an Arizona limited liability company as the nursing home ("Purchaser"). [Source: May 3, 2018, Supplemental information, Appendix 5 and www.npidb.org/organization/nursing]

Those entities affiliated with Evergreen Kitsap own or operate healthcare facilities either in Washington or outside the state. As part of this review, the department must conclude that the services provided by Northwoods Lodge managed and operated Santé Operation, LLC, Evergreen Kitsap, and its affiliates within or outside the state are provided in a manner that ensures safe and adequate care to the public.⁵ To accomplish this task, the department reviewed the quality of care compliance history of all licensed healthcare facilities owned, operated, or managed by the applicant, its affiliations, the management entity and subsidiaries. This review include reviewing the quality of care information reported by the Centers for Medicare and Medicaid Services (CMS) and state licensing survey results.

⁵ WAC 246-310-230(5).

CMS assigns a one to five ‘star rating’ in three separate categories to grade the performance of a facility and this are health inspection, staffing, and quality of care.

Health Inspection

This is a measure of the facility’s ability to care for patients in a safe environment and provide appropriate nutrition and dietary services to each patient. This category also includes any pharmacy services, administration, and fire safety inspections.

Staffing

For the staffing category, CMS measures staff hours for RNs, LPNs, licensed vocational nurses, and certified nursing assistants. CMS also measures the amount of time registered nurses spend with residents.

Quality

This is a review of the quality of care provided for both long term residents and short stay residents. This category collects the number of patients with reoccurring health issues, such as Urinary tract Infections, pressure ulcers, moderate to severe pain, and falls. Based on the star rating in each of the three categories, CMS compiles an ‘overall rating’ for the facility and the more stars received by the facility, the better the rating.

Northwoods Lodge received an overall rating of 4 or 5 stars. A review of Northwoods Lodge quality of care inspections for years 2018, and 2017 revealed that the facility was cited for quality of care issues. According to CMS data, the average number of deficiencies for nursing homes in the state of Washington is 10.2 and the average number of deficiencies for nursing homes across the United States is 5.8 In 2017, Northwoods Lodge was cited for 4 deficiencies, and in 2018, the citations decreased to 11⁶ deficiencies. The majority of the deficiencies cited are considered ‘minimal harm or [minimal] potential for actual harm. The applicant plan of corrections was accepted by CMS.

CMS Star Rating for Washington State Facilities

The applicant or EmpRes Healthcare Management, LLC and its affiliate or subsidiary owns, operates, or manages healthcare facilities in Washington. Listed below in Table 8 are star rating for those facilities.

**Table 8
Evergreen /EmpRes Healthcare Management Washington State Facilities**

Facility Name	CMS Certification Number	CMS Star Rating
Evergreen Washington Healthcare Frontier, LLC	50-5278	4
Evergreen Washington Healthcare Americana, LLC	50-5361	5
Evergreen Washington Healthcare Whitman, LLC	50-5251	5
Evergreen Washington Healthcare Seattle, LLC	50-5311	5
Evergreen Washington Healthcare Enumclaw, LLC	50-5400	3
Evergreen Washington Healthcare Auburn, LLC	50-5344	2
Evergreen at Shelton, LLC	50-5507	3
Evergreen at Park Royal, LLC	50-5288	3

⁶ Checking CMS start ratings on July 31, 2018.

Facility Name	CMS Certification Number	CMS Star Rating
Evergreen at Bellingham, LLC	50-5393	5
Evergreen at Tacoma, LLC	50-5483	5
Evergreen at Alderwood, LLC	50-5092	4
EmpRes at Highland Care, LLC	50-5140	2
EmpRes at Snohomish, LLC	50-5338	5
Spokane Royal Park Care, LLC	50-5379	5
EmpRes at Colville, LL	50-5329	5
EmpRes at Auburn, LLC	50-5355	5

As shown on the table above 87.5% or 14 of facilities own or operates by Evergreen Kitsap, its affiliates or subsidiary in Washington State show a three or better star rating.

CMS Star Rating for Out of State Facilities

The applicant or its subsidiary EmpRes Healthcare Management, LLC, and its affiliates owns, operates, or manages healthcare facilities in California, Idaho, Montana, Nevada, Oregon, and Wyoming. Listed below in Table 9 are star rating for those facilities.

**Table 9
Evergreen /EmpRes Healthcare Management Out of State Facilities**

Facility Name/ City and State	CMS Certification Number	CMS Star Rating
<u>California</u>		
Evergreen at Petaluma, LLC / Petaluma, CA	05-6120	5
Evergreen at Salinas, LLC / Salinas, CA	05-5311	5
Evergreen at Tracy, LLC / Tracy, CA	55-5245	5
Evergreen at Heartwoods Avenue, LLC / Vallejo, CA	55-5184	4
Evergreen at Springs Road, LLC / Vallejo, CA	05-5222	5
<u>Idaho</u>		
EmpRes at Idaho Falls, LLC / Idaho Falls, Idaho	13-5138	2
Lewiston Royal Plaza Care, LLC/ Lewiston , Idaho	13-5116	5
<u>Montana</u>		
Evergreen at Poison, LLC / Polson, Montana	27-5049	4
Evergreen at Hot Springs, LLC / Hot Springs, Montana	27-5069	5
Evergreen at Missoula, LLC / Missoula, Montana	27-5035	5
Evergreen at Laurel, LLC / Laurel, Montana	27-5111	2
Evergreen at Livingston, LLC / Livingston, Montana	27-5047	4
EmpRes at Lewiston, LLC / Lewistown, Montana	27-5064	5
EmpRes at Shelby, LLC / Shelby, Montana	27-5061	2
EmpRes at Billings, LLC / Billings, Montana	27-5140	4
<u>Nevada</u>		
Evergreen at Pahrump, LLC / Pahrump, Nevada	29-5073	4
Evergreen at Carson, LLC / Carson City, Nevada	29-5067	4

Facility Name/ City and State	CMS Certification Number	CMS Star Rating
Evergreen at Mountain View, LLC / Carson City, Nevada	29-5079	4
Evergreen at Gardnerville, LLC / Gardnerville, Nevada	29-5082	5
<u>Oregon</u>		
Evergreen Oregon Healthcare Mountain Vista, LLC / LA Grande, Oregon	38-5211	3
Evergreen Oregon Healthcare Independence, LLC / Independence, Oregon	38-5188	5
Evergreen Oregon Tualatin, LLC / EmpRes Hillsboro Health and Rehab Center / Hillsboro, Oregon	38-5217	5
Evergreen Oregon Healthcare Orchards Rehab, LLC / Milton Freewater Health and Rehab Center, Milton Freewater, Oregon	38-5161	4
Evergreen Oregon Healthcare Valley Vista, LLC / The Dalles Healthcare and Rehab Center, The Dalles, Oregon	38-5172	5
Evergreen Oregon Healthcare Portland, LLC / Portland Health and Rehab Center / Portland, Oregon	38-5228	5
Evergreen Oregon Healthcare Salem, LLC / Windsor Health and Rehab Center / Salem, Oregon	38-5224	3
<u>Wyoming</u>		
EmpRes at Rock Springs, LLC / Rock Springs, Wyoming	53-5056	4
EmpRes at Cheyenne, LLC / Cheyenne, Wyoming	53-5013	3
EmpRes at Rawlings, LLC / Rawlings, Wyoming	53-5036	3
EmpRes at Riverton, LLC / Wind River Rehab and Wellness/ Riverton, Wyoming	53-5031	4
EmpRes at Thermopolis, LLC / Thermopolis, Wyoming	53-5051	1

As shown in the table above 87.1% of the facilities own or operated by Evergreen Kitsap, its affiliates, and/ or subsidiary outside of Washington State show a three or better star rating. However four facilities⁷ as shown in the tables received a rating of two or one star rating that are below average. The department reviewed those facilities quality of care history to determine why they were assigned star rating that are below average. The department review of those facilities deficiency citations shows that most of the deficiency cited were in the area of quality of life and care, complaints and residential assessments and care planning. The facilities submitted plans of correction that were accepted by Medicare. Based on the acceptance of those facilities plan of care corrections by Medicare, the department concludes those facilities quality of care are acceptable. The department is not aware that any of the facilities were required to stop operating.

⁷ The facilities receiving one or two star ratings: located in Idaho EmpRes at Idaho Falls, LLC; in Montana Evergreen at Laurel, LLC and EmpRes at Shelby, LLC; and in Wyoming EmpRes at Thermopolis, LLC.

CMS quality of patient care star rating for home health agencies summarizes 8 of the 23 quality measures reported on Home Health Compare. It provides a single indicator of an agency's performance compared to other agencies.

- A 4- or 5-star rating means that the agency performed better than other agencies on the 8 measured care practices and outcomes.
- A 1- or 2-star rating means that the agency's average performance on the 8 measured care practices and outcomes was below the averages of other agencies.
- Across the country, most agencies fall "in the middle" with 3 or 3½ stars⁸.

To further evaluate the quality of care history of the applicant, the department reviewed the quality of care history of the home health agencies own or operated by Evergreen Kitsap, its affiliates, and/ or subsidiary in Washington State or out of state. Below in Table 10 are the home health agencies and their Medicare star ratings.

Table 10
Evergreen /EmpRes Healthcare Management Home Health Agencies

Facility Name/ City and State	CMS Star Rating
EmpRes Home Health of Bellingham, LLC, WA	4
Eden Home Health of Elk Grove, LLC / Elk Grove, CA	2
Eden Home Health of Idaho Falls, LLC, Idaho Falls, Idaho	4.5
Quality Health Care Corporation/Eden Home Health / Carson City, Nevada	5

As shown in the table above 75% or three out of four of the facilities own or operated by Evergreen Kitsap, its affiliates, and/ or subsidiary in Washington State or outside of the state shows four stars or better star rating. The only exception is Eden home of Elk Grove in Elk Grove, California with two stars. CMS did not provide information about what may be happening at the agency or why the agency received low star rating.

The Department of Health Investigations and Inspections Office (HIO) conducts quality of care and compliance surveys for home health services in Washington. Records indicate that HIO completed at least two recent compliance survey for EmpRes Home Health of Bellingham in January 2015 and most recently in May 2017. The compliance surveys found no significant deficiencies [Source: facility survey data provided by the Investigations and Inspections Office]

Given the compliance history of Evergreen Kitsap, EmpRes Healthcare Management, LLC and its affiliate or subsidiaries the department concluded there are reasonable assurances that Northwoods Lodge will continue to be operated and managed in conformance with applicable state and federal licensing and certification requirements. **This sub criterion is met.**

(4) The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area's existing health care system.

WAC 246-310 does not contain specific WAC 246-310-230(4) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs how to measure unwarranted fragmentation of services or what types of relationships with a services area's existing health care system should be for a

⁸ <http://www.CMS.Gov/homehealth/compare/profile>

project of this type and size. Therefore, using its experience and expertise the department assessed the information provided in the application.

Evergreen Kitsap

“Northwoods Lodge rests on the easterly end of a 13.4 acre campus better known as Encore Communities. This campus consists of the aforementioned (currently) 47 bed nursing home, a 48 unit assisted living facility known as Clearbrook Inn Living Center, and 43 independent living cottages known as Country Meadows Cottages. In addition to providing a full continuum of care where the elders can literally age in place in a beautiful, well-kept and well cared for campus, intermediate transition and care is easily available between our assisted living and nursing home facilities. Northwoods Lodge has partnered for the past twenty years with the community to provide patients with continuity of care.

Northwoods works extensively with Kindred Home Health, Harrison Home Health, Franciscan Hospice, Home Care agencies, Memory Care, Assisted Living and Adult Family Home providers to assist patients with follow up care needs. Northwoods has a strong relationship with the primary hospital in Kitsap County, Harrison Medical Center. Northwoods staff participate in community forum spearheaded by the Medical Center for patient care improvement initiatives”. [Source: Application page 27]

To show further compliance with this sub criterion, the applicant also provided this statements, Evergreen Kitsap states:

“This project promotes continuity in the provision of health care services by providing increased access to people requiring short term rehabilitation or care following their rehab stay. The additional beds will allow access to patients throughout the month requiring placement. We currently reach capacity at various times throughout the month and have to deny admissions. When patients complete their rehab stay, the additional beds will accommodate placement if they are unable to return to their prior living situation. Northwoods Lodge has been an active participant over the last twenty years in promoting continuity of health services. Our campus consists of skilled nursing, assisted living and independent living. We work closely and have relationships with other community providers to ensure residents have seamless transitions between levels of care. This project allows for additional residents to remain at the facility if and when appropriate. [Source: May 3, 2018, supplemental information, page 14]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

In response to this criterion, Evergreen Kitsap states it has existing long-term relationships with healthcare entities in Kitsap County and has been providing skilled nursing services at Northwoods Lodge for many years. Given that the applicant provided an executed management and lease services agreement that would allow Santé Operation, LLC and its affiliate or subsidiaries to continue to provide management and day-to-day services at Northwoods Lodge, the department concludes that Evergreen Kitsap has demonstrated that the Northwoods Lodge will continue to appropriately participate in relationships with community facilities in the

planning area. There is nothing in the materials reviewed by staff that suggests that approval of this project would change those relationships.

Based on this information, the department concludes that approval of this project would promote continuity in the provision of health care for the planning area, and would not result in an unwarranted fragmentation of services. **This sub-criterion is met.**

- (5) *There is reasonable assurance that the services to be provided through the proposed project will be provided in a manner that ensures safe and adequate care to the public to be served and in accord with applicable federal and state laws, rules, and regulations.*

Evergreen Kitsap

To comply with this sub criterion, information provided in the application states, “See attachment C.5”. [Source: Application page 27]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

This sub-criterion is addressed in sub-section (3) above and is **considered met.**

D. Cost Containment (WAC 246-310-240)

Based on the source information reviewed and the applicant’s agreement to the conditions identified in the conclusion section of this evaluation, the department determines that Evergreen Kitsap, LLC has met the cost containment criteria in WAC 246-310-240.

- (1) *Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.*

To determine if a proposed project is the best alternative, the department takes a multi-step approach. Step one determines if the application has met the other criteria of WAC 246-310-210 thru 230. If it has failed to meet one or more of these criteria then the project is determined not to be the best alternative, and would fail this sub-criterion.

If the project has met the applicable criteria in WAC 246-310-210 through 230 criteria, the department then assesses the other options considered by the applicant. If the department determines the proposed project is better or equal to other options considered by the applicant and the department has not identified any other better options this criterion is determined to be met unless there are multiple applications.

If there are multiple applications, the department’s assessment is to apply any service or facility superiority criteria contained throughout WAC 246-310 related to the specific project type. The superiority criteria are objective measures used to compare competing projects and make the determination between two or more approvable projects, which is the best alternative. If WAC 246-310 does not contain any service or facility type superiority criteria as directed by WAC 246-310-200(2) (a)(i), then the department would look to WAC 246-310-240(2)(a)(ii) and (b) for criteria to make the assessment of the competing proposals.

If there are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b), then using its experience and expertise, the department would assess the competing projects and determine which project should be approved.

Evergreen Kitsap

“There really was no other practical alternative. If the applicant does nothing, the bed rights will expire and be lost. The small size of the requested bed approval makes it impractical to be a stand-alone facility, financially, operationally and functionally. The only alternative is to increase the number of beds at an existing facility operated by the applicant, which is precisely what this application does. The configuration will increase the number of beds available to Medicaid residents, and particularly those who convert from Medicare. Along with the efficiencies that we have described above, the consumer will get the advantage of less trauma in the conversion from Medicare to Medicaid. The facility has the staff and expertise and can take care of the converting residents with little impact to the other residents”. [Source: May 3, 2018, supplemental information, page 15]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

For this project, Northwoods Lodge is the only applicant that submitted application in Kitsap County and is has met the review criteria in the applicable sections of WAC 246-210, WAC 246-310-220, and WAC 246-310-230. Therefore, the department reviews the proposed alternatives by the applicant. Information within the application showed that Evergreen Kitsap did not considered any other alternative besides unbanking the banked. The ten banked beds by the applicant when unbanked, will be used to admit more patients needing long term rehab. The applicant stated that the beds will also be used to admit Medicaid patients. The department did not identify any other alternatives that would equal to or superior to the applicant rationale for unbanking the beds. Based on the source information evaluated the department concludes that **this sub-criterion is met.**

(2) In the case of a project involving construction:

- (a) The costs, scope, and methods of construction and energy conservation are reasonable; and*
- (b) The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.*

Evergreen Kitsap

“There will be no construction, so no efficiencies from construction techniques are involved with this project”. [Source: May 3, 2018, supplemental information, page 15]

Public Comment

None

Rebuttal Comment

None

Department Evaluation

These sub-criterion are evaluated within the financial feasibility criterion under WAC 246-310-220(2) **these sub-criterion are met.**

(3) The project will involve appropriate improvements or innovations in the financing and delivery of health services which foster cost containment and which promote quality assurance and cost effectiveness.

Evergreen Kitsap

“... by increasing the number of residents in the 10 rooms involved in the project, the revenue generated in the rooms will increase, potentially up to double, and the costs will be borne by a higher number of residents and costs are largely fixed. Thus, we expect that efficiency will increase, as more services will be provided without a corresponding increase in cost”.

Public Comment

None

Rebuttal Comment

None

Department Evaluation

This project has the potential to improve delivery of nursing home services to the residents of Kitsap County and communities surrounding Silverdale. The department is satisfied the project is appropriate and needed. **This sub-criterion is met.**