



STATE OF WASHINGTON
DEPARTMENT OF HEALTH

July 15, 2015

CERTIFIED MAIL # 7014 2120 0002 7587 6156

Rick Weaver, Board Member
Heritage Grove
402 S 4th Avenue
Yakima, Washington 98902

RE: CN15-21

Dear Mr. Weaver:

We have completed review of the Certificate of Need (CN) application submitted by Heritage Grove Corp. to construct a 97-bed Medicare and Medicaid certified skilled nursing facility in Yakima County. For reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided Heritage Grove Corp. agrees to the following in its entirety.

Project Description:

Heritage Grove is approved to construct a 97-bed Medicare and Medicaid certified nursing facility in the city of Yakima within Yakima County by converting 97 beds banked under the full facility closure provisions of Revised Code of Washington 70.38.115(13)(b). The 97-bed skilled nursing facility upon licensure would be managed by Prestige Care, Inc. under a management services agreement. Heritage Grove will be the initial licensee of the 97-bed facility.

Conditions:

1. Heritage Grove agrees with the project description as stated above. Heritage Grove 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. Prior to providing services, Heritage Grove will provide copies of the listed adopted policies and agreements below for the department's review and approval.
 - Interim Management Agreement
 - Purchase and Sales Agreement
 - Operating Lease
 - Interim Operating Lease
 - Medical director credential number and Agreement



Copies of policies that have been adopted must be consistent with the draft policies provided in the application.

3. Heritage Grove will obtain Medicare and Medicaid provider numbers for Heritage Grove SNF within 60 days of the licensure of the facility.
4. Heritage Grove must maintain its Medicare and Medicaid certification throughout the life of the facility, regardless of ownership.
5. Heritage Grove and any subsequent owners of the skilled nursing facility must not develop any policies or practices that discriminate against admission of patients based on payer source.

Approved Cost:

The approved capital expenditure associated with this project is \$18,665,494.

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:

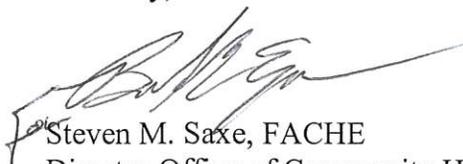
Department of Health
Certificate of Need Program
Mail Stop 47852
Olympia, WA 98504-7852

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,



Steven M. Saxe, FACHE
Director Office of Community Health Services

Enclosure

EVALUATION DATED JULY 15, 2015 OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY HERITAGE GROVE PROPOSING TO CONSTRUCT A 97 BED MEDICARE AND MEDICAID CERTIFIED SKILLED NURSING FACILITY IN THE CITY OF YAKIMA WITHIN YAKIMA COUNTY

APPLICANT DESCRIPTION

Heritage Grove is a private, non-profit corporation, incorporated in the state of Washington. [Source: CN Historical files] The sole members of the Heritage Grove Corp. are Yakima Comprehensive Mental Health and Yakima Memorial Hospital. Heritage Grove Corp. operated Heritage Grove Skilled Nursing Facility (SNF) prior to its closure and full facility banking of the beds.

BACKGROUND INFORMATION

The facility will open as Heritage Grove SNF and the facility will be leased from Yakima Valley Ventures. Heritage Grove SNF will be managed by Prestige Care, Inc. under a management agreement. There is no relationship between Heritage Grove Corp. and Prestige Care, Inc. A change of ownership will be requested after opening. The new owner will be Care Center (Yakima), Inc. Care Center (Yakima), Inc. is a Washington registered corporation (UBI 603451469) and is a wholly owned subsidiary of Prestige Care, Inc. Care Center (Yakima) will be the eventual operator and will lease the facility from Yakima Valley Ventures, LLC. Yakima Valley Ventures, LLC is a Washington registered limited liability company, (UBI 603451517). Yakima Valley Ventures, LLC has common ownership with owners of Prestige, Inc.

PROJECT DESCRIPTION

Heritage Grove is approved to construct a 97-bed Medicare and Medicaid certified skilled nursing facility in Yakima within Yakima County by converting 97 beds banked under the full facility (SNF) closure provisions of Revised Code of Washington 70.38.115(13)(b). The 97-bed skilled nursing facility upon licensure would be managed by Prestige Care, Inc. under a management services agreement. Heritage Grove will be the initial licensee of the 97-bed facility. The 97-bed facility will have 55 private rooms and 20 two-bed rooms and two specialty rooms. [Source: Application, Pages 5 and 6]

Services to be provided include skilled nursing, physical and speech therapies, and related services to Medicare, Medicaid, and private pay patients. Hospice and bariatric and dialysis services will also be offered under contract. [Source: Application pp12-14] If the project is approved, the 97-bed Heritage Grove will be operational by the end of August 2016.

The initial role of Heritage Grove Corp. is to construct a 97-bed community-based nursing home using 97 beds banked in 2009 under a full facility closure. The new facility will be operated by Prestige Care, Inc. under a management services and lease agreement.

Prestige is responsible for the following:

- all employment activities;
- maintenance of the facility's physical plant and equipment;
- maintenance and retention of all records in accordance with all applicable laws and regulations;

- establishment and maintenance of all financial activities in accordance with all applicable laws and regulations;
- providing patient care as required under applicable regulations and standards for skilled nursing facilities;
- complying with all statutes and regulations of government authorities applicable to the operation of the facility. [Source: February 3, 2015 Supplemental Materials Attachment E-3]

Heritage submitted this application and provided copies of the following agreements between the various entities.

- Draft Interim Management Agreement,
- Purchase and Sales Agreement; and
- Draft Operating Lease
- Draft Interim Operating Lease

Below are summaries of the four agreements provided in the application by Heritage.

Interim Management Agreement

The interim management agreement for the skilled nursing home is between Chalet Healthcare, Inc. dba Heritage Grove and Prestige Care, Inc. (Manager). The recitals of the agreement are shown below.

- Licensee hold a valid operating license (the "License") from the State of Washington (the "State") Department of Social and Health Services ("DSHS") to operate, and is and has been operating, a skilled nursing facility comprised of ninety seven (97) Medicaid and Medicare-certified skilled nursing facility beds facility located at 1120 South 48th Avenue, Yakima, Washington 98902 commonly known as Heritage Grove (the "Facility"). A true and complete copy of the License is attached hereto as Schedule I;*
- Manager has agreed to lease the Facility pursuant to the terms of a Lease Agreement dated as of February____, 2 015 by and between Yakima Valley Ventures, LLC, an Oregon limited liability company as Landlord ("Owner") and Manager as Tenant (the "Lease");*
- Licensee has transferred all operations in the Facility to Manager under a separate Operations Transfer Agreement of even date herewith (the "Transfer Agreement") and has Interim leased the Facility from Manager under an Interim Lease Agreement of even date herewith (the "Interim Lease"); and*
- Manager has applied for a license to operate the Facility under its own name and license as it is currently being operated (a copy of which application has been provided to Licensee), and desires to manage the Facility for and on behalf until Manager procures its own license for the Facility.*

Purchase and Sales Agreement

Prestige has a contingent Purchase and Sale Agreement with Almon Family Investments, LLC to purchase the real estate where the proposed new SNF will be located. The SNF will be located on Yakima County Assessor's Parcel # 181328-41423. The address for the facility is 1128 S

48th Avenue, Yakima Washington. The purchase and sales agreement states it is the purchaser’s intent to construct an assisted living/skilled nursing facility and related activities on the property. That purchase and sales agreement allows for the purchase to be finalized once certain contingencies are met, including approval of the CN application. The right to the property is assignable and will be assigned to Yakima Valley Ventures, LLC. The purchase and sales agreement will be executed upon approval of the CN. [Source: Application, pg8 & Purchase and Sale Agreement Attachment D]

Operating Lease

Yakima Valley Ventures, LLC has a draft operating lease with Care Center (Yakima) to operate, and maintain the proposed facility as a SNF. This lease would be executed after the facility has been opened by Heritage and initially operated by Prestige. [Source: Application, Attachment E]

Draft Interim Operating Lease

The draft interim operating lease is between Prestige Care, Inc. or assigns (the “Landlord”) and Heritage Grove. This lease describes the roles and responsibilities for both organizations prior to and immediately after the construction of the new SNF. Both parties will operate under the terms of this lease until the permanent operating lease is executed. [Source: Application Attachment E.1]

The capital expenditure associated with this project is \$18,665,494. Information in the application stated, *“While Heritage is the applicant, all cost of the project will be borne by Prestige.* [Source: Application, Attachment J]

Prestige Care, Inc. (Prestige)

Prestige Care, Inc. is a Washington corporation with headquarters located in Vancouver, Washington. Prestige Care, Inc. started in Oregon in 1985 and has grown to include facilities in Alaska, Arizona, California, Idaho, Montana, and Oregon. Prestige currently operates facilities in over 70 locations. [Source: Application, Attachment A & prestigecare.com] Prestige operates 16 skilled nursing facilities in Washington as shown below

Nursing and Rehabilitation	City
Discovery Nursing & Rehabilitation	Vancouver
Prestige Care & Rehabilitation	Burlington
Renton Nursing & Rehabilitation Center	Renton
Tacoma Nursing & Rehabilitation Center	Tacoma
Puyallup Nursing & Rehabilitation Center	Puyallup
Prestige Post-Acute & Rehab Center	Centralia
Prestige Care & Rehabilitation-Camas	Camas
Prestige Care & Rehabilitation Center-Kittitas Valley	Ellensburg
Royal Vista Nursing & Rehab	Ellensburg
Prestige Care & Rehabilitation-Parkside	Union Gap
Toppenish Nursing & Rehab	Toppenish
Prestige Care & Rehabilitation-Sunnyside	Sunnyside
Prestige Care & Rehabilitation-Clarkston	Clarkston
Prestige Care & Rehabilitation-Pinewood Terrace	Colville
Richland Rehab Center	Richland
Prestige Care & Rehabilitation of Edmonds	Edmonds

Upon CN approval, Heritage Grove anticipates it would begin the construction of the SNF to accommodate the 97 beds.

According to the management services and lease agreement, and the purchase and sale agreement provided within the application, Prestige would provide the day-to-day management and operation of the 97-bed skilled nursing facility and it would ensure compliance with all state and federal laws for the duration of the agreement with Heritage Grove.

The capital expenditure associated with the 97 beds is \$18,665,994. Of that total amount, approximately 67.41% is related to construction costs and site inspection, 21.9% is related to land and site prep, 9.72% is related to moveable equipment, and 0.96% is related to fees. [Source: Application, p17]

For ease of reference the applicant and the proposed skilled nursing facility will be referred to as “Heritage Grove”. Prestige Care, Inc. will be referred to as “Prestige”.

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to review under Revised Code of Washington 70.38.105(4)(a) and Washington Administrative Code 246-310-020(1) as the establishment of a new healthcare facility.

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 for the establishment of a nursing home typically includes a demonstration need for the new nursing home 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, Heritage Grove was the licensee of the 97-bed Heritage Grove nursing home for more than 12 months before the facility closed. When the facility closed, Heritage Grove banked all 97 beds; therefore, for this project under WAC 246-310-210(1) and (6) need for those beds is deemed met. As a result, the department’s review will focus on applicable portions of need (WAC 246-310-210); financial feasibility (WAC 246-310-220), structure and process of care (WAC 246-310-230), and cost containment (WAC 246-310-240).¹

TYPE OF REVIEW

Generally, nursing home applications are reviewed under a concurrent review cycle. For Yakima County, the relevant current review cycle is outlined in WAC 246-310-130(5)(b). However, since the need criteria under WAC 246-310-210(1) and (6) are deemed met, the department has accepted this type of project under the regular review timeline as outlined in WAC 246-310-160, which is summarized below.

¹ Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this amendment project: WAC 246-310-210(1), (3), (4), (5), and (6).

APPLICATION CHRONOLOGY

Action	Heritage Grove
Letter of Intent Submitted	October 13, 2014
Application Submitted	January 8, 2015
Department's Pre-review Activities including	
• DOH 1st Screening Letter	January 30, 2015
• Applicant's Screening Responses Received	February 13, 2015
Public Comment	
• Public comments accepted through	April 2, 2015
• Public hearing conducted	April 2, 2015
Rebuttal Comments Received	April 29, 2015 ²
Department's Anticipated Decision Date	June 15, 2015
Department's Actual Decision Date	July 15, 2015

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."*

Throughout the review of this project, six people sought and received affected persons status under WAC 246-310-010(2). Listed below are the names of affected persons.

H. Norman Hyatt received affected person status on behalf of Selah Care and Rehab. Mr. Hyatt also represents Hyatt Corporation.

Mike Hoon, Administrator of Emerald Care received affected person status.

Aaron Hill, Administrator I.T. of Willow Springs received affected person status.

Gloria Dunn, Administrator of Landmark Care and Rehabilitation received affected person status.

Molli Harrington, RN-LNHA Administrator of Crescent Health Care received affected person status.

Randall Hyatt CFO, Hyatt Family Facilities received affected person status.

² Initial mailing of public comments was not received by applicant in a timely manner. The department mailed public comments to all parties again on April 15, 2015.

SOURCE INFORMATION REVIEWED

- Heritage Grove's Certificate of Need application received on January 8, 2015
- Heritage Grove's supplemental information received February 13, 2015
- Public comments received by the department at the public hearing on April 2, 2015
- Rebuttal comments from Heritage Grove received April 29, 2015
- Department of Social and Health Services, Office of Rates Management Medicaid rate projections for 97 beds
- Quality of Care data obtained from Department of Social and Health Services
- Centers for Medicare and Medicaid website nursing homes quality of care compliance history [www.medicare.gov/NursingHomeCompare/compare.search.html#]
- Washington State Secretary of State website at [<http://www.sos.wa.gov>]
- CN Historical Files

CONCLUSION

For the reasons stated in this evaluation, the application submitted by Heritage Grove to construct a 97-bed Medicare and Medicaid certified skilled nursing facility in Yakima County is consistent with applicable criteria of the Certificate of Need Program, provided Heritage Grove agrees to the following in its entirety.

Project Description:

Heritage Grove is approved to construct a 97-bed Medicare and Medicaid certified nursing facility in the city of Yakima within Yakima County by converting 97 beds banked under the full facility closure provisions of Revised Code of Washington 70.38.115(13)(b). The 97-bed skilled nursing facility upon licensure would be managed by Prestige Care, Inc. under a management services agreement. Heritage Grove will be the initial licensee of the 97-bed facility.

Conditions:

1. Heritage Grove agrees with the project description as stated above. Heritage Grove 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. Prior to providing services, Heritage Grove will provide copies of the listed adopted policies and agreements below for the department's review and approval.
 - Interim Management Agreement
 - Purchase and Sales Agreement
 - Operating Lease
 - Interim Operating Lease
 - Medical director credential number and Agreement

Copies of policies that have been adopted must be consistent with the draft policies provided in the application.

3. Heritage Grove will obtain Medicare and Medicaid provider numbers for Heritage Grove SNF within 60 days of the licensure of the facility.

4. Heritage Grove must maintain its Medicare and Medicaid certification throughout the life of the facility, regardless of ownership.
5. Heritage Grove and any subsequent owners of the skilled nursing facility must not develop any policies or practices that discriminate against admission of patients based on payer source.

Approved Costs:

The approved capital expenditure for this project is \$18,665,494.

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 Heritage Grove has met the applicable need criteria in WAC 246-310-210(2).

(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.

The proposed licensee of the facility is Heritage Grove. Heritage Grove was in operation from November 1999 through October 2009. At the time of closure the facility was licensed for 97 beds. The nursing home beds have not been operational for almost five years. [Source: CN historical files] As the proposed licensee, Heritage Grove 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. As a community based nursing home, Heritage Grove must also participate in the Medicare and Medicaid programs.

Admission Agreement

To determine whether all residents of the planning area would have access to an applicant's proposed services, the department requires applicants to provide a copy of its current or proposed admission agreement or policy. Since the nursing facility is going to be managed and operated by Prestige the admission agreement provided appears to have been created specifically for this application. The admission agreement outlines the process for admission and the roles/responsibilities for both Heritage Grove and the patient. 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. 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. The agreement references private pay, Medicare, and Medicaid admissions, and includes a description of the financial responsibilities of the patient under each type of coverage. [Source: Application p 13, & Attachment G]

Medicare and Medicaid Programs

The department uses Medicare certification to determine whether the elderly would have access, or continue to have access, to services.

To demonstrate compliance with this sub-criterion, Heritage Grove stated Prestige will contract with Medicare, and if this project is approved, Prestige will begin the process to obtain a Medicare provider number. The financial documents provided within the application, showed that Heritage Grove intends to provide services to the Medicare population. [Source: Application: Attachment P & February 13, 2015, Supplemental information]

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. Heritage Grove has not operated for almost five years. However, Heritage Grove has committed to contract with Medicaid and provide services to Medicaid patients in the planning area.

To ensure that Heritage Grove would participate in both Medicare and Medicaid programs, if this project is approved the department would attach two conditions related to this sub-criterion. One

condition would require Heritage Grove to provide documentation that Prestige obtained its Medicare and Medicaid provider identification numbers within a specific timeframe. Another condition would require Heritage Grove to maintain Medicare and Medicaid certification throughout operation of the facility, regardless of ownership. Based on the source information reviewed and the applicant's agreement to the conditions the department concludes **this sub-criterion is met.**

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

Based on the source information reviewed and the Heritage Grove's agreement to the conditions identified in the conclusion section of this evaluation, the department determines that Heritage Grove has 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.

To evaluate this sub-criterion, the department first reviewed the assumptions used to determine the projected number of admissions, patient days, and occupancy of Heritage Grove. Summarized below are the assumptions used. [Source: Schedule G]

This facility is designed to focus on the post-acute care market. In determining census projections for the pro forma financial statements, the applicant analyzed the average total SNF census in Yakima County which was 85.23% in 2013 and 85.15% in 2012. The applicant used an 85% occupancy number in the financial projections. In addition to being designed to focus on the emergent post-acute shorter stay market, this facility will be one of two facilities in Yakima County built in the past 30 years. Landmark Care Center a facility that also focuses on the rehab population has an average age of 14.2 years³ due to remodeling projects. The remaining facilities in Yakima County are much older and were designed on a long term model. [Source: February 13, 2015 Supplemental Material p2]

In determining census mix, specifically the projection of Medicaid percent, the applicant reviewed census data for facilities of similar design and opening in the prior three years. The two newest facilities in Washington and according to 2013 Medicaid cost report data, Manor Care Salmon Creek experienced 30% Medicaid occupancy while Manor Care Lacey shows 27% Medicaid occupancy. The applicant used these facilities as a guideline for the Medicaid percent occupancy. [Source: February 13, 2015 Supplemental Material p2]

Using the assumptions stated above, the applicant projected the number of patient days and occupancy for Heritage Grove. The projections are shown in the Table 1 below.

³ DSHS Medicaid Cost Report Database 2013

Table 1
Heritage Grove
Projected Years 2017 through 2019

	2017	2018	2019
Projected Number of Beds	97	97	97
Projected Number Patient Days	21,005	29,930	29,930
Project Occupancy	59.3%	84.5%	84.5%

The Heritage Grove’s primary growth will be in the first year of opening with a reasonable growth in the second year of operation and no growth in the third year of operation. After reviewing the assumptions and projections use by the Heritage Grove, the department concludes they are reasonable.

The Heritage Grove also provided the assumptions it used to project revenue, expenses, and net income for Heritage Grove SNF. The applicant asserted the rates are based upon management entity’s experience at their existing facilities. [Source: February 3, 2015 Supplemental Information, p3]

Below is the summary of the assumptions.

- Medicaid Rate: assumed at \$166.58
- Medicare Rate: assumed at \$504.00 and is based on the fiscal year 2015
- Managed Care is assumed at \$454.00 based on fiscal year 2015
- Prestige Private is assumed at \$235.00 based on fiscal year 2015.
- Projected percentages of patient’s revenue by payer are shown in the chart below.

97-Bed Heritage Grove	
Private Pay	11.78%
Medicaid	9.94%
Medicare	44.62%
HMO/PPO	33.66%

Heritage Grove reports their proforma financial statement is based on census, rates, hours worked, average wages and other expenses. The census assumptions were discussed previously. For average payment rates, the Heritage Grove used the estimated Medicaid rate as calculated by DSHS, the Medicare rate was determined as described previously, the managed care rate was based on experience at other Prestige facilities, and the average private rate was also from these Prestige facilities.

For payroll which is roughly 65% of overall costs, the applicant reviewed average wages in Yakima County and used those amounts with some increase based on wage increases between 2013 and present. For hours worked they used the hours and FTE necessary to adequately staff the facility based on experience at Prestige’s other nursing home locations in Washington.

To estimate other expenses the applicant used Prestige’s knowledge and expertise operating other similar facilities and made adjustments based on physical plan, resident mix, and location.

Using the assumptions stated above, Heritage Grove projected the revenue, expenses and net income for the SNF. The projections are shown in Table 2. [Source: Application, Schedule N]

Table 2
Heritage Grove
Projected Years 2017 through 2019

	2017	2018	2019
Net Revenue	\$8,063,895	\$11,051,901	\$11,051,901
Total Expenses	\$8,112,345	\$10,380,269	\$10,380,269
Net Profit / (Loss)	(\$48,450)	\$671,632	\$671,632

The ‘Net Revenue’ line item is gross patient, plus other operating revenue, minus any deductions from revenue for charity care and bad debt. The ‘Total Expenses’ line item includes direct care, support services, and operations.

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: An 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. For new nursing homes, such as this project, the initial Medicaid rate is set using a peer group review. [Source: DSHS WAC 388-96-710(3)]

All component rates require, directly or indirectly, use of the number of resident days—the total of the days in residence at the facility for all eligible residents—for the applicable report period. Resident days are subject to minimum occupancy levels. Effective February 2013, the minimum occupancy for direct care, therapy care, support services, and variable return component rates is 85%; but for operations, financing allowance, and property component rates, the minimum occupancy rate is 87%.⁴ If resident days are below the minimum, they are increased to the

⁴ For essential community providers—i.e., facilities at least a forty minute drive from the next closest nursing facility—the minimum occupancy is set at 85% for all components in recognition of their location in lesser-served areas of the state.

imputed occupancy level, which has the effect of reducing per resident day costs and the component rates based on such costs. If the actual occupancy level is higher than the minimum, the actual number of resident days is used. [Source: An Overview of Medicaid Rate Setting for Nursing Facilities in Washington provided by DSHS]

Information obtained from the Office of Rates Management within DSHS indicates that Heritage Grove’s reimbursement rate will be approximately \$166.58.⁵ Within the pro forma financial statement of operations, the applicant used the \$166.58. [Source: Application, Page 18] Heritage has assumed zero dollars for capital reimbursement in its proforma financial statements from Medicaid. The estimated Medicaid rate generated by DSHS does not include any reimbursement for depreciation, financing of construction, or equipment. Heritage Grove believes the profoma is conservative since they expect to receive at least some capital reimbursement for equipment yielding a slightly higher Medicaid rate than the one used in the proforma financial statement.

Department Evaluation

Heritage Grove revenue and expenses financial proforma shows the project is financially feasible. Based on the source information reviewed, the projected revenues and expenses expected for Heritage Grove 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.

The capital expenditure associated with the proposed 97 bed nursing home is \$18,665,494. Of that total amount, approximately 67.41% is related to construction costs and site inspection, 21.9% is related to land and site prep, 9.72% is related to moveable equipment, and 0.96% is related to fees. [Source: Application, p17]

**Table 3
Heritage Grove
Capital Expenditure Breakdown**

Item	Cost	% of Total
Land & Site Prep	\$4,088,068	21.9%
Construction & Site Inspection	\$12,583,294	67.41%
Moveable Equipment	\$1,814,132	9.72%
Fees	\$180,000	0.96%
Total Estimated Capital Costs	\$18,665,494	100.00

As shown in the breakdown above, the majority of the costs are associated with construction for the skilled nursing home. To demonstrate compliance with this sub-criterion, Heritage Grove provided a non-binding construction cost estimate from its contractor. Based on the above

⁵ These rate estimates are not guaranteed rate reimbursement by DSHS. [Source: DSHS]

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.

As previously stated, the capital expenditure associated with this project is \$18,865,494. Information within the application stated Prestige, as the lessor, would fund the project. Additionally, Prestige provided a breakdown of the anticipated type and the amount of financing for the project. That information is restated in the table below.

Type	Amount
Commercial Loan 3 year Interest Only	\$14,932,396
Mezzanine Loan	\$3,733,396
Total	\$18,865,494

Further, to demonstrate compliance with this sub-criterion, Prestige provided its audited financial statements for years 2011, 2012 and 2013. The financial statements include both cash flow statements and balance sheets. [Source: Application, Attachment M]

Department Evaluation

After reviewing Prestige’s historical financial statements, the department concludes that a commercial loan is appropriate financing for this project. Prestige states that the commercial loan will be converted to HUD financing in year three. The interest rate for the construction loan is anticipated to be 3.25 %. The interest rate for the commercial loan is anticipated to be 4.15%. The applicant has a letter of commitment from Banner Bank for financing both the construction loan and the permanent loan.

Based on the source information reviewed, 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 Heritage Grove’s agreement to the conditions identified in the “Conclusion” section of this evaluation, the department determines that Heritage Grove has 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.

Heritage Grove provided a listing of the types and number of staff for the proposed skilled nursing facility. Table 4 below, shows projected numbers and types of staffing for the first full three years of operation. [Source: February 3, 2015 Supplemental Information, p23]

Table 4
Heritage Grove Hill 2017 – 2019
Projected FTEs

Staff/FTEs	2017	2018	2019	Total
RN	6.1	2.5	0.0	8.6
Resident Care Manager	3.3	0.7	0.0	4.0
LPN	5.0	2.2	0.0	7.2
Nurse's Aides and Assistance	24.4	10.4	0.0	34.8
Nursing Total	38.8	15.8	0.0	54.6
Dieticians	1.0	0.0	0.0	1.0
Cooks/Aides	4.5	2.0	0.0	6.5
Dietary Total	5.5	2.0	0.0	7.5
Admission	1.00	0.0	0.0	1.0
Activities Director	2.00	0.0	0.0	2.0
Director of Nursing	1.00	0.0	0.0	1.0
Clerical	3.00	0.0	0.0	3.0
Housekeeping/Maintenance	4.7	1.4	0.0	6.1
Laundry	1.7	0.7	0.0	2.4
Administration Total	13.4	2.2	0.0	15.6
Medical Record	0.8	0.0	0.0	0.8
Social Work	2.0	0.0	0.0	2.0
All others	2.8	0.0	0.0	2.9
All Others Total*	5.6	0.1	0.0	5.7
Total Staffing	63.3	20.0	0.0	83.3

*Other Includes central supply, admission coordinator, orientation and human resources

Heritage Grove's FTE presentation in the application is broken down into four sub-total categories. For the nursing staff, Heritage Grove includes all RNs, Resident Care Manager, LPNs, and nursing aides & assistants in the 'nursing' category. For 'dietary' Heritage Grove included Dieticians, Aides & Cooks. For 'administration', the totals included the administrator, activities director, director of nursing, clerical, housekeeping/maintenance, and laundry personnel. For the 'other' category the applicant included medical records, social worker, and other.

Heritage Grove did not include contracted FTEs such as consultant positions in the count of total presented in Table 4. According to the application, contracted positions include medical director, pharmacist, physical therapy, and occupational therapy. As stated in the management services and lease agreement between the applicant and Prestige, the day-to-day operations, including staffing of the nursing home is the responsibility of Prestige. The application also stated that it anticipates the proposed nursing facility would be a clinical training site for students.

Public Comment

Several commentators voiced concern regarding the availability of staff, testifying that the applicant should be denied because it does not meet the WAC 246-310-230 criteria. Gloria Dunn (administrator, Landmark Care Center) provided most of the information on the subject.

Written and verbal testimony focused on the concern that RNs, LPNs and nurse aides are not available and that Heritage Grove would be attracting staff from the other facilities in the area.

Rebuttal

Heritage Grove states that the analysis indicates that there is a deficit of RNs but not LPNs or nurse aides. The applicant states that they understand the challenges faced by every provider trying to hire and retain staff while remaining competitive and profitable. On behalf of the applicant, Prestige will utilize the following strategies to ensure adequate staffing:

- Offer competitive salaries and benefits.
- Offer a relocation package to allow licensed nurses in their other nursing centers to relocate to Yakima.
- Provide state-approved training programs to develop new certified nursing assistants through partnership with community education providers and through current Prestige Care programs.
- Utilize the existing partnership with Heritage University to place nursing students in Certified Nursing Assistant (CNA), Licensed Practical Nurse (LPN), and Registered Nurse (RN) positions as they progress through their nursing education. In, 2014 nine RNs graduating from Heritage University were placed in positions within Prestige communities in the Yakima Valley.
- Provision of scholarships through the Sarah Delamarter Scholarship program to attract and retain staff by offering the opportunity to become a Licensed Practical Nurse or Registered Nurse.
- Focused recruitment strategies in Eastern Washington and the Spokane area, with an emphasis on recruiting from the nine nursing schools in the area. Provide relocation assistance to certified nursing assistants and Licensed Nurses relocating to the Yakima area.
- Employ strategies to recruit and hire veterans and transitioning service members who have served as medics or nurses in the armed forces, providing relocation assistance for CNA and licensed Nurse positions.
- Utilization of the existing Prestige Staffing Pool, to provide CNAs, LPNs, and RNs on an interim basis to meet any short term staffing needs.

Based on source information reviewed, the department concludes adequate and qualified staffing for the nursing home is available or can be recruited. **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.

For this project, Heritage Grove intends to contract with Prestige for management services and the day-to-day operations of the proposed skilled nursing facility. To demonstrate compliance with this sub-criterion, Heritage Grove submitted a copy of the Management Services and Lease Agreement and Purchase and Sale Agreement between itself and Prestige. The Purchase and Sale Agreement does not identify an ‘effective date,’ but implies that the effective date would be after Heritage Grove obtains licensure for the 97-bed nursing home. The management services and lease agreement outlines specific roles and responsibilities for both entities. Heritage Grove will be the initial licensee for Heritage Grove SNF. [Source: Application, Attachment D & February 3, 2015 Supplemental Information Attachment E-3]

As the management entity, Prestige is proposing to contract with Infinity Rehab for physical, occupational, and speech therapy. They are proposing to contract with Pro Pharmacy for prescription drugs and medical supplies. The other contracted services proposed by the applicant do not have a provider identified at this time. If approved, the department would attach a condition requiring the applicant to provide executed contracted services agreements for these ancillaries and support services.

Heritage Grove provided a draft medical director agreement. The draft agreement outlines the roles and responsibilities for the position. The applicant has not identified a medical director for the facility. If this project is approved, the department would attach a condition requiring the applicant provide an executed medical director agreement. [Source: Application, Attachment K & February 3, 2015 Supplemental Information, p3]

If Heritage Grove agrees with the condition, the department would conclude that adequate ancillary and support services are available for the Heritage Grove SNF. **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.

Heritage Grove’s application is proposing to un-bank 97 beds and construction of a skilled nursing facility that would be managed and operated by Prestige. Currently, Prestige owns or operates skilled nursing facilities and retirement communities in Washington. [Source: prestigecare.com & CN Historical files]

As part of this review, the department must conclude that the proposed services to be provided by Heritage Grove with Prestige as the management entity, would be provided in a manner that ensures safe and adequate care to the public.⁶ To accomplish this task, the department reviewed the quality of care compliance history for licensed healthcare facilities owned, operated, or managed by Prestige. The review included quality of care information reported by the Centers for Medicare and Medicaid Services (CMS) and state licensing survey results.

⁶ WAC 246-310-230(5).

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

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 the more stars, the better the rating.

The star rating and a description of the ranking is shown below:

# Stars	Ranking
Five stars	Much Above average
Four Stars	Above Average
Three Stars	Average
Two Stars	Below Average
One Star	Much Below Average

Heritage Grove is not currently operating a skilled nursing facility and Prestige will be operating Heritage Grove when it opens. Therefore, the department reviewed data for skilled nursing facilities in Washington operated by Prestige. The table on the following page shows the results for the Prestige skill nursing facilities in Washington. [Source: Application, Attachment A & CMS nursinghomecompare]

Facility	City	Overall Rating
Discovery Nursing & Rehabilitation	Vancouver	4
Prestige Care & Rehabilitation	Burlington	5
Renton Nursing & Rehabilitation Center	Renton	N/A*
Tacoma Nursing & Rehabilitation Center	Tacoma	1
Puyallup Nursing & Rehabilitation Center	Puyallup	N/A*
Prestige Post-Acute & Rehab Center	Centralia	1
Prestige Care & Rehabilitation-Camas	Camas	4
Prestige Care & Rehabilitation Center-Kittitas Valley	Ellensburg	1
Royal Vista Nursing & Rehab	Ellensburg	1
Prestige Care & Rehabilitation-Parkside	Union Gap	N/A*
Toppenish Nursing & Rehab	Toppenish	1
Prestige Care & Rehabilitation-Sunnyside	Sunnyside	N/A*
Prestige Care & Rehabilitation-Clarkston	Clarkston	4
Prestige Care & Rehabilitation-Pinewood Terrace	Colville	4
Richland Rehab. Center	Richland	2
Prestige Care & Rehabilitation of Edmonds	Edmonds	N/A

*Data from these facilities was not on the web site

Public Comment

One commenter directly addressed the quality of care in other Prestige operated facilities by stating that Prestige has an average star rating of 2, that Prestige has a special focus facility and that Prestige has a high number of average survey citations.⁷ Other commenters submitting public comment also commented on quality issues.

Rebuttal

The Heritage Grove reiterated that they are the applicant, but acknowledged that as the manager Prestige's quality history may be of concern.

Prestige reports they continue to have improved quality results for their facilities in Yakima, Kittitas, and Benton counties. Prestige began management of four of the six facilities in October and November of 2012. The CMS 5 star rating system reflects three years of outcome data related to survey inspections, staffing, and quality measures. The data submitted by the commenter relating to the number of deficiencies compared to state average only reflects the Prestige facilities in Yakima, Kittitas, and Benton counties. Prestige reports that the CMS data reflects a decrease in total deficiencies in the three year trend, resulting in an improvement in health inspections.

- 14.83 (three-year history)
- 14 (two-year history)
- 12.17 (most recent survey)

Prestige provided the following information regarding their facilities in the Yakima, Kittitas, and Benton counties.

⁷ Letter from Aaron Hill dated April 2, 2015

The list of facilities provided by the commenter did not include Grandview Manor located in Yakima County. The facility was leased by Prestige until its closure in October 2014. The facility was a 5 star facility. The three year survey history for Grandview Manor demonstrated inspection results, based on number of f-tags, are significantly below state averages.

Richland Rehabilitation is currently listed on the Special Focus Facility (SFF) CMS website as a facility that has improved. Richland Rehabilitation completed the second required full facility inspection for the SFF requirements on April 18, 2015. The facility received two minor citations. Richland Rehabilitation will be removed from the CMS SFF designation within the next 45 days. Richland Rehab is listed with 2 stars overall, with 4 stars for staffing and 4 stars for quality measures.

Prestige engaged a 3rd party independent consultant for assessment of Richland Quality Assurance Performance improvement programs and has demonstrated improved quality results. Richland's inspection survey outcome for the most recent annual inspection and complaint inspections is 78% below state average with 2 deficiencies

Prestige began management of Kittitas Rehabilitation in September of 2014. The annual inspection completed November 2014 resulted in two deficiencies. The facility quality outcomes have improved since Prestige purchased the facility based on reduction of deficiencies.

Toppenish Nursing and Rehabilitation Center recently completed an annual survey inspection. The results have not been updated on the CMS website. The survey inspection results based on the number of f-tags are significantly below state averages with no G-level or above citations.

The attachment regarding quality was not reflective of the improvement trend for Prestige Care, Inc.'s facilities in the Yakima region. Prestige Care, Inc. has acquired management of facilities and assumes compliance history for the three year CMS-inspection rating. [Source: April 28, 2015 Rebuttal, pp 9-11]

In addition to the above discussion on the specific facilities, the applicant provided a list of specific procedures in place to assure quality. These procedures are part of Prestige's corporate compliance program:

- Prestige Care, Inc. has standardized policies and procedures accessible for all nurses through the company website.
- Prestige Care, Inc. will hire competent and experience Director of Nursing at the facility to ensure policies and procedures are followed.
- Prestige Care, Inc. has a regional Nurse Consultant (RNC) to support compliance. The RNC has a nursing center ration of 1:4.
- Prestige Care, Inc. has a Regional Director of Operations (RDO) to support compliance. The RDO has a nursing center ratio of 1:12.

- Prestige Care, Inc. operates a corporate office in Vancouver, WA to support compliance in the following areas: nursing, social services, dietary, pharmacy, Medicare and managed care utilization, business office, IT, risk management, operations, human resources, sales and marketing.
- Prestige Care, Inc. conducts at least monthly RNC, RDO, dietary, and pharmacy reviews of its care centers. A yearly comprehensive review of all federal F and K Tags is conducted by a corporate interdisciplinary team.
- Prestige Care, Inc. has an internal staffing agency (NAC's and licensed staff) to assist with staffing challenges; ensuring temporary staffing has been trained under the Company's policy and procedures.
- Prestige Care Inc. utilizes Abaqis (a quality management system) to monitor day- to-day quality assurance performance improvement in the nursing systems.
- Prestige Care, Inc. utilizes Matrixcare (an electronic medical record system) which includes point of care (QAPI-Quality Assurance and Performance Improvement) documentation by NAC staff.
- Prestige Care, Inc. utilizes Origami (a risk management software system) and trend incidents ensuring thorough investigations are completed and optimal interventions for resident safety.
- Prestige Care, Inc. utilizes the "Check Up" company developed software program to monitor, track, and trend infections in the centers. [Source: Application: pp29-30]

For Prestige's out-of-state facilities, the department reviewed information on the Center for Medicare & Medicaid Services website comparing the Oregon facilities. The review revealed that typically Prestige's facilities scored 2 stars or better.

Department Evaluation

The department reviewed the CMS compare data for the Prestige skilled nursing facilities located in Washington State. This data showed that Prestige had four facilities with a CMS 4 star rating and one facility with a 5 star CMS rating. The data for the facilities in Yakima, Kittitas, and Benton counties is consistent with the data submitted at the public hearing. The star ratings for facilities in these counties have a number of 1s & 2s. Prestige submitted a response in the rebuttal to the ratings in CMS compare stating that there has been improvement since Prestige has begun management of these facilities. The applicant provided information regarding Prestige's existing corporate compliance program in the application.

Given the number of facilities with 1 or 2 ratings on the CMS website, the department requested survey information from the Washington State Department of Social and Health Services. The survey information for the Prestige Skilled Nursing Facilities is shown in the Table on the following page.

Facility Name	Last Survey Date	Highest Scope/Severity
Discovery Nursing and Rehab (Vancouver)	1/22/2015	D
Prestige Care-Burlington	2/25/2015	D
Prestige Care-Camas	10/23/2014	D
Prestige Care-Clarkston	7/15/2014	D
Prestige Care-Parkside (Union Gap)	8/20/2014	E
Prestige Care-Pinewood Terrace (Colville)	2/6/2015	E
Prestige Care-Sunnyside	9/11/2014	H
Prestige Post-Acute-Kittitas Valley (Ellensburg)	11/21/2014	E
Prestige Post-Acute-Liberty (Centralia)	1/29/2015	G
Puyallup Nursing and Rehab	12/5/2014	Deficiency Free on Initial Survey
Renton Nursing and Rehab	5/21/2014	E
Richland Rehab Center	4/17/2015	E
Royal Vista (Ellensburg)	3/4/2015	E
Sullivan Park Care Center (Spokane)	2/25/2015	E
Tacoma Nursing and Rehab	3/16/2015	E
Toppenish Nursing and Rehab	4/9/2015	F

The chart in the table below shows the definition for the scope and severity letters in the previous table.

DSHS Scope and Severity

Immediate jeopardy to resident health and safety	Level 4	J	K	L
Actual harm that is not immediate jeopardy	Level 3	G	H	I
No actual harm, with potential for more than minimal harm	Level 2	D	E	F
No actual harm, with potential for minimal harm	Level 1	A	B	B
		Isolated ⁸	Pattern ⁹	Widespread ¹⁰

The DSHS data indicates that eight of the Prestige facilities received an “E” which indicates deficiencies the resulted in no actual harm but with potential for more than minimal harm. If the

⁸ Scope is **isolated** when one or a very limited number of residents are affected, and/or one or a very limited number of staff are involved, and/or the situation has occurred only occasionally or in a limited number of locations.

⁹ Scope is a **pattern** when more than a very limited number of residents are affected, and or more than a very limited number of staff is involved, and/or the situation has occurred in several locations, and/or the same resident(s) have been affected by repeated occurrences of the same deficient practice.

¹⁰ Scope is **widespread** when the problems causing the deficiencies are pervasive in the facility and/or represent systemic failure that affected or has the potential to affect a large portion or all of the facility’s residents. Widespread scope refers to the entire facility population, not a subset of residents or one unit of a facility. Widespread scope may be identified if a systemic failure in the facility (e.g., failure to maintain safe food temperatures) would be likely to affect a large number of residents and is therefore pervasive in the facility.

corporate quality assurance resources of Prestige have not focused on these eight facilities, it would seem to be appropriate to do so. Measures should be taken to reduce or eliminate these deficiencies.

The DSHS data indicates that Prestige Care-Sunnyside received an “H” which indicates deficiencies that have been repeated problems in the facility or have affected more than a minimum of number residents. The DSHS data indicates that Prestige Post-Acute-Liberty in Centralia received a G which indicates a deficiency that caused actual harm that is not immediate jeopardy but was an isolated incident. As stated previously it should be a priority for the corporate quality assurance resources of Prestige to reduce or eliminate these deficiencies.

The DSHS data indicates that Toppenish Nursing and Rehab received an “F” which indicates no actual harm, with potential for more than minimal harm. This deficiency is in the widespread column which means will affect the whole facility or identifies a system failure. This deficiency should be identified and corrected.

In addition to the nursing home data, DSHS also provided current data on the Assisted Living Facilities owned or operated by Prestige in Washington. Of the seven ALF facilities in Washington only one has open citations from a full licensing inspection. The deficiencies do not fall in the harm category and do not require any enforcement penalties from DSHS. The other facilities do not have any current enforcement or uncorrected citations.

The data from CMS indicates that some of these facilities have had problem areas that needed correction to improve operation and safety for residents in their facilities. The more recent data from DSHS indicates improvement in the operation of the Prestige owned and operated facilities. Some of the facilities need addition focused attention and resources from the corporate quality assurance activities to improve their operations.

Given the existing corporate compliance program implemented by Prestige and the history of those facilities managed by Prestige that have favorable star ratings, and the improvement efforts being made by Prestige and the individual facilities, the department concluded there is reasonable assurance that Heritage Grove will 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 project of this type and size. Therefore, using its experience and expertise the department assessed the information provided in the application.

In response to this criterion, Heritage Grove stated it has not provided services since it closed the Heritage Grove nursing facility in 2009, but the applicant noted that Prestige has existing long-term relationships with healthcare entities in Yakima and has been providing skilled nursing services at their other Yakima long term care facilities.

Given that the applicant provided an executed management and lease services agreement that would enable Prestige to provide management and day-to-day services at the new skilled nursing facility, the department concludes that Heritage Grove has demonstrated that the new skilled nursing facility would 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. [Source: April 28, 2015 Rebuttal, p 7]

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.*

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 Heritage Grove's agreement to the conditions identified in the conclusion section of this evaluation, the department determines that Heritage Grove 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.

For this project, Heritage Grove is the only applicant and 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 Heritage Grove considered only the alternative of do nothing. [Source: Application, Page 31]

Do Nothing

This alternative would mean that the banked beds would expire in October 2017. The applicant considered that a new facility operating in an effective physical plant would benefit the community. The applicant is proposing to target patients discharging to rehab and therefore a location close to the hospitals will be ideal. The applicant is designing the facility to be energy efficient and use the latest in building materials.

The department did not identify any other alternatives that would equal to or superior to those considered by Heritage Grove. The reasoning for rejecting the identified alternatives appears reasonable. 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.

This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2) **this sub-criterion is 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.

This project has the potential to improve delivery of nursing home services to the residents of Yakima County and communities surrounding the city of Yakima. The department is satisfied the project is appropriate and will improve the delivery of health services in Yakima County. **This sub-criterion is met.**