



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

STANDARD APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 03-31

Applicant: Avalon Care Center – Hale Nani, LLC
255 East 400 South #200
Salt Lake City, Utah 84111
Phone: 808-596-8844

Project Title: Change of Ownership for Hale Nani Rehabilitation and
Nursing Center
1677 Pensacola Street
Honolulu, HI 96822

ORGANIZATIONAL FACTS

1. TYPE OF ORGANIZATION

Limited Liability Company (LLC)
For-profit
Privately owned

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2. PROJECT LOCATION INFORMATION

Primary service areas of project:

Honolulu, but accepting referrals from any part of the island of Oahu

3. DOCUMENTATION

A. Site control information (Attachment 1 of this section)

Heritage Management, Inc. is purchasing the Hale Nani Rehabilitation and Care Center from Beverly Enterprises, Inc. and will assign the rights to the assets over to a third party, Credit Suisse First Boston. They will consummate the purchase and simultaneously lease the property to Avalon Realty – Hale Nani, LLC, which is wholly owned by Heritage Care Centers, Inc. and Avalon Health Care, Inc. Avalon Realty – Hale Nani, LLC will then sub-lease the building to Avalon Care Center – Hale Nani, LLC.

Attachment 1-A of this section is a copy of the pertinent sections of the Purchase Agreement between Beverly Enterprises and Heritage Management, Inc. allowing for this transaction. Attachment 1-B in this section is a letter verifying this transaction with the lender, Credit Suisse First Boston. Attachment 1-C in this section is a completed lease agreement between Avalon Realty – Hale Nani, LLC and Hale Nani Rehabilitation and Care Center. Attachment 1-D is a copy of the Master Lease Agreement between Credit Suisse First Boston and Avalon Realty – Hale Nani, LLC.

B. A listing of all other permits or approvals from other government entities:

- 1) State Certificate of Need approval;
State health facility licensing
- 2) Medicare certification
- 3) Medicaid certification

C. Governing Body / Organizational Structure: (please refer to organizational chart as Attachment 2 of this section)

Avalon Care Center – Hale Nani, LLC dba Hale Nani Rehabilitation and Nursing Center

Avalon Health Care of Hawaii, LLC, is the sole Member of Avalon Care Center – Hale Nani, LLC

Avalon Health Care Centers, LLC is the sole Member and Manager of Avalon Health Care of Hawaii, LLC

Heritage Care Centers, Inc. is the sole Member and Manager of Avalon Health Care Centers, LLC

Avalon Health Care Management of Hawaii, LLC will be the management Organization of Avalon Care Center – Hale Nani, LLC

Heritage Management, Inc. is the sole Member and Manager of Avalon Health Care Management of Hawaii, LLC

Avalon Health Care, Inc. is the overall umbrella organization for all the Avalon and Heritage entities, which ultimately reflects one set of owners / shareholders

The governing body for Avalon Care Center – Hale Nani, LLC resides at the Heritage Care Centers, Inc. level. The Owners and Board of Directors are listed below:

Owners:	Charles R. Kirton	255 East 400 South Salt Lake City, Utah 84111 (801)-596-8844
	Lewis E. Garrett	5043 Old Oak Lane Highland, Utah 84003 (801)-756-9542
	John A. Morris	2747 E. Melony Dr. Salt Lake City, Utah 84124 (801)-277-4333

Board of Directors:

Charles R. Kirton, Chairman

Lewis E. Garrett

Gary L. Hart

1947 High Pointe Drive
Bountiful, Utah 84010
(801)-298-7094

Robert W. Pommerville, President / CEO

6846 North Trapper's Circle
Mountain Green, Utah 84050
(801)-325-0139

Officers: Robert W. Pommerville, President / CEO

Corey G. Bell, Chief Financial Officer

374 W. Quail Run Rd.
Farmington, Utah 84025
(801)-325-0157

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Richard Denning, Chief Operating Officer

1211 W. Country Ridge Drive
South Jordan, Utah 84095
(801)-325-0130

Faye Lincoln, Vice-President,
Policy & Government Relations

1436 Yale Avenue
Salt Lake City, Utah 84105
(801)-325-0153

Other Corporate Staff:

Kathy Dahlquist, RN, BSN, Director of Clinical Services

Tom Paget, Controller

Please refer to biographies as Attachment 3 of this section for further information on the background of each of these individuals.

D. Documents:

Articles of Formation (Attachment 4 of this section)

By-Laws (Operating Agreement) (Attachment 5 of this section)

Tax Key # for Property: 1-2-4-030-037-0000
1-2-4-030-068-0000

4. TYPE OF PROJECT

Skilled nursing facility – Change of Ownership

There is no planned change in bed count for this facility.

5. TOTAL CAPITAL COST: See Fair Market Value in Section 8 below.

6. BED CHANGES

Type of Bed	Current Bed Total	Proposed Beds for Project	
Skilled Nursing/ Intermediate Care Facility	288	288	No Change

7. CHANGE IN SERVICE

There is no anticipated change in service for this facility. The bed count and resident mix will remain essentially the same.

8. PROJECT COSTS AND SOURCES OF FUNDS (for Capital Items Only):

A. List all project costs:

	AMOUNT
1. Land Acquisition	_____
2. Construction Contract	_____
3. Fixed Equipment	_____
4. Movable Equipment	_____
5. Financing Costs	_____
6. Fair Market Value of assets acquired by lease, rent, donation, etc.	<u>\$33,800,000</u>
7. Other: _____	_____
TOTAL PROJECT COST	<u>\$33,800,000</u>

B. Source and Method of Estimation

Describe how the cost estimates in Item "A" were made, including information and methods used:

C. Source of Funds

	Amount
1. Cash (Cash / Equity Capital)	_____
2. State Appropriations	_____
3. Other Grants	_____
4. Fund Drive	_____
5. Debt	_____
6. Other: <u>Sale / Leaseback Arrangement</u>	<u>\$33,800,000</u>

8. IMPLEMENTATION SCHEDULE:

The Change of Ownership proposed for Hale Nani Rehabilitation and Nursing Center is December 1, 2003, contingent on the review and approval of this CON application by the State Health Planning and Development Agency.

EXECUTIVE SUMMARY

REPLACEMENT PAGE

This application for Certificate of Need involves a Change of Ownership for the Hale Nani Rehabilitation and Nursing Center in Honolulu, Hawaii; a 288 bed skilled nursing facility certified by Medicare and Medicaid. This facility is currently owned by Beverly Enterprises – Hawaii, Inc. The goal is to acquire this facility by December 1, 2003, assuming the approval of this Certificate of Need application.

Honolulu Rehabilitation and Nursing Center will be purchased by Heritage Management, Inc. Heritage Management is presently the largest long term care provider in Utah, with ten facilities throughout the state and an eleventh facility undergoing construction and renovation. Of the current ten facilities, seven are located in Salt Lake City or other nearby urban areas and three are rural facilities. The parent company for Heritage Management, Inc. is Avalon Health Care, Inc.

Hale Nani Rehabilitation and Nursing Center (Hale Nani Care Center), assuming that the Certificate of Need application is approved, will function within a new organizational entity called Avalon Care Center – Hale Nani, LLC dba Hale Nani Rehabilitation and Nursing Center. The sole Member of this limited liability company will be Avalon Health Care of Hawaii, LLC.

This proposal attempts to provide background information on Avalon Health Care, based on its vision and operating history as Heritage Management, Inc. This Certificate of Need application will review how Hale Nani Care Center, under a new Change of Ownership, would function in line with the Hawaii State Plan Criterion, the effect on utilization / demand for services in Honolulu, its quality of care and finances, as well as other resource issues.

Philosophy of Care

Avalon Health Care through its wholly owned subsidiaries of Heritage Management and Heritage Care Centers, Inc., with its brand of expertise in clinical practices and its established business management in long term care, focuses on providing a balance between competent and compassionate patient care with the cost effective delivery of the health care services we offer.

Avalon Health Care extends to residents and their families the kind hand of excellent care. Avalon Health Care specializes in long term care services. When an individual's health care condition is such that they are no longer able to be cared for at home, our skilled and intermediate care nursing facilities are available to provide the appropriate clinical expertise in a "homelike setting". This setting also welcomes families and friends to participate in the resident's needed care.

Avalon Health Care assists individuals, either on a short or long term basis, to achieve their maximum level of functioning. The goal for many is to eventually be discharged back to their own home environment. In Utah, home health services are provided on a statewide basis to help achieve this goal. Effectively understanding and working through the continuum of care allows for residents to achieve their highest level of health and well-being.

Avalon Health Care strives to promote resident well-being through an interdisciplinary planning process. This level of care management, based on a specifically designed treatment plan for the resident, requires a team effort. This team is not only composed of the physician and facility staff, but also families and other community health resources such as hospital staff.

The mission statement of Avalon Health Care assures the ultimate focus:

Our aim is to treat all patients with the care, compassion and respect befitting their dignity as human beings.

There is nothing more important than our calling to serve our most vulnerable elderly and disabled through the long term care system. It would be an honor for us to participate in the Hawaii health care system. We seek to deliver quality services with efficiency, expertise and a commitment to excellence in a changing health care environment. We seek to continuously adapt to such changes in order to honor our own heritage of caring which has brought us to where we are and which will take us into the future.

We welcome any questions regarding this proposal by contacting either the President / CEO of our company, Mr. Robert W. Pommerville (801)-325-0139 on his direct line or Faye Lincoln, Vice-President, Policy & Government Relations (801)-325-0153.

Section A: Relationship of this Proposal to the Hawaii State Plan Criterion

One of the major goals for Hawaii is to provide needed health care services to the elderly and disabled. Hale Nani Care Center focuses on the provision of long term care in the Honolulu area. This facility provides services on a short-term, acute basis to assist with transitional recovery from the hospital setting back to home. It also provides services over a much longer timeframe for those in need.

Skilled nursing home and intermediate care facility services are an important part of the health care continuum, providing certain services at a lower cost than hospital care. The focus is either to provide discharge planning from this setting to the community-based home setting, or ensure the cost-effective provision of 24 nursing for those who need it on a long term basis. Clinical services are provided based on resident assessments and needs. Treatments and interventions are monitored for their effectiveness, and clinical outcome monitoring is developed to ensure quality of services. Access is a key priority for Hawaii. Hale Nani is located between three major hospitals with an average 98.4% occupancy level, in the heart of Honolulu, with few access barriers.

This facility focuses on treatments and clinical outcomes for most of the major illnesses experienced by the elderly and disabled population. Additionally, the facility focuses on the general behavioral health / mental health needs of this population as well.

REPLACEMENT PAGE

Section B: Services and Utilization

Hale Nani Care Center has an average occupancy level of 98.4% and an Average Length of Stay (ALOS) of 184 days. Reimbursement sources include Medicare, Medicaid and private payer sources. The projected number of annual resident days is 103,437. The Average Daily Census (ADC) is 283 residents for a 288 bed facility. Annual revenues are projected at approximately \$22 million. We do not anticipate an increase or decrease in the current bed capacity at this time. The major populations served in this community include the Japanese American, Korean, Chinese, Filipino and Vietnamese.

Section C: Quality of Care

Avalon Health Care, through its Utah Heritage Management operations, will provide corporate oversight support to Hale Nani Care Center to implement corporate-wide standards of practice to ensure high quality of care. We propose to build off of the current leadership provided by Beverly Enterprises, while adding our own quality programs to enhance resident care services. However, flexibility is provided to the facility leadership team to implement additional programs unique to their local community.

Our corporate team provides specialized programs in the following areas:

- | | |
|------------------------|------------------------------|
| Orientation / training | Abuse Prevention |
| Fall Prevention | Prevention of Medical Errors |
| Skin Integrity | Infection Control |
| Hydration | Other tracking programs |

Clinical monitoring is an important part of our quality assurance program for the facility's residents.

Section D: Cost and Financial Criteria

Hale Nani Care Center will have a projected net income in the first three years of \$1,751,226; \$1,753,568 in year 2; and \$1,868,631 in year 3. The facility will be able to support its own cash needs through its accounts receivables. The facility will be purchased using funds available through Credit Suisse First Boston. The rights to the land, building and equipment will be assigned to Credit Suisse First Boston, which will lease it back to Avalon Realty – Hale Nani, LLC. It is then sub-leased to Avalon Care Center – Hale Nani, LLC.

If additional working capital is needed for the facility at any time, Avalon Health Care, Inc. the parent company will have a \$25 million line of working capital to fund any short term needs.

The revenue projections were based on the current facility Medicaid rates. We believe that there will be little impact on the overall cost to the state Medicaid program on the cost of care. We believe that the Medicaid rates will either be the same or based on a slight increase, which will not require the state to pay significantly more for this Change of Ownership in reimbursement rates.

There are no planned changes in the facility size or bed capacity.

Section E: Relationship to the Existing Health Care System Criterion

By building on the current leadership which already exists at Hale Nani Care Center and through additional clinical programs established by Heritage Management for Avalon Health Care, the facility will maintain quality monitoring programs which serve to measure and if necessary, improve the levels of care. Resident and family satisfaction surveys will also be completed. Corporate oversight from both a clinical and administrative perspective will ensure that improvements occur, if needed.

We see little negative impact on other long term care providers as there is no planned change in bed capacity or services. At a current census of 98.4%, and with the rest of the Honolulu market running at 90 – 99% census capacity, we believe this Change of Ownership will not adversely impact other facilities.

Section F: Availability of Resources Criterion

On the human resource side, retention of nursing staff is the most critical element of success at Hale Nani. Our goal will be through availability of resources and benefits to maintain a current superior turnover rate of 1% of RNs, 1% for LPNs, and 1% for CNAs. We are committed to maintaining competitive salaries, reimbursing for a portion of educational tuition, implementing training programs and systems management improvements which will support staff in being successful in their positions. Corporate staff will provide overall support to the Hawaii facility.

The facility will have adequate cash resources through its own Accounts Receivables. However, should the facility require cash on a short term basis, Avalon Health Care, Inc. will have an additional \$25 million line of working credit available to assist the Hawaii facility.