



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

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ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM

Application Number: # 22-13A Date of Receipt:
To be assigned by Agency

APPLICANT PROFILE

Project Title: Acquisition of SNF/ICF Services at 30 bed SNF/ICF Facility

Project Address: 91-1360 Karayan Street
Ewa Beach, HI 96706

Applicant Facility/Organization: PSH KM LLC

Name of CEO or equivalent: Tyrus Lefler

Title: President

Address: 400 Hobron Lane #3109, Honolulu, HI 96815

Phone Number: 808-445-4899 Fax Number: 808-425-4962

Contact Person for this Application: Aishia Dueno

Title: Licensing Compliance Senior Coordinator

Address: 1420 Fifth Avenue, Suite 4200, Seattle, WA 98101

Phone Number: 206-948-7230 Fax Number: 206-260-7512

CERTIFICATION BY APPLICANT

I hereby attest that I reviewed the application and have knowledge of the content and the information contained herein. I declare that the project described and each statement amount and supporting documentation included is true and correct to the best of my knowledge and belief.

[Signature]
Signature

7/27/22
Date

Tyrus Lefler
Name (please type or print)

President
Title (please type or print)

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1. TYPE OF ORGANIZATION: (Please check all applicable)

- Public _____
- Private X
- Non-profit _____
- For-profit X
- Individual _____
- Corporation _____
- Partnership _____
- Limited Liability Corporation (LLC) X
- Limited Liability Partnership (LLP) _____
- Other: _____

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2. PROJECT LOCATION INFORMATION

A. Primary Service Area(s) of Project: (please check all applicable)

- Statewide: _____
- O'ahu-wide: X
- Honolulu: _____
- Windward O'ahu: _____
- West O'ahu: X
- Maui County: _____
- Kaua'i County: _____
- Hawai'i County: _____

3. DOCUMENTATION (Please attach the following to your application form):

- A. Site Control documentation (e.g. lease/purchase agreement, DROA agreement, letter of intent) **Please see attached Letter of Intent.**
- B. A listing of all other permits or approvals from other government bodies (federal, state, county) that will be required before this proposal can be implemented (such as building permit, land use permit, etc.) **OHCA and CMS/Noridian**
- C. Your governing body: list by names, titles and address/phone numbers
- D. If you have filed a Certificate of Need Application this current calendar year, you may skip the four items listed below. All others, please provide the following:
 - Articles of Incorporation **Attached**
 - By-Laws **Not Applicable**
 - Partnership Agreements **See attached Operating Agreement**
 - Tax Key Number (project's location) **(1) 9-1-182: 005**

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4. **TYPE OF PROJECT.** This section helps our reviewers understand what type of project you are proposing. Please place an "x" in the appropriate box. N/A

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	Used Medical Equipment (over \$400,000)	New/Upgraded Medical Equip. (over \$1 million)	Other Capital Project (over \$4 million)	Change in Service & DEV. AGENCY	Change in Beds
Inpatient Facility					
Outpatient Facility					
Private Practice					

5. **BED CHANGES.** Please complete this chart only if your project deals with a change in your bed count and/or licensed types. Again, this chart is intended to help our reviewers understand at a glance what your project would like to accomplish. Under the heading "Type of Bed," please use only the categories listed in the certificate of need rules. N/A

Type of Bed	Current Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
TOTAL			

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6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:		AMOUNT:
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1.	Land Acquisition	_____
2.	Construction Contract	_____
3.	Fixed Equipment	<u>\$384,615.39</u>
4.	Movable Equipment	_____
5.	Financing Costs	_____
6.	Fair Market Value of assets acquired by lease rent.	<u>\$23,507,705.70</u>
7.	Other: _____	_____
TOTAL PROJECT COST:		<u>\$23,892,321.09</u>

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B. Source of Funds

1.	Cash	<u>\$384,615.39</u>
2.	State Appropriations	_____
3.	Other Grants	_____
4.	Fund Drive	_____
5.	Debt	_____
6.	Other: FMV of leased property to be paid by monthly rent	<u>\$23,507,705.70</u>
TOTAL SOURCE OF FUNDS:		<u>\$23,892,321.09</u>

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7. **CHANGE OF SERVICE:** If you are proposing a change in service, then please briefly list what services will be added/modified. Be sure to include the establishment of a new service or the addition of a new location of an existing service. Please reference the Certificate of Need Rules Section 11-186-5 for the categories of services. If you are unable to determine which category best describes your project, please consult with agency staff.

N/A

8. **IMPLEMENTATION SCHEDULE:** Please present a projected time schedule for the completion of this project from start to finish. Include all of the following items that are applicable to your project:

- a) Date of site control for the proposed project, **July 31, 2022**
- b) Dates by which other government approvals/permits will be applied for and received, **TBD**
- c) Dates by which financing is assured for the project, **N/A**
- d) Date construction will commence, **N/A**
- e) Length of construction period, **N/A**
- f) Date of completion of the project, **N/A**
- g) Date of commencement of operation **Upon approval of SHPDA, OHCA, and CMS/Noridian**

Please remember that the Agency does monitor the implementation of Certificates approved. Non-implementation of a project as described in your application may result in a fine and/or withdrawal of the certificate of need.

9. **EXECUTIVE SUMMARY:** Please present a brief summary of your project. In addition, provide a description of how your project meets each of the certificate of need criteria listed below. If a new location is proposed, please attach an easy to read map that shows your project site.

- a) Relationship to the State of Hawai'i Health Services and Facilities Plan.
- b) Need and Accessibility
- c) Quality of Service/Care
- d) Cost and Finances (include revenue/cost projections for the first and third year of operation)
- e) Relationship to the existing health care system
- f) Availability of Resources.

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10. **Eligibility to file for Administrative Review.** This project is eligible to file for Administrative review because: (Check all applicable)

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_____ It involves bed changes, which will have a capital expense of \$1,000,000 or less, and which will have an increased annual operating expense of less than \$500,000.

_____ It involves service changes which will have a capital expense of \$1,000,000 or less, and which will have an increased annual operating expense of less than \$500,000.

_____ It is an acquisition of a health care facility or service, which will result in lower annual operating expenses for that facility, or service.

_____ It is a change of ownership, where the change is from one entity to another substantially related entity.

_____ It is an additional location of an existing service or facility.

 X The applicant believes it will not have a significant impact on the health care system.

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9. EXECUTIVE SUMMARY:

The acquisition of SNF/ICF Services by PSH KM, LLC, a Nevada limited liability company authorized to do business in Hawaii (the "Applicant") stems from a multi-step transaction (the "Transaction") involving the purchase and sale and concurrent leasing of three Skilled Nursing/Intermediate Care Facilities by various affiliates of Ito Family Holdings Corp. ("Ito HoldCo") and Meyer Capital Partners ("MCP"). The steps in the Transaction began in December of 2021 with the execution of the December 2, 2021 Letter of Intent attached hereto as Attachment A (the "Purchase LOI").

As contemplated in the Purchase LOI, MCP formed Aloha SNF Realco LLC, a Hawaii limited liability company ("RealCo") and Aloha SNF Opco LLC, a Hawaii limited liability company ("OpCo") and they, respectively, entered into a Purchase and Sale Agreement (the "PSA") and an Operations Transfer Agreement (the "OTA" and together with the PSA, the "Agreements") for the purchase and sale of the Facility from Ito Holdco's subsidiary, PediaHealth, Corp, a Hawaii corporation ("Seller"). Seller currently (i) owns the land upon which the Skilled Nursing/Intermediate Care Facility located at 91-1360 Karayan Street, Ewa Beach, Hawaii 96706 (the "Facility") sits, (ii) owns the furniture, fixtures and improvements which comprise the Facility pursuant to the PSA (which, together with the Facility is referred to hereinafter as the "Property"), and (ii) operates the Facility pursuant to the OTA. Once executed, the Agreements together superseded the Purchase LOI.

After the execution of the Agreements, several additional steps in the transaction occurred. First, the principals of RealCo formed a single purpose entity known as 91-1360 Karayan, LLC, a Hawaii limited liability company ("Assignee") to take title to the Property at the time of the Transaction's closing. Second, the principals of OpCo selected Pacific Skilled Healthcare, LLC, a Nevada limited liability company ("PSH"), to assume operational responsibility for the Facility at the Transaction's closing. Third, PSH formed the Applicant (PSH KM, LLC) to serve as the Facility's actual operator entity upon the Transaction's closing. Fourth, the Assignee and the Applicant agreed on the terms upon which the Facility would be leased to the Applicant and the OpCo agreed to assign to the Applicant its rights and obligations under the OTA such that, upon the Transaction's closing, the operating assets of the Facility and operational and financial responsibility for the Facility will be transferred to the Applicant.

The details related to the portion of the Transaction that followed the execution of the Purchase LOI are collectively commemorated in (1) the Memorandum of Understanding between RealCo and OpCo, and acknowledged by the Assignee (see Attachment B), and (2) the July 31, 2022 Letter of Intent executed by PSH, as Manager for Applicant, and Assignee (see Attachment C).

As part of the Transaction, it is also anticipated that Applicant will offer continued employment to the majority of the Facility's employees. Overall, the transfer and assignment will result in Applicant's acquisition of the SNF/ICF services provided at the Facility from Seller.

Aside from such acquisition of SNF/ICF services by Applicant, there will be no changes in the Facility's location, bed number or services.

a) Relationship to the State of Hawai'i Health Services and Facilities Plan.

No new or additional beds or services are being proposed for the Facility, so the utilization thresholds of Chapter 2, if any are otherwise applicable, do not apply. The Facility's continued existence is consistent with Chapter 3's Statewide objective of ensuring capacity and access to a continuum of long-term care services.

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b) Need and Accessibility

Applicant will make the Facility's services available to all Oahu residents and visitors, including low-income individuals, racial and ethnic minorities, women, individuals with disabilities, other underserved groups, and the elderly. No new or additional beds or services are being proposed. The need for the Facility's existing beds and services were previously established, and its continued existence is consistent with the State's Health Services and Facilities Plan. There is no change in accessibility as the Facility is not moving.

c) Quality of Service/Care

PSH and Applicant's owner, Spencer Olsen, is a veteran skilled nursing facility operator with many years of experience working in the long-term care industry. In 2001, Mr. Olsen joined a West Coast based long-term care company, now known as North American Health Services, which at the time operated 24 skilled nursing facilities in California. Mr. Olsen's primary role was to oversee the company's financial and shared services. On July 1, 2018, Mr. Olsen was appointed CEO of North American Health Services and served in this capacity until the beginning of 2022. At the time of his departure, North American Health Services operated 35 skilled nursing facilities in California and Washington, many which are highly rated by CMS. Throughout his tenure with North American Health Services, Mr. Olsen hired consultants, conducted targeted in-service trainings, and adopted an operationally focused company model that collectively improved the quality of care and the clinical skill of the company's caregivers to meet the ever-increasing demands of their diverse medical communities. In addition to overseeing Applicant's operations, Mr. Olsen also presently serves on the Board of Directors for a Behavioral Health Company which serves the long-term care industry. Overall, Mr. Olsen has a strong background working in the long-term care industry, with many contacts and experiences that will contribute to the Facility's success going forward. Mr. Olsen's many years of overseeing long-term care facility operations ensure that Applicant will be well-equipped to operate the Facility in compliance with all applicable regulations and in a manner that prioritizes the safety and well-being of residents.

From an operational standpoint, the Transaction will not result in any significant change for the Facility. Applicant plans to retain and rehire the same teams which staff the Facility under the current owner/operator (Pediahealth Corp). In other words, the resources, teams and talent (and their clinical expertise) will remain following the close of the Transaction. Applicant will also implement a robust Quality Assurance & Performance Improvement ("QAPI") Program that ensures the staff's adherence to standards and initiatives that improve the quality of life, and quality of care delivered in the Facility. See Attachment D, the QAPI Plan which Applicant plans to adopt for the Facility.

d) Cost and Finances (include revenue/cost projections for the first and third year of operation)

	Projected 1st Full Year Operations	Projected 3rd Full Year Operations
Total Operating Revenue	\$ 11,000,000.00	\$ 11,200,000.00
Operating Expenses		
Salaries, Wages, Benefits	\$ 5,000,000.00	\$ 5,100,000.00
Other Expenses	\$ 5,000,000.00	\$ 5,000,000.00
Depreciation	\$ 900,000.00	\$ 950,000.00
Total Expenses	\$ 10,900,000.00	\$ 11,050,000.00
Net Income (Loss) from Operations	\$ 100,000.00	\$ 150,000.00
Add Back: Depreciation	\$ 900,000.00	\$ 950,000.00
Excess (Deficit) Fund from Operations	\$ 1,000,000.00	\$ 1,100,000.00

The capital costs are calculated based on the fair market value of the property's patient areas only. Non patient areas are exempt from Certificate of Need requirements under HRS § 323D-54(8).

The change in ownership of the Property and acquisition of SNF/ICF services by Applicant, will have no impact on the cost of healthcare services to the community.

e) Relationship to the existing health care system

No new or additional beds or services are being proposed, nor are any reductions, so the Facility's relationship to the existing healthcare system will not change. The Facility's continued existence is consistent with Chapter 3 of the State's Health Services and Facilities Plan's objective of ensuring capacity and access to a continuum of long-term care services

f) Availability of Resources

The Applicant's main source of initial working capital required to finance the Facility's operations will be owner equity. In addition, PSH has secured an operating \$4.5 million line of credit through Bank of Hope (the "PSH LOC"), a portion (approximately \$1.5 million) to which Applicant will have access. The PSH LOC is collateralized in part by the Facility's Accounts Receivables.