



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

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ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM

Application Number: # 22-24A
To be assigned by Agency

Date of Receipt: ST HEALTH PLNG & DEV. AGENCY

APPLICANT PROFILE

Project Title: Acquisition of SNF/ICF Services

Project Address: 1677 Pensacola Street

Honolulu, HI 96822

Applicant Facility/Organization: Hale Nani Rehab & Nursing Center LLC

Name of CEO or equivalent: Donald Knox

Title: Member

Address: 4055 Shelbyville Rd., Suite B, Louisville, KY 40207

Phone Number: 859-575-0145 Fax Number: n/a

Contact Person for this Application: J. George Hetherington, Esq.

Title: Lawyer

Address: 1100 Alakea Street, Suite 3100, Honolulu, Hawaii 96813

Phone Number: (808) 540-4504 Fax Number: (808) 540-4530

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 [Handwritten Signature]

Date: 12-2-2022

Donald Knox
Name (please type or print)

Member
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: X
- Windward O`ahu: X
- 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) See Attachment 1.
- 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.)
 - SNF Licensure through State of Hawaii, Office of Health Care Assurance
 - CMS/Noridian certification
- C. Your governing body: list by names, titles and address/phone numbers

See Attachment 2.
- 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 Organization - See Attachment 3.
 - By-Laws – Not applicable
 - Operating Agreement – See Attachment 4.
 - Tax Key Number (project's location) – 2-4-030-037-0000

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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	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:

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- | | | |
|----|---|------------------------|
| 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>\$33,600,000.00</u> |
| 7. | Other: _____ | _____ |

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TOTAL PROJECT COST: \$33,600,000.00

B. Source of Funds

- | | | |
|----|---|------------------------|
| 1. | Cash | _____ |
| 2. | State Appropriations | _____ |
| 3. | Other Grants | _____ |
| 4. | Fund Drive | _____ |
| 5. | Debt | _____ |
| 6. | Other: <u>FMV of leased property to be paid by monthly rent</u> | <u>\$33,600,000.00</u> |

TOTAL SOURCE OF FUNDS: \$33,600,000.00

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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:

- Date of site control for the proposed project,
 - December 2, 2022
- Dates by which other government approvals/permits will be applied for and received,
 - TBD
- Dates by which financing is assured for the project,
 - N/A
- Date construction will commence,
 - N/A
- Length of construction period,
 - N/A
- Date of completion of the project,
 - N/A
- 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.

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EXECUTIVE SUMMARY

The acquisition of SNF/ICF services by Hale Nani Rehab & Nursing Center LLC, a Hawaii limited liability company authorized to do business in Hawaii (the "Applicant") is the result of a multi-state, multi-property deal (the "Transaction"), which includes the sale and transfer of the property and other assets located at 1677 Pensacola Street, Honolulu, Hawaii 96822 (the "Property") by Avalon Realty – Hale Nani, LLC, a Utah limited liability company ("Seller PropCo") and Avalon Care Center – Hale Nani, L.L.C., a Utah limited liability company ("Seller OpCo" and, together with Seller PropCo, "Avalon").

The Transaction is the result of a series of transfers summarized herein and explained in further detail in the Memorandum of Understanding attached hereto as Attachment 1 (the "Transaction MOU").

Seller PropCo and WT Hawaii Landlord LLC, a Delaware limited liability company ("WT Hawaii") entered into a Purchase and Sale Agreement (the "PSA") for the sale of the Property. As contemplated by the PSA, WT Hawaii then formed a single purpose entity known as Hale Nani PropCo LLC, a Delaware limited liability company ("HN PropCo") to take title to the Property at the time of the Transaction's closing.

In conjunction with the purchase, WT Hawaii has selected experienced skilled nursing facility operator, Candour Management LLC, a Delaware limited liability company ("Candour Management"), to assume operational responsibility for the skilled nursing/intermediate care facility situated on the Property (the "Facility") at the Transaction's closing. Through its common ownership interest in certain special purpose entities, Candour Management formed Applicant to enter into an Operations Transfer Agreement (the "OTA" and, together with the PSA, the "Agreements") with Seller OpCo. Pursuant to the OTA, Applicant will be transferred and conveyed the incidental assets and responsibilities related to operating the Facility. At the same time, HN PropCo will enter into a Master Lease Agreement with Applicant for use of the Property to operate the Facility.

Overall, the transfers and assignments explained in the Transaction MOU will result in Applicant's acquisition from Avalon of SNF/ICF services provided at the Facility

Applicant intends to offer continued employment to the majority of the Facility's current employees and there are no changes to the Facility's location, bed number, or services anticipated.

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

There are no new or additional beds or services proposed for the Facility. Accordingly, the utilization thresholds set forth in Chapter 2 of the Health Services & Facilities Plan do not apply to the Proposal. By maintaining and continuing to provide SNF/ICF services at the Facility, the Proposal supports the following Statewide Health Coordinating Council Priorities:

- Promotes and supports the long-term viability of the health care delivery system.
- Maintains overall access to quality health care at a reasonable cost.
- Ensures capacity and access to a continuum of long-term care services.

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The Proposal is also consistent with the Honolulu Subarea Health Planning Council Priority of increasing the availability of long-term care services and other supportive services.

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b) Need and Accessibility

The Proposal does not involve the addition of any new beds or services. The need for the Facility's existing beds was already established through Certificate of Need approval for the establishment of such services. Approval of the continued operation of the Facility is consistent with the Health Services & Facilities Plan. The Facility (including the services provided therein) is not moving or otherwise relocating, so the Proposal will not change accessibility to SNF/ICF services in any way.

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.

c) Quality of Service/Care

Applicant's Parent Company, Candour Management, is an established skilled nursing facility operator, led by a team of highly qualified individuals. The Candour Management team has a wealth of knowledge, and years of experience working in the long-term care industry, during which it has managed the successful operation of skilled nursing facilities throughout the country. See Attachment 5, Candour Management Summary and Key Members. The summary highlights the relevant background and experience of Candour Management's key personnel, who will be involved in overseeing the Facility's operations. Candour Management's strong background in the long-term care arena makes it well-equipped to operate the Facility in compliance with all applicable state and federal regulations, in a manner that prioritizes the safety and well-being of residents. Candour Management, and its key members, collectively have numerous contacts, experienced in their own right, that Applicant will tap into, as a resource, to ensure the Facility's continued operational success.

The Transaction will not result in any significant operational change for the Facility. Applicant will retain and rehire the same employees which currently staff the Facility under Avalon. This will ensure that the clinical and managerial know-how and expertise will remain with the Facility following the close of the Transaction.

As far as the Facility's day-to-day operations, Applicant plans to implement a robust Quality Assurance & Performance Improvement ("QAPI") Program for the Facility, which will guide efforts in assuring care and services are maintained at acceptable levels of performance and continuous improvement. See Attachment 6, Quality Assurance and Performance Improvement, The Change Process, Quality Assessment and Assurance, and Facility QAPI Minutes. These documents detail the policies and procedures the Applicant intends to adopt in support of the Facility's QAPI Program.

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

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First and Third Year Revenue and Cost Projections		
	Projected 1st Full Year Operations	Projected 3rd Full Year Operations
Total Operating Revenue	\$55,687,718.07	\$56,062,614.87
Operating Expenses		
Salaries, Wages, Benefits	\$25,145,504.43	\$25,413,304.72
Other Expenses	\$24,923,168.11	\$25,035,966.46
Depreciation	\$ 2,989,903.18	\$ 3,010,750.95
Total Expenses	\$53,058,575.72	\$53,460,022.13
Net Income (Loss) from Operations	\$ 2,629,142.35	\$ 2,602,592.74
Add Back: Depreciation	\$ 2,989,903.18	\$ 3,010,750.95
Excess (Deficit) Fund from Operations	\$ 5,619,045.53	\$ 5,613,343.69

Neither the change in ownership of the Property nor Applicant's acquisition of SNF/ICF services will have an impact on the cost of health care services to the community.

e) Relationship to the existing health care system

This proposal is not expected to have any impact on the existing health care system. There will be no change in the number of beds or scope of services offered at the Facility. Importantly, Applicant emphasizes there will be no reduction in services. As a result, the proposal will help to support many of the priorities set forth in the Health Services & Facilities Plan, including ensuring continued capacity and access to a continuum of long-term care services.

f) Availability of Resources.

From a regional level down to the building level, the proposal will not result in any staffing changes at the Facility.

With respect to financial resources, there are minimal financial obstacles to the proposal. Applicant will pay for the proposal's costs through a combination of sources. Applicant's main source of initial working capital required to finance the operations will be owner equity. In addition, Applicant has exclusive access to a line of credit through M&T Bank Corporation in the amount of \$18 million.

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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.

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_____ 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.