



STATE OF WASHINGTON
DEPARTMENT OF HEALTH

February 19, 2014

CERTIFIED MAIL # 7011 1570 0002 7809 5605

Randall L. Stamper
720 West Boone, Suite 200
Spokane, Washington 99201

RE: CN14-03

Dear Mr. Stamper:

We have completed review of the Certificate of Need application submitted by Emerald Communities proposing to establish a Type A skilled nursing facility within a continuing care retirement community in the city of Gig Harbor within Pierce County. Enclosed is a written evaluation of the application.

For the reasons stated in this evaluation, the application submitted by Emerald Communities proposing a Type A skilled nursing facility is not consistent with applicable criteria of the Certificate of Need Program, and a Certificate of Need is denied.

The table below identifies the criterion that were denied.

Need	WAC ¹ 246-310-210
Financial Feasibility	WAC 246-310-220
Structure and Process of Care	WAC 246-310-230
Cost Containment	WAC 246-310-240

This decision may be appealed. The two appeal options are listed below.

¹ Washington Administrative Code.



Appeal Option 1:

You, any interested person, or affected person may request a public hearing to reconsider this decision. The request must state the specific reasons for reconsideration in accordance with Washington Administrative Code 246-310-560. A reconsideration request must be received within 28 calendar days from the date of the decision at one of the following addresses:

Mailing Address:

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

Other Than By Mail

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

Appeal Option 2:

You or any person with standing may request an adjudicative proceeding to contest this decision within 28 calendar days from the date of this letter. The notice of appeal must be filed according to the provisions of Revised Code of Washington 34.05 and Washington Administrative Code 246-310-610. A request for an adjudicative proceeding must be received within the 28 days at one of the following addresses:

Mailing Address:

Adjudicative Service Unit
Mail Stop 47879
Olympia, WA 98504-7879

Other Than By Mail

Adjudicative Clerk Office
311 Israel Road SE, Building 6
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, Community Health Systems

Enclosure

CC: Lisa Hardy

**EVALUATION DATED FEBRUARY 21, 2014 OF THE CERTIFICATE OF NEED
APPLICATION SUBMITTED BY EMERALD COMMUNITIES PROPOSING TO
ESTABLISH A FOURTY-FIVE BED NURSING HOME AS PART OF THE CONTINUING
CARE RETIREMENT COMMUNITY IN THE CITY OF GIG HARBOR, WITHIN PIERCE
COUNTY**

APPLICANT DESCRIPTION

Emerald Communities is a not-for-profit corporate entity which currently operates a continuing care retirement community (CCRC) in Redmond located within King County. Emerald Communities has recently established Heron's Key a Washington not-for-profit corporation under which Emerald Communities will operate the Type A CCRC. Emerald Communities will be the sole member of Heron's Key. Emerald Communities is the parent corporation that will provide management, development, and marketing services for Heron's Key retirement community. [Source: Application pp1-2]

PROJECT DESCRIPTION

For this application, Emerald Communities proposes to establish a 45 bed Type A skilled nursing facility (SNF) within a Type A CCRC that will be located in the city of Gig Harbor within Pierce County. The 45 bed Type A SNF would be constructed as part of phase one of the overall project. In addition to the Type A SNF, the applicant is proposing to construct and operate a 12 bed memory care Unit (Assisted Living apartments) within their health center. The applicant is proposing to add the 12 bed memory care unit in phase two. [Source: Application, p2] For ease of reference, this document will refer to the applicant as Emerald Communities and the CCRC as "Heron's Key Type A CCRC" and the proposed SNF within the CCRC as "Heron's Key Type A SNF."

The department uses the definition of a Type A CCRC found in RCW 70.38.025(3), 70.38.111(5), and WAC 246-310-010, additionally 1987 Washington State Health Plan is used to assist in evaluations of Type A CCRCs. Though the state health plan was "sunset" in 1989, the department has concluded that it remains a reliable tool for evaluating Type A CCRC projects. The state health plan provides a definition of Type A CCRCs as well as providing guidance in the types of services expected to be provided and the process to be used by the applicant in establishing the nursing home portion of the CCRC.

Washington Administrative Code (WAC) 246-310-010 defines CCRC as follows:

"Continuing care retirement community (CCRC)" means any of a variety of entities, unless excluded from the definition of health care facility under RCW 70.38.025(6), which provides shelter and services based on continuing care contracts with its residents which:

- *Maintains for a period in excess of one year a CCRC contract with a resident which provides or arranges for at least the following specific services:*
 - *Independent living units;*
 - *Nursing home care with no limit on the number of medically needed days;*
 - *Assistance with activities of daily living;*
 - *Services equivalent in scope to either state chore services or Medicaid home health services;*
 - *Continues a contract, if a resident is no longer able to pay for services;*

- *Offers services only to contractual residents with limited exception during a transition period; and*
- *Holds the Medicaid program harmless from liability for costs of care, even if the resident depletes his or her personal resources.*

Under Certificate of Need rules and regulations, only the establishment of Heron’s Key Type A SNF requires prior review and approval, however, to ensure the success of the nursing home, the department must consider the establishment of Heron’s Key as a whole. To that end, this evaluation will include the establishment of the Heron’s Key with a focus on the Heron’s Key Type A SNF.

The property for Heron’s Key does not currently have an address assigned by the city of Gig Harbor. The property is an unimproved parcel of real property approximately 17.4 acres in area, comprising of an approximately 10.0 acre parcel known as Parcel M2 of the approved preliminary plat of Harbor Hill and an adjacent area composed of approximately 7.4 acres of land. The property is commonly known by the buyer and seller as “modified parcel M2”. The property has not been established as a separate legal lot as of the date of the submission of the CN application. The property is located at the intersection of Peacock Hill and Borgen Boulevard, in the city of Gig Harbor. [Source: Supplemental Materials, Omnibus Assignment and Assumption Agreement]

Heron’s Key will offer residents lifetime residency and provide a continuum of housing, support through a contract known as Life Care Contracts. [Source: Application, p 2] Heron’s Key will provide four levels of care:

1. Residential health services with a focus on preventative care;
2. Assisted living services provided in the Assisted Living Center;
3. Memory care services in the Health Center and then in the Memory Care Center once constructed in a future phase; and
4. Rehabilitative care services and nursing care services in the Health Center.

They would provide the following services to the residents under the terms of the residence and care agreements in exchange for payment of a one-time, entrance fee and ongoing payments of a monthly service fee. [Source: Application, p2]

- Monthly dining allocation
- Parking for guests
- Emergency call system
- Scheduled transportation;
- Fire detection system
- Building and grounds maintenance
- Basic cable television service and all utilities, except telephone;
- Standard cleaning of private residential home every other week
- Use of all common and activity areas and private dining room
- Various fitness and wellness programs (nominal fees may apply).

The applicant provided a detailed timeline for phase one. The timeline for phase two depends meeting the conditions discussed below that will trigger phase II of the project.

Phase One

Emerald Communities has obtained initial pre-finance capital through a loan from Eastside Retirement Association. If this project is approved, Emerald Communities anticipates submitting design

documents to the department’s Construction Review Section by March 2015. Construction of the CCRC would begin approximately June 2015; and substantial completion of construction is expected by January 2017. Phase one would be operational in January 2017. Phase one consists of 181 residential homes, 14 assisted living apartments; and the 45-bed Heron’s Key Type A SNF. [Source: Application p2]

Phase Two

Prompts for beginning phase two of the project include: achieving 85% occupancy for phase one independent living units; continued or sufficient market demand for the services within the defined market; access to adequate pre-development capital for phase two development; and general economic conditions. Financing for Phase two requires phase two to be 60% pre-sold and combined Phase one and Phase two to be sold at a minimum of 75%. Items that could prevent phase two of the project include lack of interest in financing the plan by potential investors or phase one constraints related to financial covenants. [Source: Supplemental information, p6] Below is a breakdown of the number of homes, apartments, and the SNF beds by phase.

Phase	# of Residential Homes	# of Assisted Living Apartments	# of Skilled Nursing Beds
Phase 1	181 units	14 units ¹	45 beds
Phase 2	80 units	12 units ²	
Totals	261 units	26 Units	45 beds

[Source: Application, p2]

At completion of phase two, the Heron’s Key would have 261 residential homes, 26 assisted living apartments, and a 45-bed SNF. It is noted that if this project is approved, 12 of the phase two apartments would be in a memory care unit.

There are three main entities involved in the development of this project: Emerald Communities, Life Care Services (LCS) Development Company, and Milliman.

Emerald Communities-Applicant

A description of Emerald Communities was provided in the applicant description section of this evaluation. For this project, Emerald Communities submitted this application and provided copies of their Agreement for Management and Operation Services and bylaws, Articles of Incorporation, and Certificate of Incorporation for Heron’s Key. [Source: Application: Exhibit 2]

Life Care Services (LCS) Development

“LCS Development has been designing and developing senior living communities since 1971, and they draw from this extensive background in every community they serve. As one of the LCS family of Companies, they have an in-depth understanding of the senior living experience- an unlimited access to in-house resources that other developers must outsource. Since their inception they have opened 45 greenfield continuing care retirement communities” [these communities have included SNFs and assisted living facilities]. [Source: Application, pp15-16]

¹ (includes assisted & personal care)

² Proposed Memory Care Unit, not reimbursable by Medicare

Milliman

Milliman is an actuarial firm whose principle is a Member of the American Academy of Actuaries and meets the qualifications to issue statements of Actuarial Opinion for Continuing Care Retirement Communities. Milliman was engaged by LCS Development to review resident population projections performed by Life Care Services for Heron's Key. Milliman relied on information supplied by Life Care Services and LCS Development for population projections

The capital expenditure associated with the establishment of phase one of the Heron's Key project is \$145,204,381. Of that amount, the applicant identified the cost of the 45-bed Heron's Key Type A CCRC SNF as \$6,237,481. [Source: Application, Face page]

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need review as the establishment of a skilled nursing facility that is owned/operated by a continuing care retirement community under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(a), and Washington Administrative Code (WAC) 246-310-020(1) and WAC 246-310-041.

EVALUATION CRITERIA

WAC 246-310-200(1)(a)-(d) identifies the four determinations 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 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.”*

To obtain CN approval, Emerald Communities must demonstrate compliance with the applicable criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); and 246-310-240 (cost containment). Additionally, WAC 246-310-380(4) contains service or facility specific criteria for CCRC projects and must be used to make the required determinations.³ Additionally the former state health plan also contains standards and criteria used to review this type of project.

APPLICATION CHRONOLOGY

Letter of Intent Submitted	June 3, 2013
Application Submitted	July 30, 2013
Department’s Pre-Review Activities <ul style="list-style-type: none"> • Department 1st Screening Letter Sent • Emerald Communities Screening Responses Received 	August 30, 2013 October 10, 2013
Department Begins Review of the Application	October 17, 2013
Last day to request a public hearing	November 1, 2013 ⁴
End of Public Comment No Public Comments were received	November 21, 2013
Last day to submit rebuttal comments	December 10, 2013 ⁵
Department's Anticipated Decision Date	January 24, 2014
Department’s Actual Decision Date	February 21, 2014

In the first screening letter the department offers the applicant three options under WAC 246-310-090)(2)(c). The options are:

- Submit written supplemental information with a request to continue screening until the information is complete.
- Submit written supplemental information with a request to begin the review regardless of whether the information is complete.
- Submit a written request to review the incomplete application without supplemental information.

The applicant chose to have the department begin review regardless of whether the information is complete. Therefore, where there is incomplete information or contradictory information in the materials the department was not allowed to ask additional clarifying questions.

³ Each criterion contains certain sub-criteria. The following sub-criteria are not discussed in this evaluation because they are not relevant to this project: WAC 246-310-210(3), (4), and (5)
⁴ No request for public hearing was received
⁵ No public comments were received and therefore applicant did not submit any rebuttal comments

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.”*

For this project, no entity sought or received affected person status under WAC 246-310-010.

TYPE OF REVIEW

As directed under WAC 246-310-130(5)(a), the department accepted this project under the 2013 CCRC concurrent review cycle. In accordance with Certificate of Need Program policy, when applications initially submitted under a concurrent review cycle are deemed not to be competing, the department may convert the review to the regular review process. Given that Emerald Communities was the only applicant proposing to provide services under the 2013 CCRC concurrent review cycle, the application was converted to a regular review.

SOURCE INFORMATION REVIEWED

- Emerald Communities Certificate of Need Application received July 30, 2013
- Heron’s Key supplemental information dated October 10, 2013
- Population data obtained from the Office of Financial Management May 2012
- 1987 Washington State Health Plan
- Licensing and/or survey data provided by the Department of Social and Health Services
- Certificate of Need historical files
- Emerald Communities Website at <http://www.theemeraldcommunities.org>
- Centers for Medicare and Medicaid Services website at <http://www.medicare.gov/NursingHomeCompare/profile.aspx-ComplianceHistory>

CONCLUSION

For the reasons stated in this evaluation, the application submitted by Emerald Communities proposing to establish a new 45 bed skilled nursing facility in Gig Harbor within Pierce County is not consistent with applicable criteria of the Certificate of Need Program, and a Certificate of Need is denied.

A. Need (WAC 246-310-210)

Based on the source information reviewed, the department concludes Emerald Communities has not met the need criteria in WAC 246-310-210(1) and (2) and WAC 246-310-380(4).

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

The Department of Health's Certificate of Need Program is responsible for evaluating the need for establishment of new nursing homes in the state, which includes nursing homes associated with CCRCs and freestanding nursing homes. In the case of freestanding nursing homes, part of the evaluation includes a numeric methodology using a statewide established ratio of 40 beds per 1,000 population over 70 years of age (40/1,000). Additionally, any person may be admitted into a freestanding nursing home provided that there is a bed available and the nursing home can meet the care needs of that person. There is no membership fee or entrance fee, and the range of services is not contractually guaranteed. Care in freestanding nursing homes is usually paid by Medicaid, Medicare, the resident, or a combination of the three.

For nursing homes associated with Type A CCRCs as defined in WAC 246-310-010, the department limits to 300 the total number of nursing home beds, statewide, which may be granted to a nursing home in transition. [Source: WAC 246-310-380(4)] A transition period is a period of time, not exceeding five years, between the date a Type A CCRC is inhabited by a member, and the date it fully meets the requirements of a Type A CCRC. The purpose of a transition period is to allow a Type A CCRC skilled nursing facility to be operated from its inception on a financially feasible basis by allowing it to generate revenue from admission of patients from the general population until the Type A CCRC membership generates sufficient internal demand for care to sustain itself with member revenues and other Type A CCRC support. In addition, the transition period enables the Type A CCRC to provide service to patients who would otherwise be cared for in freestanding nursing homes in the area.

The applicant has identified 2 skilled nursing facilities operating within two separate Type A CCRCs in Washington State that they considered might still be in the transition period and would count against the 300 SNF beds available for new CCRCs:

- Corwin Care Center at Emerald Heights located in the city of Redmond is licensed for 61 Type A CCRC SNF beds; and
- Mirabella located in downtown Seattle and is licensed for 22 Type A CCRC SNF beds

Corwin Care Center and Mirabella have completed their transition periods. Therefore, all 300 beds remain available for new Type A CCRCs.

To ensure success of the Type A CCRC and demonstrate compliance with this sub-criterion, the applicant commissioned an actuarial marketing study of the retirement community by the actuarial consulting firm of LCS Development. This study was performed by staff in the Des Moines, Iowa office. The level of need for nursing home beds at Heron's Key Type A SNF was calculated as part of the actuarial study. The LCS Development study incorporates an independent analysis of the retirement community market in Pierce County and surrounding counties. The study also includes an independent evaluation of the population projections provided by Milliman performed by actuary staff in their Omaha Nebraska office. LCS Development performed both a market and a

financial feasibility analysis for the project. [Source: Application, Exhibit 15 & 17] The actuarial study of the population provided by Milliman included the following statement about the need for nursing home beds for this project. [Source: Application, Exhibit 15]

“The population projections indicate that approximately seven skilled nursing facility (SNF) beds will be needed, on average, by contractual residents at Phase One of Heron’s Key (permanent and temporary utilization) five years after opening, 18 beds within ten years, and 25 beds within 15 years. The SNF at Heron’s Key has a capacity of 45 beds, well above the expected utilization by contractual residents at Phase One. However, additional SNF beds will be needed by residents in Phase Two in future years. There may also be demand for SNF beds by direct entrance to assisted living—such demand is not included in the population projections. Actual bed needs will fluctuate over time and could vary significantly due to factors described below. The population projections indicate that there is sufficient capacity in the SNF for Heron’s Key to meet its contractual obligation to provide necessary nursing care to its residents”

The market assessment provided in the LCS Development provides the following summary of key research findings. [Source: Application, p17]

- *“Generally CCRCs are targeted to seniors with above average levels of income and assets. As such, the demographic analysis identified the more affluent areas for the greater Tacoma and Gig Harbor areas as the north and northwest sections of Tacoma, all of Gig Harbor, Olalla and Port Orange (Port Orchard). Demographic mapping of the age 75 and older households with \$50,000 or more of income show that many of the areas of concentrated seniors with higher incomes are along and near the inlets, narrows, and passages of this section of Puget Sound. The demographic distribution of Tacoma’s more affluent senior households is favorable relative to Gig Harbor in that the stronger Tacoma zip codes relative to senior households are concentrated along and within a short 2 to 3 mile distance of the Tacoma Narrows Bridge. It would be assumed that these north and northwestern sections of Tacoma would be sources for some of the residents for a possible Gig Harbor CCRC development.*
- *Based on a review of the demographic data, the geographic features of the area (bodies of water, mountains, etc.) and man-made features such as highways and streets, a Primary Market Area (PMA) was identified for the Borgen Boulevard CCRC site location in the northern part of Gig Harbor. The PMA for this Gig Harbor site consists of 9 zip codes that include Port Orange [Port Orchard] and Olalla in Kitsap County north of the site: the 2 Gig Harbor and 1 Fox Island zip codes on the north side of the Tacoma Narrows, and 4 Tacoma zip codes that stretch from the University Place/Fircrest area on the south to the far north Point Defiance section of Tacoma.*
- *Four of the eight likely competitors are located in Gig Harbor and four are located in the Tacoma section of the PMA. Some of the competitors have facilities that date back to the 1920’s and one of the communities has been in operation for slightly over one year.*
- *None of the competitors that exist in the market today are purpose built CCRC’s. However, 3 of the existing competitors are CCRC look alike communities. Those 3 communities have independent, assisted, and skilled care living facilities on or adjacent to their campuses.*

Those communities are Franke Tobey Jones in Tacoma, Harbor Place at Cottesmore in Gig Harbor, and Tacoma Lutheran Retirement Community. In addition, Merrill Gardens, a combined IL/AL community in Gig Harbor, does not have skilled nursing facilities on its campus, but its site is immediately adjacent to an HCR Manor Care skilled nursing facility. In summary, there is a relatively wide choice of senior living options currently available to seniors in the Tacoma-Gig Harbor Primary Market Area. On a positive note, it does not appear that any new senior living development is currently planned for this area.

- *However a positive factor relative to possible new senior living development is the age and physical size of many of the existing senior communities and their associated IL apartments. First, many of the apartments that exist now are dual purpose in that they are targeted to either independent or assisted residents. The result of that type of design is that many of the IL/AL units are smaller (400 to 600) square feet) and some do not have full kitchen facilities. Therefore, there may be a market opportunity to develop newer, larger IL apartments for this market area.*
- *The predominant type of financial model for the existing senior living communities is a monthly rent. There may be some resistance to an entrance fee and monthly fee CCRC in this area as that is a relatively uncommon approach to paying for senior living in this area.*
- *Mirroring what has happened in most regions of the U.S. over the last several years, the housing market in the identified Tacoma-Gig Harbor PMA has deteriorated noticeably over the last five years. The annual volume of home sales in the 9 zip code PMA has declined by 21% since 2007. Similarly, the median prices of homes sold in the PMA have declined from \$334,000 in 2007 to \$254,500 as of the first 3 quarters of 2011. An important consideration if an entrance fee pricing model is used for the proposed CCRC is whether there will be further deterioration, stabilization or improvement in the local housing market in the next 2 to 4 years.*
- *Although there are potentially over 800 independent living units that are targeted to the identified Tacoma-Gig Harbor PMA, a more detailed analysis of those senior living communities was completed to estimate how many of those units might be filled with independent living residents from the PMA. That analysis indicated 283 ILUs would likely be filled from the PMA.*
- *Further, it was assumed for the purposes of this study that Phase 1 of the proposed Gig Harbor CCRC would have 170 ILUs. Of those 170 ILUs, it is estimated that 70% would be filled from the PMA based on past LCS experience and industry guidelines.*
- *The current 2011 estimated market penetration rate for the Gig Harbor CCRC is 17.7% which is on the higher side of the moderate market penetration scale [emphasis added by the department]. This means that the more limited target market size and number of competing ILUs make the Gig Harbor CCRC development relatively challenging. In addition, with some growth in the target market size over the next 5 years, the market penetration rate would improve somewhat to 15.2% in 2016.”*

The LCS study indicates that this project may be very difficult to market and given the current housing market the potential resident pool may be reduced. The issue of fees may also be a marketing obstacle.

Based on the information provided in the Milliman study that the number of SNF beds needed for the residents of Heron's Key is substantially below the number of SNF beds being proposed in the project, the department concludes that the applicant has not demonstrated that the project meets the sub-criterion as it would apply to a Type A CCRC. **This sub-criterion is not met.**

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

For general Certificate of Need applications, the applicant must demonstrate that all residents of the service area including low-income, racial and ethnic minorities, handicapped and other underserved groups would have access to the services proposed. For this Type A CCRC, the department understands that the target market for this project is limited to households age 75+ with at least \$50,000 annual income. With these limitations, the typical CCRC resident would not be considered a "low-income" resident. [Source: Application, Exhibit 17 Market Assessment] As a result, this portion of this sub-criterion is not applicable to this project.

To demonstrate compliance with this sub-criterion, the applicant provided documentation that no person(s) will be denied services at Heron's Key Type A CCRC solely for reasons of race, color, ethnic origin, religious belief, or sex, provided that the person(s) meets the criteria to qualify as a resident of the Type A CCRC. [Source: Application, Exhibit 2] Additionally, the applicant provided a copy of its General Conditions for Residence that outlines the eligibility criterion a potential resident must meet. The General Conditions for Residence Agreement are consistent with the criteria outlined in RCW 70.38.025(3) and the CCRC Move-In Agreement is consistent with the criteria outlined in WAC 246-310-010 for a Type A CCRC. [Source: Application: Exhibit 4 & 8]

Specific to the Type A SNF portion of this project, Emerald Communities provided a copy of its Heron's Key Skilled Nursing Services Hospitality Guide. The Hospitality Guide contains a reference to Heron's Key Type A SNF participating in Medicaid. This is in direct contradiction to the statements in the Emerald Communities application that Heron's Key Type A SNF will not participate in Medicaid during the transition period. Therefore this document submitted in the first screening response is not acceptable. [Source: Application: p5 & Supplemental Material, Heron's Key Skilled Nursing Services Hospitality Guide, p21]

The information submitted by the applicant does not support approval of a 45 bed Type A SNF for this project. The applicant has submitted documents in conflict with statements in the application that they will not seek a Medicaid contract.

This project does not meet the sub-criterion as it would apply to a Type A CCRC. **This sub-criterion is not met.**

Financial Feasibility (WAC 246-310-220)

Based on the source information reviewed, the department concludes that the Emerald Communities has not 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.

As stated in the project description portion of this evaluation, if this project is approved, the applicant would begin marketing and development Heron’s Key immediately would begin offering services in January 2017. Phase one includes 181 residential homes, 14 apartments, and 45 nursing home beds. [Source: Application, p2] Based on this timeline, year 2017 would be the first full year of operation as a Type A CCRC with 45 skilled nursing beds. As previously stated, the establishment of phase two of this project is based on the success of phase one. The applicant anticipates services could start on phase two by August 2020. If this project is approved and the applicant maintained its CCRC status consistent with RCW 70.38.111(5) additional nursing home beds could be added in phase two without undergoing this type of Certificate of Need review and approval process.⁶ For this project, an evaluation of phase one is the focus of this financial review.

As stated earlier, the applicant identified the estimated capital expenditure for this project as being \$6,237,482. This amount only includes the construction costs for the nursing home. The actual total capital costs identified in exhibit 16 is \$9,042,830. Of these total costs approximately 69% is related to constructions and fixed equipment costs. The remaining 31% is related to development fees, furniture, and moveable equipment. [Source: Application, Exhibit 16]

To determine whether Heron’s Key Type A SNF would meet its immediate and long range operating costs, the department evaluated the projected balance sheets for the first three years of operation as a 45-bed facility. A summary of the balance sheets review is shown in the table below. [Source: Application: Exhibit 24]

**Tables 1a, 1b, 1c
Heron’s Key Type A SNF Projected Balance Sheet
Year 2017**

Assets		Liabilities	
Current Assets	\$141,072	Current Liabilities	\$141,072
Fixed Assets	\$6,128,308	Other Liabilities	\$6,128,308
Other Assets	\$0	Total Liabilities	\$6,269,380
		Equity	\$0
Total Assets	\$6,269,380	Total Liabilities and Equity	\$6,269,380

**Table 1b
2018**

Assets		Liabilities	
Current Assets	\$311,521	Current Liabilities	\$311,521
Fixed Assets	\$5,949,924	Other Liabilities	\$5,949,924
Other Assets	\$0	Total Liabilities	\$6,261,445
		Equity	\$0
Total Assets	\$6,261,445	Total Liabilities and Equity	\$6,261,445

⁶ The applicant must submit an exemption request as specified in WAC 246-310-041

**Table 1c
Year 2019**

Assets		Liabilities	
Current Assets	\$322,356	Current Liabilities	\$322,356
Fixed Assets	\$5,724,049	Other Liabilities	\$5,724,049
Other Assets	\$0	Total Liabilities	\$6,046,405
		Equity	\$0
Total Assets	\$6,046,405	Total Liabilities and Equity	\$6,046,405

The balance sheets do not show any equity since the Heron’s Key Type A SNF is part of a larger Type A CCRC project. The equity for the Type A SNF is transferred to the Type A CCRC balance sheet which shows the financial condition of the total project.

In addition to the projected balance sheets summarized above, the applicant also provided its Statement of Operations for years 2017 through 2019 as a 45-bed facility. [Source: Application Exhibits 15 & 24] A summary of the Statement of Operations is shown in the table below.

**Table 2
Heron’s Key Type A SNF Projected Statement of Operations Summary
Years 2017 through 2019**

	Year One 2017	Year Two 2018	Year Three 2019
# of Beds	45	45	45
# of Patient Days	7,227	14,783	14,947
% Occupancy	44%	90%	91%
Routine Care Revenue (Medicare)	\$1,134,238	\$2,495,928	2,570,844
Routine Care Revenue (Private Pay)	\$1,333,061	\$2,934,672	\$3,022,800
Routine Care Revenue (Other)	\$24,095	\$42,193	58,796
Other Operating Revenue	\$330,048	\$757,624	\$794,683
Total Revenue	\$2,821,442	\$6,230,418	\$6,447,123
Total Expense	\$2,363,302	\$4,487,270	\$4,746,765
Net Profit or (Loss)	\$458,139	\$1,743,147	\$1,700,357
Net Revenue per patient per day	\$390.40	\$421.47	\$431.34
Total Expenses per patient per day	\$327.01	\$303.55	\$317.58
Net Profit or (Loss) per patient per day	63.39	\$117.92	\$113.76

Using the financial information provided in the application, Table 2 above illustrates the projected revenue, expenses, and net income for years 2017 to 2019 for Heron’s Key Type A SNF. [Source: Application, Exhibits 15 & 24]

As shown in Table 2 above, at the projected volumes identified in the application, Heron’s Key Type A SNF would be operating at a profit for the first full three years of operation. The data indicates that the Heron’s Key Type A SNF will be highly dependent on the private pay revenue generated by the non-resident patients. Since new non-resident patients will not be able to be admitted after the 5 year transition period, this private pay revenue can be expected to decline.

Since Medicare SNF benefits are limited and require a hospital admission prior to admission to the SNF, the impact will fall more on the patients admitted from Heron's Key. The department notes that the applicant does not intend to admit Medicaid patients into the nursing home during the Type A CCRC transition period as defined in WAC 246-310-010. In community skilled nursing facilities Medicaid is generally a primary payor.

The purpose of a five year transition period is to allow a Type A CCRC's SNF to be operated from its inception on a financially feasible basis by allowing it to generate revenue from admission of patients from the general population until the Type A CCRC membership generates sufficient internal demand for care to sustain itself with member revenues and other Type A CCRC support.

Based on the above factors, the department is concerned about the long range financial feasibility of the Heron's Key Type A SNF.

As previously stated, LCS Development performed both a market analysis and a financial feasibility study for the project. A plan for finance, fill, presale, cash to debt, and reserve requirement assumptions was provided by Ziegler finance. A signed construction cost letter was provided by Weitz Company. [Source: Application: Exhibit 18]

In a letter to the President and CEO of Emerald Communities, staff from LCS Development reported that the market analysis indicated a market penetration rate indicating initial feasibility of this project. LCS Development then applied financial models to the data which indicated financial feasibility study. The assumptions used in the operating model were reviewed and approved by the CFO of Emerald Communities. A development plan was prepared based on budget guidance provided by the various participants involved in preparing the various studies. Also during this time a survey was conducted to validate the proposed mix of living units. The mix of living units was changed to better align with market demand. The financial feasibility was updated based on 50% complete Schematic Design (B2) plans. This update indicates debt service coverage in the first full year of stabilization of 1.39.

Based on the above information, the department recognizes the assumptions used by the applicant related to this criterion could vary, and therefore, could result in either a more or less financially viable project. The department concludes that the long range viability of the project has not been demonstrated by the applicant due to the lack of need for the 45 Type A SNF beds and the fees required from the contacted residents after the transition period. **This sub-criterion is not 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.

The applicant has elected to not accept Medicaid reimbursement at Heron's Key Type A SNF during the transition period, and after the transition period Medicaid reimbursements are not allowed under the Type A CCRC definition under WAC 246-310-010. Further, under the Type A CCRC definition, admittance into the SNF for non-contractual residents is also not allowed after the transition period. The applicant will allow non-contractual patients admitted during the 5 years to stay as long as they are able to pay for the services.

The applicant provided the sources of patient revenue shown in the chart on the below. [Source: Application, p34]

Table 3
Heron’s Key Type A SNF Projected Sources and Percentages of Revenue

Source of Revenue	Percentage of Revenue
Private Pay	53.0%
Medicare	44.0%
Member Fees	3.0%
Total	100.0%

Source: Application, p34

As shown above, private pay is the majority revenue source for Heron’s Key Type A SNF. The applicant provided 6 years of revenue and expense statements and in the fifth and sixth year of operation the private pay revenue begins to decline and the revenue provided by the residents begins to increase. The department concludes that there is a reasonable expectation that the fees required from the contracted members will have to increase substantially to maintain the financial feasibility. This conclusion is also evidenced by the Type A CCRC standards that obligate the Type A CCRC to care for its contracted members even if they exhaust their financial resources. The proposed fees are shown in table 4. [Source: Application, Exhibit 15]

Table 4
Heron’s Key Type A SNF
Average Daily Rate 2017

Private Pay	\$332.03
Medicare	\$565.01
Life Care (contact residents)	\$79.04

The applicant is relying on substantially higher rates for Medicare and private pay patients than its proposing for the Life Care patients for this project to be financially feasible. The percentage of revenue generated by Private pay patients will decrease after the five year transition period, since no new private pay patients can be admitted. The percentage of Medicare revenue also may drop due to the Medicare limitations on reimbursement for SNF care. The result is that the Life Care rates will have to be increased substantially or the Heron’s Key will have to subsidize the Heron’s Key Type A SNF. As mentioned previously, the Heron’s Key Type A SNF is projected to have more beds than necessary to meet the needs of the Type A CCRC population and thus the applicant’s occupancy projections may be overestimated. This would add to the shortfall in revenue and affect the long range financial feasibility.

As previously stated, the capital expenditure associated with the establishment of phase one of the Heron’s Key Type A CCRC project is \$145,204,381 of that amount, \$9,042,830 is attributed to the establishment of the Heron’s Key Type A SNF. A breakdown of the \$9,042,830 associated with the establishment of the Heron’s Key Type A SNF is shown below. [Source: Application, Exhibit 16]

**Table 5
Heron’s Key Type A SNF Construction Costs and Percentages**

Item	Amount	% of Total
Land Purchase & Site Preparation	\$1,273,072	14.08%
Construction Costs	\$5,509,086	60.91%
Equipment (Fixed & Moveable)	\$700,381	7.75%
Supervision	\$115,683	1.28%
Washington State Sales Tax	\$484,712	5.36%
Development Fees	\$386,666	4.28%
Consulting Fees	\$368,730	4.08%
Start Up Loss	\$204,500	2.26%
Total	\$9,042,830	100.0%

The applicant also provided a copy of the contractor’s estimate of the construction costs. The letter confirms the cost of \$6,237,482, which represents only the construction costs for the 45-bed, phase one Type A SNF. [Source: Application: Exhibit 18]

As shown above, the majority of the cost for this project is related to construction. Weitz Construction--a company with significant experience in healthcare projects--has already been selected by the applicant for the construction. Weitz has already begun work on the project by providing pre-construction services, including the costs estimates. Further, the applicant plans to adhere to the latest building codes for construction and energy conservation. [Source: Application, p 25 & 40]

Department Evaluation

The applicant costs and charges are based on the applicant being able to maintain the mix of sources of revenue the applicant has provided in the application. The applicant has failed to demonstrate the impact of the restriction on admitting non-contact patients after the 5 year transition period. The costs will be shifted to the contracted patients which will affect the low rates proposed by the applicant. The rates will also be impacted if the occupancy levels are not achieved.

Based on the above information, the department concludes **this sub-criterion is not 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.

CCRCs are typically financed using a combination of the following three sources: short-term construction loan, long-term debt, and equity. A brief explanation of each source is shown on the below. [Source: CN historical files]

Short-term debt

This type of loan is generally provided by a group of commercial banks. In the CCRC industry, there are four or five major banks that act as lead bank.

Long-term debt

The long-term debt for a CCRC can be any of the following types:

- Mortgage with the same group of banks that provided the short-term construction loan;
- A fixed-rate taxable bond issue;
- A mortgage with an insurance company; or
- Variable rate tax exempt bonds backed by a letter of credit from a bank.

Equity

This source is generally the cash used to purchase the land and to fund the preliminary development costs through presales.

To assist in evaluating its financing options for this project, the applicant enlisted the investment banking and financial advisory firm known as Ziegler and the financing structure was selected based on Emerald Communities and Ziegler’s experience in financing similar types of transactions and current market conditions. [Source: Application, p28 & Exhibit 20] After extensive review, the applicant intends to finance the project through two of the three sources above: long term debt (bonds) and equity. Emerald Communities also plans to finance a portion with membership fees. Below is a breakdown of the funding sources for Heron’s Key Type A CCRC and Heron’s Key Type A SNF. [Source: Application, p28 & Exhibit 20]

**Table 6
Heron’s Key Proposed Financing**

	Heron’s Key CCRC	Heron’s Key Type A SNF
Long Term Debt - Bond Issue	\$120,780,000	\$7,938,594
Member’s Fees	\$17,671,381	\$1,161,500
Member’s Periodic Fees	\$753,000	\$49,493
Equity - Owners	\$6,000,000	\$394,366
Totals	\$145,204,381	\$9,543,953

As shown above, Ziegler anticipates \$120,780,000 or 83% of the total cost for Heron’s Keys would be funded through issued bonds. For the Heron’s Key Type A SNF portion of the project, 83% would be funded through bonds. The applicant has chosen unrated fixed rate bonds as the method of financing. They stated that this method is the most accessible financing for this type of project and removes interest rate risk. Though the cost of capital is higher than other scenarios, utilizing this financing method for determining the feasibility of the project is the most conservative route in terms of financing. The interest rate assumptions include 6.75% average interest rate for the debt to be repaid with entrance fees and 8.0% average interest rate for the permanent debt. Approximately 17% of the bond financing would be through fees at a rate of 6.75% and 83% would be through long term debt issue at 8.0%. [Source: Application, Exhibit 22]

Department Evaluation

The department concludes that the applicant can finance the overall project if the applicant achieves the fill rates projected for the project. The marketing report provided for this project indicates that marketing this Type A CCRC will be relatively challenging. The Milliman study indicates that the Type A SNF beds needed for the projected CCRC project are much less than 25 beds. Therefore the department would conclude that the Heron's Key Type A SNF would not generate sufficient revenue to cover the long term expenses of this project.

Based on the information provided, the department concludes that the financing of the Heron's Key and specifically, Heron's Key Type A SNF is reasonable; however the potential shortfall in revenue for the Heron's Key Type A SNF could adversely affect the repayment of the bonds. **This sub-criterion is not met**

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

Based on the source information reviewed, department concludes that the Emerald Communities has not met the structure and process (quality) of care criteria in WAC 246-310-230.

(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 direct what specific staffing patterns or numbers of Full Time Equivalents (FTEs) should be employed for projects of this type or size. Therefore, using its experience and expertise the department reviews whether the proposed staffing would allow for the required coverage.

For this project, Emerald Communities would be the sole member and operator of Heron’s Key including the Type A SNF. The applicant, Emerald Communities proposes to enter into a management agreement with Heron’s Key for management and operation of the Type A CCRC, including the SNF. The management agreement provided in the application is a draft and outlines the roles and responsibilities for Emerald Communities as the management entity and Heron’s Key as the owner. [Source: Application, Appendix I]

As the management entity, Emerald Communities anticipates that Heron’s Key Type A SNF will require 48.25 employed FTEs. Given that the implementation of phase two relies on the success of phase one, the applicant identified the staff that would be required only for phase one. A breakdown of FTEs for Heron’s Key Type A SNF is shown in table below. [Source: Application, p34 &35]

**Table 7
Heron’s Key Type A SNF Proposed FTEs**

Registered Nurses	6.88	Dieticians	1.00
Nursing Assistants	22.26	Aides	5.60
Nursing Total	29.14	Dietary Total	6.60
MDS Coordinator	1.00	Administrator	1.00
Medical Records	1.08	Activities Director	2.00
Social Worker	1.50	Housekeeping/Maintenance	4.45
All Others Total	3.58	Clerical	1.48
		Administration Total	8.93

As a management entity, Emerald Communities states that it has extensive experience developing and managing an existing Type A CCRC in Washington. Their management staff also has other relevant experience in the field of the provision of services to seniors. Generally, recruitment of staff for a Type A CCRC SNF is not difficult because of the high-quality facilities, small number of nursing home beds, and the close relationships with the residents of the CCRC. Further, Emerald Communities indicates that it typically promotes employees from within and provides training to encourage employee growth within the organization. [Source: Application, p36]

The applicant has not identified the physician that would be the medical director nor did they provide a medical director agreement.

Department Evaluation

The applicant has identified the number and type of staff that will be required to operate the proposed 45 bed Type A SNF. The applicant has not identified the physician that would be the medical director nor did they provide a medical director agreement. The applicant did not submit the information for the SNF Medical Director position that will be needed for the SNF. If this project is approved, the department would require the applicant to submit this information.

Based on the information provided in the application, the department concludes that adequate staffing for the Heron's Key Type A SNF is either available or can be recruited. The Medical Director information was not provided, therefore the department can not evaluate this position. **This sub-criterion is not 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(2) 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 relationships, ancillary and support services should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials contained in the application.

The application identifies that ancillary and support services would be either provided on site or contracted with a separate vendor. Given that the Type A CCRC is not scheduled to open until January 2017, ancillary and support service agreements have not yet been established. Within the application, Emerald Communities provided a listing of ancillary and support services expected to be provided by within the CCRC and those expected to be contracted through another provider. [Source: Application, p36; Supplemental Materials, Attachment D]

If this application is approved, the applicant would have to submit the specific information identifying relationships with ancillary and support services in the community.

The applicant has submitted information that there is reasonable assurance that Emerald Communities will have appropriate ancillary and support services at Heron's Key Type A CCRC, and specifically, Heron's Key Type A 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 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, the applicant would request Medicare certification for Heron’s Key Type A SNF, but not Medicaid. As stated in the project description portion of this evaluation, Emerald Communities established the Heron’s Key Corporation specifically to create, own, and operate the continuing care retirement community. Emerald Communities operates a Type A CCRC and skilled nursing facility (Corwin Care Center) located in the city of Redmond in Washington State. The chart below shows a breakdown of the total number of units/beds managed or operated by Emerald Communities [Source: Supplemental Information: p14]

Emerald Heights Type A CCRC Redmond, Washington	
Number of Units/Beds	Type of Facility
291	Independent Living Units
61	Skilled nursing beds, including dementia
56	Assisted Living Units

To assist in its evaluation of this sub-criterion, the department reviewed the quality of care histories from the Washington State Department of Social and Health Services (DSHS) and the current Medicare nursing home compare website. Both DSHS and the Medicare nursing home web site indicated minor non-compliance issues typical of the type of healthcare facility being surveyed. DSHS also indicated that the SNF has not had any fines imposed in the last three years. The applicant has resolved any non-compliance issues. [Source: CMS website, DSHS Compliance Staff]

Given the compliance history of the skilled nursing facility operated by Emerald Communities, there is reasonable assurance that Heron’s Key and, specifically, Heron’s Key Type A SNF, would be operated 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 appropriate relationships 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 materials in the application.

To demonstrate that this project will have an appropriate relationship with the service area’s existing healthcare system, the applicant provided the following statements.

“As we proceed with the approvals and development, we will negotiate transfer agreements and relationships with local providers. We will also inform local providers, the Area Agency on Aging, and all local home health agencies of our project. We do not allow open soliciting on our campuses, but we do provide information to our residents of available services in our community.”

[Source: Application, p38]

The department recognizes the differences in continuity of care between freestanding nursing homes and Type A CCRCs. For freestanding nursing homes, continuity of care may involve many community healthcare providers that are not necessarily associated with the nursing home. For a Type A CCRC, continuity of care is typically provided with the Type A CCRC itself by offering independent living, assisted living, and nursing home care to its residents. Since this project did not meet the need and financial feasibility criteria, the department concludes this project will not contribute to continuity of care for the residents.

Based on the information provided above, the department concludes that this project would not promote continuity of services for the contract residents and would result in an unwarranted fragmentation of the CCRC nursing home services. The department concludes **this sub-criterion is not 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, the department concludes that Emerald Communities has not 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 met the applicable criteria, the department would move to step two in the process and assess the other options the applicant or applicants considered prior to submitting the application under review. If the department determines the proposed project is better or equal to other options the applicant considered before submitting their application, the determination is either made that this criterion is met (regular or expedited reviews), or in the case of projects under concurrent review, move on to step three.

Step three of this assessment is to apply any service or facility specific criteria (tiebreaker) contained in WAC 246-310. The tiebreaker 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 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.

Step One

For this project, Emerald Communities is proposing a 45 bed Type A SNF as part of a Type A CCRC to be located in Gig Harbor. The Heron's Key 45 bed Type A SNF proposed in this project is not supported by the actuarial study submitted by the applicant for the project. The project fails the need, financial feasibility, and structure and process of care criteria in this evaluation, therefore this project is not the best alternative. **This sub-criterion is not met.**

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

(a) The costs, scope, and methods of construction and energy conservation are reasonable;

WAC 246-310 does not contain specific WAC 246-310-240(2)(a) criteria as identified in WAC 246-310-200(2)(a)(i). There are known minimum building and energy standards that healthcare facilities must meet to be licensed or certified to provide care. If built to only the minimum standards all construction projects could be determined to be reasonable. However, the department, through its experience knows that construction projects are usually built to exceed these minimum standards. Therefore, the department considered information in the applications that addressed the reasonableness of their construction projects that exceeded the minimum standards.

As stated in the project description portion of this evaluation, this project involves construction. This sub-criterion is evaluated within the financial feasibility criterion under WAC 246-310-220(2). Within that evaluation, the department determined the sub-criterion was met; **therefore, this sub-criterion is met.**

(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 also evaluated within the financial feasibility criterion under WAC 246-310-220(2). Within that evaluation, the department determined **this sub-criterion is not met.**

Based on the above evaluation, the department concludes that costs, scope, and methods of construction and energy conservation are not reasonable, and **this sub criterion is not met.**