

**RECONSIDERATION EVALUATION OF THE CERTIFICATE OF NEED APPLICATION  
SUBMITTED BY MANOR CARE OF LACEY WASHINGTON LLC PROPOSING TO  
ESTABLISH A 120-BED SKILLED NURSING CENTER WITHIN THURSTON COUNTY**

**PROJECT DESCRIPTION**

Manor Care of Lacey WA, LLC is a subsidiary of Manor Care Health Services, LLC, which is a subsidiary of Manor Care Inc, which, in turn is a subsidiary of HCR Manor Care, Inc, which is a subsidiary of The Carlyle Group. For all of the entities identified, only Manor Care of Lacey WA, LLC is registered in Washington State. The remaining entities are registered in the state of Delaware. While Manor Care of Lacey WA, LLC does not own or operate any healthcare facilities in Washington or any other state, Manor Care Health Services, LLC is the parent company of several subsidiaries. The company operates primarily under the names of Heartland, ManorCare Health Services, and Arden Courts. [source: Initial application, p2 & Exhibit 1; October 24, 2007 supplemental information, p1 & Attachment A; and HCR ManorCare website]

As of end of year 2007, through its subsidiaries, Manor Care, Inc. owns, operates, or manages over 500 healthcare facilities, which includes skilled nursing centers, assisted living facilities, outpatient rehabilitation clinics, and hospice and home health offices across the nation. The healthcare facilities owned, operated, or managed by Manor Care, Inc. are grouped geographically into six operating divisions:

East      Mid-West      Central      **West**      Mid Atlantic      Southeast

Washington State is located in the West division [in bold above], and includes facilities owned and operated by Manor Care Health Services, Inc. or its subsidiary Heartland. For Washington State, Manor Care Inc. owns and operates five skilled nursing facilities through its subsidiaries. Further, Manor Care Inc. owns and operates a home care agency and a Medicare certified home health agency through its Heartland subsidiary. The Washington State facilities and city of location are shown in the chart below. [source: Manor Care Website and Wikipedia]

**Skilled Nursing Facilities**

Manor Care of Gig Harbor WA, LLC, Gig Harbor  
Manor Care of Lynnwood WA, LLC, Lynnwood  
Manor Care of Spokane WA, LLC, Spokane  
Manor Care of Tacoma WA, LLC, Tacoma  
Manor Care of Salmon Creek WA, LLC, Vancouver<sup>1</sup>

**Home Care and Home Health Agencies**

Heartland Home Care, Seattle  
Heartland Home Health Care Services, Seattle

**BACKGROUND INFORMATION ON THE PROJECT**

On September 27, 2007, ManorCare of Lacey, WA, LLC (MC-Lacey) submitted its Certificate of Need application to establish a 120-bed skilled nursing facility (SNF) in Lacey.<sup>2</sup> The

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<sup>1</sup> On April 4, 2008, Manor Care was issued Certificate of Need #1366 approving the establishment of a 120-bed skilled nursing facility in Salmon Creek, within Clark County. Given the recent approval, the facility is not yet operational.

<sup>2</sup> In past projects, DSHS has voiced concerns regarding the Program's use of the phrase "skilled nursing facility" or "SNF" when describing this type of project. Washington Administrative Code (WAC) 388-97-005 provides a

proposed SNF would have 120 beds and be located on a parcel of land at 4524 Intelco Loop in Lacey, within Thurston County.<sup>3</sup> The planning area for this project is Thurston County. [source: Initial application, p3; February 5, 2008, supplemental information, p2; and Thurston County Assessor website]

The proposed SNF would be a 57,401 gross square foot, two-story building with 28 private rooms and 46 semi-private rooms. The facility will also have two nurses stations, physical therapy, occupational therapy, speech therapy, recreational therapy space, resident lounges, dining rooms, beauty/barber shop, a kitchen, administrative offices and support areas. Services proposed to be provided at the new SNF include skilled nursing care, intensive rehabilitative therapies, respite care, and community outreach services. [source: Initial application, p4]

The anticipated date of commencement of construction of the facility is October 2008, with an estimated date of completion of November 2009. The facility is expected to begin serving patients in January 2010. Under this timeline, the first full year of operation is projected to be calendar year 2010, and year three is 2012. [source: Initial application, p4 & p7]

The estimated capital expenditure for this project is \$14,273,000, of which 66% is related to constructions costs; 14% is related to equipment costs; 6% is related to land purchase; 6% is related to corporate overhead; 5% is related to state sales tax; and the remaining 3% is related to fees and real estate taxes. [source: Initial application, p20]

On August 21, 2008, the Program denied MC-Lacey's application primarily based on its failure to meet the criteria related to financial feasibility. On September 18, 2008, MC-Lacey submitted its "Request for Reconsideration" related to the department's denial, which included information related to the criteria denied. On October 17, 2008, the Program granted MC-Lacey's reconsideration request. A reconsideration hearing was conducted on November 19, 2008. This document is the evaluation of the reconsideration information.

### **APPLICABILITY OF CERTIFICATE OF NEED LAW**

This project is subject to Certificate of Need review as the establishment of a new health care facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(a) and Washington Administrative Code (WAC) 246-310-020(1)(a).

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definition for both "skilled nursing facility" and "nursing facility." Skilled nursing facility (SNF) or Medicare-certified skilled nursing facility means a nursing home that has been certified to provide nursing services to Medicare recipients under Section 1819(a) of the Federal Social Security Act. Nursing facility (NF) or Medicaid-certified nursing facility means a nursing home that has been certified to provide nursing services to Medicaid recipients under Section 1919(a) of the Federal Social Security Act. MC-Lacey's new facility in Thurston County would seek certification to provide services to the Medicare and Medicaid populations. Based on the definitions above, the new facility is considered both an NF and an SNF. For this evaluation, the department will refer to the proposed facility as a skilled nursing facility or SNF.

<sup>3</sup> The Thurston County Assessor's Office identifies the site with parcel #58050002800.

## **APPLICATION CHRONOLOGY**

A chronological summary of the initial review and this reconsideration review is below.

### **Initial Review**

August 29, 2007	Letter of Intent Submitted
September 27, 2007	Application Submitted
September 28, 2007 through March 6, 2008	Department's Pre-Review Activities <ul style="list-style-type: none"><li>• 1<sup>st</sup> screening activities and responses</li></ul>
March 7, 2008	Department Begins Review of the Application <ul style="list-style-type: none"><li>• public comments accepted throughout review</li></ul>
April 22, 2008	Public Hearing Conducted/End of Public Comment
June 4, 2008 <sup>4</sup>	Rebuttal Documents Received at Department
July 21, 2008	Department's Anticipated Decision Date
August 21, 2008	Department's Revised Anticipated Decision Date
August 21, 2008	Department's Actual Decision Date

### **Reconsideration Review**

September 18, 2008	Applicant Submits Request for Reconsideration
October 17, 2008	Department Grants Applicant's Request for Reconsideration
November 19, 2008	Reconsideration Public Hearing Conducted in Olympia <ul style="list-style-type: none"><li>• public comments submitted at the public hearing</li></ul>
December 8, 2008	Rebuttal Documents Received at Department
January 22, 2009	Department's Anticipated Reconsideration Decision Date
January 20, 2009	Department's Notification of 30 Day Extension
February 5, 2009	Department's Actual Decision Date

## **CRITERIA EVALUATION**

The review for a reconsideration project is limited to only those criteria that were denied in the initial evaluation. To obtain approval for this project, Manor Care of Lacey, WA LLC must demonstrate compliance with the relevant criteria found in WAC 246-310-220 (financial feasibility); WAC 246-310-230 (structure and process of care); and WAC 246-310-240 (cost containment). Within its initial evaluation, the department concluded that the application met the criteria under need (WAC 246-310-210) and the nursing home bed need method (WAC 246-310-360). As a result, these two criteria will not be discussed in this reconsideration evaluation.

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<sup>4</sup> The applicant sought and received an additional 28 days under the regular review timeline to provide rebuttal comments. The 28-day extension was also granted for affected persons.

## **AFFECTED PERSONS**

Throughout the initial review of this project, the five entities sought and received affected person status under WAC 246-310-010. During the reconsideration review, all five entities maintained their affected person status. The five entities are:

- ExtendiCare's Evergreen Nursing and Rehabilitation Center, an SNF located in Olympia;
- Providence Mother Joseph Care Center, an SNF located in Olympia;
- Providence Health System, a healthcare system located in Olympia;
- ExtendiCare's Puget Sound Healthcare Center, an SNF located in Olympia; and
- Roo-Lan Health Care Center, an SNF located in Lacey.

## **SOURCE INFORMATION REVIEWED**

### **Initial Review**

- Manor Care of Lacey WA, LLC's Certificate of Need application received September 27, 2007
- Manor Care of Lacey WA, LLC's supplemental information dated February 5, 2008
- Public comment received during the course of the review
- Comments received at the public hearing conducted on April 22, 2008
- Rebuttal comments from Manor Care of Lacey WA, LLC received June 4, 2008<sup>5</sup>
- Rebuttal comments from Providence Health Systems received June 4, 2008
- Rebuttal comments from Puget Sound Health Care and Evergreen Nursing Rehabilitation Center (both owned and operated by ExtendiCare) received June 4, 2008
- Population data obtained from the Office Financial Management based on year 2000 census published November 2007
- Years 2005 and 2006 Medicaid cost report data provided by the Department of Social and Health Services<sup>6</sup>
- Licensing and/or survey data provided by the Department of Social and Health Services
- Building lid and reimbursement data provided by the Department of Social and Health Services, Office of Rates Management
- Data obtained for nursing homes, adult family homes, and boarding homes from Department of Social and Health Services website [www.aasa.dshs.wa.gov](http://www.aasa.dshs.wa.gov)
- Information obtained from the applicant's website at [www.hcr-manorcare.com](http://www.hcr-manorcare.com)
- Certificate of Need Historical files
- Adult Family Home and Boarding Home Data obtained by The Gilmore Research Group received February 2, 2008
- Revised Code of Washington 70.127 governing in-home service agencies

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<sup>5</sup> Manor Care also submitted a revised Schedule F and revised page 29 of the application. This information was submitted outside the time allowed for submission, therefore this data was not considered in the initial review.

<sup>6</sup> During the initial review of this project, 2007 Medicaid cost report data was not available.

### **Reconsideration Review**

- Manor Care of Lacey WA, LLC's Reconsideration Request received September 17, 2008
- Comments submitted to the Certificate of Need Program office between September 17, 2008 though November 19, 2008
- Public comments received at the November 19, 2008 public hearing in Olympia
- Rebuttal comments from Manor Care of Lacey WA, LLC received December 8, 2008
- Rebuttal comments from Providence Health Systems received December 8, 2008
- Rebuttal comments from Extendicare on behalf of Puget Sound Health Care and Evergreen Nursing and Rehabilitation Center received December 8, 2008

### **CONCLUSION**

For the reasons stated in this evaluation, the application submitted on behalf of Manor Care of Lacey WA, LLC proposing to establish a 120-bed skilled nursing facility in Thurston County is consistent with applicable criteria of the Certificate of Need Program, provided Manor Care of Lacey WA, LLC agrees to the following term and condition.

### **Term**

Prior to providing services at Manor Care of Lacey, the applicant will provide functional plans outlining the services to be provided through a national contract with Manor Care, Inc. and those that would be provided within Thurston County.

If Manor Care of Lacey WA, LLC agrees to the term outlined above, a Certificate of Need would be issued with the condition below.

### **Condition**

Manor Care of Lacey WA, LLC will maintain its contract with the Department of Social and Health Services to provide services to the Medicare and Medicaid populations. Manor Care's Thurston County facility shall not use any admission criteria, method, or practice that result in the percent of Medicaid residents being less than the Thurston County nursing home with the lowest percentage of Medicaid residents on an annual basis.

The approved capital expenditure associated with the establishment of the 120-bed skilled nursing facility in Thurston County is \$14,273,000.

## RECONSIDERATION EVALUATION

### A. Financial Feasibility (WAC 246-310-220)

Based on the source information reviewed and the applicant's agreement to the condition stated on page 5 of this reconsideration evaluation, the department determines that the Manor Care of Lacey WA, LLC application meets 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.

Initial Evaluation Summary

In the initial evaluation, the department concluded that revenues would not cover expenses in the first three years of operation as a 120 bed SNF. This conclusion was based on the following factors. [source: Department's Initial Evaluation, pp29-35]

- 1) The department was unable to re-create the applicant's projected rate per patient day per payer source.
- 2) The department concluded that the applicant would not be able to obtain a Certificate of Capital Authorization (CCA) from the Department of Social and Health Services (DSHS) for its entire capital costs of \$14,273,000 in year one (2010). It was also reasonable to assume that the applicant could not obtain a CCA for the entire capital cost for years two and three. As a result, based on a "worst case scenario," MC-Lacey's Medicaid reimbursement rate would be approximately \$138.02. A recalculation of the 120-bed facility's Statement of Operations based on the \$138.02 Medicaid reimbursement rate and using the Medicare, Private, and Other reimbursement rates identified by the applicant resulted in a net loss for the first three years of operation.

Reconsideration Evaluation

In the initial evaluation, the department provided a chart showing the projected percentages of payer source identified by the applicant in its "Schedule F."<sup>7</sup> Table 1 below is a re-creation of Schedule F provided in the initial application. [source: Initial application, p29]

**Table 1**  
**Manor Care Lacey Projected Payer Source Percentages**

Source	Percentage
Medicare	35%
Medicaid	32%
Private Pay	20%
Insurance/HMO	13%
<b>Total</b>	<b>100%</b>

In the reconsideration documents, MC-Lacey confirmed that its payer source percentages shown in Table 1 above are correct. The applicant acknowledged an error in "Schedule A"<sup>8</sup>

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<sup>7</sup> Schedule F is a document provided by the applicant and required by DSHS for nursing home projects. It shows the projected percentages of patient mix by payer source for the first three years of operation after project completion. For this project, the first three years of operation are years 2010, 2011, and 2012.

which was intended to show the projected patient days by the payer sources shown in Table 1 above. The incorrect Schedule A is shown below in Table 2A; the corrected Schedule A is shown in Table 2B.

**Table 2A**  
**Manor Care Lacey Projected Patient Days**

[source: Initial Application, Exhibit 6]

<b>Payer Source</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Medicare	2,365	5,644	8,322
Medicaid	5,913	14,235	20,805
Private	2,365	5,694	8,322
Insurance	1,183	2,847	4,161
<b>Total</b>	<b>11,826</b>	<b>28,420</b>	<b>41,610</b>

**Table 2B**  
**Manor Care Lacey CORRECTED Projected Patient Days**

[source: December 5, 2008, Rebuttal Documents, p2]

<b>Payer Source</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Medicare	4,139	9,965	14,564
Medicaid	3,784	9,110	13,315
Private	2,365	5,694	8,322
Insurance	1,537	3,701	5,409
<b>Total</b>	<b>11,825</b>	<b>28,470</b>	<b>41,610</b>

When comparing Tables 2A and 2B above, it is noted that the total number of patient days changes for years 2010 and 2011. The 2010 change appears to be a rounding difference. The 2011 change is a mathematical correction from the initial Schedule A. Year 2012 total does not change. The configuration of patient days by payer source also changes. For the remainder of this evaluation, the department will use the total patient days shown in corrected Table 2B.

In the initial application, MC-Lacey anticipated the following reimbursement rates by payer source. [source: Initial application, Exhibit 11, Schedule F]

<b>Source</b>	<b>Rate</b>
Medicare	\$ 471.63
Medicaid	\$ 144.01
Private Pay	\$ 224.69
Insurance/HMO	\$ 392.70

In the initial evaluation, the department concluded that the applicant would not be able to obtain a CCA approval for the project. As a result, the Medicaid reimbursement rate was recalculated from \$144.01 to \$138.02—the rate estimated by DSHS in its rate review. During

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<sup>8</sup> Schedule A is a document provided by the applicant and required by DSHS for nursing home projects. It shows the projected number of patient days by payer source for the first three years of operation after project completion.

the reconsideration review of this project, DSHS provided two revised Medicaid reimbursement rate estimates. One estimate assumes MC-Lacey would receive CCA approval—this rate is estimated at \$198.50. The second assumes MC-Lacey would not receive CCA approval—this rate is estimated at \$158.18. [source: DSHS public comment documents]

In its reconsideration documents, MC-Lacey provided its corrected projections using the assumption that it would not receive CCA approval and its Medicaid rate would be \$158.18. Table 3 below is a summary of MC-Lacey’s projected revenue and expenses using the corrected patient days by payer source shown in Table 2B above and the Medicaid rate of \$158.18. [source: December 5, 2008, rebuttal documents, p3]

**Table 3**  
**Applicant’s Projected Statement of Operations Summary**  
**Years 2010 through 2012**

	Year One (2010)	Year Two (2011)	Year Three (2012)
# of Beds	120	120	120
# of Patient Days <sup>9</sup>	11,826	28,470	41,610
% Occupancy	27%	65%	95%
Net Revenue*	\$ 3,716,449	\$ 8,947,065	\$13,076,540
Total Expense	\$ 4,094,594	\$ 8,298,790	\$ 11,810,627
Net Profit or (Loss)	(\$ 378,145)	\$ 648,275	\$ 1,265,913
Net Revenue per patient per day	\$ 314.29	\$ 314.26	\$ 314.26
Total Expenses per patient per day	\$ 346.27	\$ 291.49	\$ 283.84
Net Profit or (Loss) per patient per day	(\$ 31.98)	\$22.77	\$30.42

\*Includes deductions for bad debt and contractual allowances

As shown in Table 3 above, when the corrected patient days are used, along with the Medicaid reimbursement rate of \$158.18, the 120-bed nursing home would operate at a loss in year one and a profit in years two and three.

During the reconsideration of this project, four existing nursing homes provided concerns related to the financial documents provided by MC-Lacey. A summary of the concerns shown by provider is restated below.

Providence Mother Joseph Care Center

Providence Mother Joseph Care Center operates its 152-bed skilled nursing facility in Olympia within close proximity to Providence St. Peter Hospital. Mother Joseph Care Center’s Medicare patient mix is 23%, and would be considered the “upper end” of what a skilled nursing facility in this area could expect to serve. Manor Care is proposing a site located only 5.1 miles from Mother Joseph Care Center and should not expect to maintain a Medicare patient mix much different from Mother Joseph Care Center. MC-Lacey’s projected 35% is too high.

<sup>9</sup> Throughout its application, MC-Lacey calculated 11,826 patient days in year one which is the rounded sum of patient days, rather than the 11,825, the precise sum of patient days. The one patient day difference is not significant to this financial evaluation.

Mother Joseph Care Center’s 2007 Medicaid patient day mix was 59%. Using 2007 averages, MC-Lacey’s projected Medicaid percentage of 32% is too low.

Providence Mother Joseph Care Center provided a re-calculation of the applicant’s statement of operations using 23% Medicare and 50% Medicaid showing the 120-bed nursing home operating at a loss of \$521,721 in year three (2012).

ExtendiCare’s Puget Sound HealthCare Center

ExtendiCare’s Evergreen Nursing and Rehabilitation Center

Manor Care’s projected Medicare percentage of 35% and Medicaid percentage of 32% are not consistent with the percentages currently provided in the county. Manor Care provided revisions to its rates to show that it could be financially feasible if its 35% Medicaid rate was increased another 15% to 50%. However, Manor Care simply adjusted its resident mix by subtracting 15% from private pay—which is the next lowest rate category. Manor Care does not adjust its Medicare rate from 35%, leaving it well above all other facilities in the county.

Roo-Lan Healthcare Center

Manor Care is a corporation that attempts to maximize occupancy of Medicare, insurance, and private pay residents. This is demonstrated by the resident projections in the application.

The applicant provided responses to the concerns raised above, which are summarized below.

MC-Lacey responses

*“The competitors argue that ManorCare’s projection of its payer mix is not accurate. They contend that 32% Medicaid is too low, and 35% Medicare is too high. ManorCare already addressed these concerns, and it can only base its projections on its own experience. ...If the reality of operating in Thurston County is a higher Medicaid census, ManorCare can still operate successfully, using the daily, projected Medicaid rate of \$158.18. There is no good reason for the Program to substitute the competitors’ projected payer mix for this new SNF in place of ManorCare’s projections. ManorCare is even more profitable in year three with a 50% Medicaid payer source than it initially determined in its June 2008 rebuttal documents [provided in the initial review].”*

MC-Lacey also provided revised revenue and expense statement summary to demonstrate its revenues would cover expenses in the third year of operation (2012) using the following payer mix and reimbursement rates.

Source	Percentage	Rate
Medicare	35%	\$ 471.63
Medicaid	50%	\$ 158.18
Private Pay	5%	\$ 224.69
Insurance/HMO	13%	\$ 392.70
<b>Total</b>	<b>100%</b>	

To evaluate whether the applicant's projected payer source percentages shown in Table 1 of this evaluation are reasonable for the Thurston County planning area, the department reviewed 2005 and 2006 Medicaid cost report data obtained from DSHS.<sup>10</sup>

There are six community-based nursing homes operating in Thurston County as of the release of the initial evaluation in August 2008 and the writing of this reconsideration evaluation. In year 2005, one of the six [Olympia Manor] was closed for 3 months, while it replaced the entire facility.<sup>11</sup> As a result, data for 2005 would not reflect all six facilities operating for 12 months. All six facilities were operating in 2006, as a result, comparison data for this portion of the reconsideration review will focus on year 2006 Medicaid cost report data.

#### Medicare Payer Mix

The applicant projected its Medicare payer mix at 35%. Providence states the new facility should project to serve at least the same Medicare percentage as Mother Joseph Care Center because it would also be reasonably close to the hospital and should have a similar Medicare patient mix as Mother Joseph Care Center. Extendicare also asserted that MC-Lacey's Medicare rate was too high when compared to the county averages, and criticized MC-Lacey's process for increasing its Medicaid payer mix to 50% and not reducing its Medicare payer mix. Year 2006 cost report data shows Mother Joseph Care Center's Medicare patient mix is 20%; ExtendiCare's Puget Sound Healthcare Center's Medicare payer mix is 24.7%. Cost report data also shows that two of the six Thurston County facilities Medicare patient days were 2.5% and 5.3%; the remaining four facilities ranged from 18.5% to 24.7%, equating to an average of 21%.

The department acknowledges that the applicant's 35% patient days is 10% higher than the highest percentage in the county, and higher than the average. As a result, the department recalculated MC-Lacey's Medicare patient mix at a percentage equal to the maximum percentage in the planning area. The maximum percentage is 24.7%--rounded to 25%.

#### Medicaid Payer Mix

Regarding the percentage of Medicaid to be provided at the new facility in Lacey, the applicant initially projected 32% of its total patients would be Medicaid eligible, and then revised its projection to 50% in its rebuttal documents. Existing providers assert that 32% is too low. Both Mother Joseph Care Center and the two ExtendiCare facilities assert that the new facility's Medicaid rate should be 50%. A review of 2006 cost report data shows that the Thurston County facilities Medicaid patient days ranged from 35% to 66.2%, equating to an average of 51.6%.

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<sup>10</sup> While 2007 cost report data became available during the reconsideration review of this project, the data is considered to be outside the scope of information that can be used to substantiate or validate this reconsideration review.

<sup>11</sup> Under the approval of Replacement Authorization #041, Olympia Manor was closed from October 2003 through March 2005.

The department agrees that the applicant’s 32% patient days is low, however, it is unreasonable to require a new provider to project a higher patient mix than two of the six existing providers operating in the same planning area. As a result, the department would expect MC-Lacey to provide a percentage of Medicaid equal to or greater than the minimum percentage in the planning area. The minimum percentage is 35%—or 3% higher than projected by the applicant.

Private Pay and Insurance Payer Mix

MC-Lacey projected these two payer mixes at 20% and 13%, respectively. Existing providers did not suggest alternative percentages; however, ExtendiCare noted that the percentages should be reasonably close to those provided in the county. Year 2006 cost report data shows a range of percentages for Private Pay mix of 1.6% to 43.5%. Calculating an average—minus the 1.6% outlier—equates to 28.7%. The 2006 Insurance payer mix ranged from 0.9% to 20.6%. Calculating an average—minus three outliers—equates to 10.5%. The department concludes that MC-Lacey’s private pay and insurance rates should be calculated using the averages—minus the outliers—for Thurston County. Private pay would be calculated at 29.0% and Insurance would be 11.0%.

A summary of the department’s re-calculated payer mix and reimbursement rate by payer mix is shown in Table 4 below.

**Table 4**  
**MC-Lacey’s Re-Calculated Payer Mix and Patient Days**

Source/Percentage	Percentage	Rate
Medicare	25%	\$ 471.63
Medicaid	35%	\$ 158.18
Private Pay	29%	\$ 224.69
Insurance/HMO	11%	\$ 392.70
<b>Total</b>	<b>100%</b>	

Using the payer mix in Table 4 above, a re-calculation of MC-Lacey’s patient days is shown in Table 5 below.

**Table 5**  
**Manor Care Lacey RE-CALCULATED Projected Patient Days**

Payer Source	2010	2011	2012
Medicare	2,956	7,118	10,403
Medicaid	4,139	9,965	14,564
Private	3,429	8,256	12,067
Insurance	1,301	3,132	4,577
<b>Total</b>	<b>11,825</b>	<b>28,470</b>	<b>41,610</b>

Numbers may not add due to rounding

When comparing Table 2B on page 7 of this evaluation with Table 5 above, it is noted that the total number of patient days does not change, however, the configuration of patient days by payer source does change.

In order to evaluate the financial feasibility of this project based on the payer mix averages within Thurston County, the department recalculated the projected revenue and expenses using the patient days by payer sources shown in Table 5 and the reimbursement rates shown in Table 4 on the previous page. Table 6 below is a summary of this review. Table 6 also includes the expenses identified by the applicant in Table 3 on page 8 of this evaluation.

**Table 6**  
**Re-Calculated Statement of Operations Summary**  
**Years 2010 through 2012**

	Year One (2010)	Year Two (2011)	Year Three (2012)
# of Beds	120	120	120
# of Patient Days	11,825	28,470	41,610
% Occupancy	27%	65%	95%
Net Revenue*	\$ 3,360,877	\$ 8,092,130	\$11,826,724
Total Expense	\$ 4,094,594	\$ 8,298,790	\$ 11,810,627
Net Profit or (Loss)	(\$ 733,717)	(\$ 206,660)	\$ 16,097
Net Revenue per patient per day	\$ 284.22	\$ 284.23	\$ 284.23
Total Expenses per patient per day	\$ 346.27	\$ 291.49	\$ 283.84
Net Profit or (Loss) per patient per day	(\$ 62.05)	(\$ 7.26)	\$0.39

\*Includes deductions for bad debt and contractual allowances

As shown in Table 6 above, when the recalculated patient days by payer source is used, along with the Medicaid reimbursement rate of \$158.18, the 120-bed nursing home would operate at a loss in years one and two and a slight profit in year three.

In summary, under this reconsideration, MC-Lacey corrected its Schedule A, and provided revisions to its statement of operations summary based on comments submitted by existing nursing home providers in Thurston County. A comparison of year 2006 cost report data substantiated concerns raised about the project patient mix for the new facility. The department re-calculated the applicant's statement of operations using the 2006 data as a baseline. With those re-calculations, MC-Lacey's project would operate at a slight profit in its third year of operation.

If this project is approved, the department would expect the new 120-bed nursing home would operate with a Medicaid patient mix comparable to the existing providers in the county. As a result, the following condition is attached to the approval.

**Condition**

Manor Care of Lacey, LLC will maintain its contract with the Department of Social and Health Services to provide services to the Medicare and Medicaid populations. Manor Care's Thurston County facility shall not use any admission criteria, method, or practice that result in the percent of Medicaid residents being less than the Thurston County nursing home with the lowest percentage of Medicaid residents on an annual basis.

- (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.

Initial Evaluation Summary

In its August 21, 2008, initial evaluation, the department concluded that MC-Lacey's project met the sub-criteria outlined above. [source: Department's initial evaluation, p36]

Reconsideration Evaluation

Documentation provided during this reconsideration review does not change the department's conclusion regarding this sub-criterion. This sub-criterion remains met.

- (3) The project can be appropriately financed.

Initial Evaluation Summary

In its August 21, 2008, initial evaluation, the department concluded that MC-Lacey's project met the sub-criteria outlined above. [source: Department's initial evaluation, p36]

Reconsideration Evaluation

Documentation provided during this reconsideration review does not change the department's conclusion regarding this sub-criterion. This sub-criterion remains met.

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

Based on the source information reviewed and the applicant's agreement to the term stated on page 5, the department determines that the Manor Care of Lacey, LLC application meets 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.
- (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.
- (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.
- (4) The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area's existing health care system.
- (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.

### Initial Evaluation Summary

In its August 21, 2008, initial evaluation, the department concluded that MC-Lacey's project met four of the five sub-criteria outlined above. [source: Department's Initial Evaluation, pp37-40] The sub-criterion not met—(4) above—related to the project's failure to meet the financial feasibility criteria.

### Reconsideration Evaluation

Based on information provided during the reconsideration review, the department concludes that Manor Care's application meets all applicable need criteria. As a result, the department's conclusion under (4) above would be met, along with the other four sub-criteria.

As indicated in the initial evaluation, specific to sub-criterion (2) above, some ancillary and support services would be provided through a national contract with Manor Care, Inc. and the remaining support services would be contracted with community providers in Thurston County. Based on the information provided in the initial application, the department concluded that MC-Lacey intended to meet this requirement; however, if this project were approved, to ensure that appropriate agreements will be established, the applicant would have to agree to the following term:

Prior to providing services at Manor Care of Lacey, Manor Care Inc. will provide functional plans outlining the services to be provided through a national contract with Manor Care, Inc. and those that would be provided within Thurston County.

Based on the reconsideration documentation provided, this term continues to be appropriate if this project is approved. If MC-Lacey agreed to the term outlined above, the department would conclude that this sub-criterion would be met.

### **C. Cost Containment (WAC 246-310-240)**

Based on the source information reviewed, the department determines that the Manor Care of Lacey, LLC application meets the cost containment criteria in WAC 246-310-240.

- (1) Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.
- (2) In the case of a project involving construction:
  - (a) The costs, scope, and methods of construction and energy conservation are reasonable;
  - (b) The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.

### Initial Evaluation Summary

In the initial evaluation, the department concluded that MC-Lacey's project failed this sub-criterion. The rationale for this denial was based on the department's conclusion that the project failed to meet the financial feasibility and structure and process of care criteria. The department's conclusion under this sub-criterion stated:

*“In determining the best available alternative, the department must also consider its findings on the other applicable review criteria. MC-Lacey’s project failed to meet the review criteria of financial feasibility and structure and process of care. Based on the above information, the department concludes that this sub-criterion is not met.”*

[source: Department’s initial evaluation, p42]

#### Reconsideration Evaluation

Documentation provided during this reconsideration review indicates that MC-Lacey’s project meets the criteria of financial feasibility and structure and process of care. Based on this reconsideration review, the department concludes the establishment of a 120-bed SNF in Thurston County is the best available option for the community. This sub-criterion is met.