



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

STANDARD APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 03-22

Applicant: Select Specialty Hospital – Honolulu, Inc.
7733 Forsyth Blvd. #1450
St. Louis, MO
Phone: 314-725-0012

Project Title: Establishment of a 30 bed long term acute care hospital-
within-a-hospital (LTAC) in The Queen's Medical Center
1301 Punchbowl St., Honolulu, Hawaii

1. **TYPE OR ORGANIZATION:** (Please check all applicable)

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

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2. **PROJECT LOCATION INFORMATION:**

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

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

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

- A. Site Control documentation (e.g. lease/purchase agreement, DROA agreement, letter of intent) **See Attachment A. (summary of lease terms) and D. (actual Lease Agreement).**
- B. A listing of all other permits or approvals from other government bodies (federal, state, county) that will be required before this proposal can be implemented (such as building permit, land use permit, etc.) **See Attachment B.**
- C. Your governing body: list by names, titles and address/phone numbers **See Attachment C.**
- D. If you have filed a Certification of Need Application this current calendar year, you may skip the four items listed below. All others, please provide the following:
 - Articles of Incorporation **See Attachment D.**
 - By-Laws **See Attachment D.**
 - Partnership Agreements **See, Lease Agreement, Attachment D.**
 - Tax Key Number (project's location) **21035003 (Queen's Medical Center)**

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

	Used Medical Equipment (over \$400,000)	New/Upgraded Medical Equip. (over \$1 million)	Other Capital Project (over \$4 million)	Change in ownership	Change in service/ establish new service/facility	Change in Beds
Inpatient Facility					X	X
Outpatient Facility						
Private Practice						

5. **TOTAL CAPITAL COST:** \$3,295,140

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

Type of Bed	Current Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
Med Surg	0	30	30
TOTAL	0	30	30

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

Establishment of a 30-bed long-term acute care hospital-within-a-hospital.

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

A. List All Project Costs:	AMOUNT:
1. Land Acquisition	<u>not applicable</u>
2. Construction Contract	<u>600,000</u>
3. Fixed Equipment	<u>not applicable</u>
4. Movable Equipment	<u>483,000</u>
5. Financing Costs	<u>not applicable</u>
6. Fair Market Value of assets acquired by lease, rent, donation, etc. (estimated)	<u>2,212,140</u>
7. Other: _____	_____
TOTAL PROJECT COST:	<u>3,295,140</u>

B. Source and Method of Estimation

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

Architectural drawings and vendor quotes

C. Source of Funds	AMOUNT:
1. Cash	<u>1,083,000</u>
2. State Appropriations	_____
3. Other Grants	_____
4. Fund Drive	_____
5. Debt	_____
6. Other: <u>FMV of leased floor</u>	<u>2,212,140</u>
TOTAL SOURCE OF FUNDS:	<u>3,295,140</u>

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

- a) Date of site control for the proposed project,
- b) Dates by which other government approvals/permits will be applied for and received,
- c) Dates by which financing is assured for the project,
- d) Date construction will commence,
- e) Length of construction period,
- f) Date of completion of the project, and
- g) Date of commencement of operation.

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

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

- a) Relationship to the Hawai'i Health Performance Plan (H2P2), also known as the State of Hawai'i Health Services and Facilities Plan
- b) Need and Accessibility
- c) Quality of Service/Care
- d) Cost and Finances (include revenue/cost projections for the first and third year of operation)
- e) Relationship to the Existing Health Care System
- f) Availability of Resources

See Attachment F.

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ATTACHMENT F

EXECUTIVE SUMMARY

Project Description

Select Specialty Hospital – Honolulu, Inc., owned by Select Medical Corporation, is a newly formed corporation that proposes to develop and operate a 30-bed Long-Term Acute Care Hospital (LTACH) to be located in leased space on the Kamehameha 3 floor of The Queen’s Medical Center. The LTACH will operate as a specialty acute care “hospital-within-a-hospital” as authorized by 42 Code of Federal Regulations s.412.22(e).

To establish the LTACH, Select Specialty Hospital – Honolulu has executed a long-term lease with The Queen’s Medical Center. Select Specialty Hospital – Honolulu is applying to add 30 acute care beds. The Queen’s Medical Center will delete 30 beds from their total beds. Select Specialty Hospital – Honolulu will enter into a purchased services agreement with The Queen’s Medical Center through which the LTACH will purchase certain ancillary and clinical services on an as-needed basis up to the maximum allowed by regulation.

Select Specialty Hospital – Honolulu will provide hospital care for patients with serious and often complex medical conditions that require long lengths of stay and a high level of clinical expertise. These patients have an average inpatient length of stay of greater than 25 days. In a traditional short-stay hospital, these patients are considered outliers as they consume significant medical resources, and the short-stay hospital incurs many days of uncompensated care. LTACHs, however, are compensated for treating outlier patients. When the short-stay hospital transfers an outlier patient to the LTACH, the referring hospital reduces its exposure and costs significantly. The LTACH, therefore, will not compete with the short-stay hospital and, in fact, will complement them by providing a discharge alternative for these patients in the continuum of care.

The Hawaii State Health Planning and Development Agency recognized the specialized needs of this patient population when it approved Application #01-37A that requested approval to open a 34-bed LTAC hospital-within-a-hospital at St. Francis Medical Center in Ewa Beach, Hawaii. While this application was approved, the actual facility never opened, and the need to treat these patients continues to exist.

Select Specialty Hospital – Honolulu will provide treatment to patients with respiratory conditions, neuromuscular disorders, cardiac conditions, infections, renal disorders, non-healing wounds, and cancer. The program will be designed to provide the optimum level of patient care necessary to facilitate recovery. The area to be serviced by the LTACH includes the island of Oahu.

Although not necessarily complete, the following services will be provided at Select Specialty Hospital – Honolulu.

- 24 Hour/day nursing care including 8 to 10 hours of direct nursing care per day
- 24 Hours/day respiratory therapy service
- Daily physician involvement including attending and consulting staff
- All hospital ancillary services including laboratory, radiology, and other diagnostic services

- 24 Hour clinical pharmaceutical services
- Cardiac and other critical care monitoring
- Physical, occupational and speech and language therapy

It is expected that Select Specialty Hospital - Honolulu will offer the following highly specialized programs.

- Pulmonary/Ventilator Management and Weaning
- Medically Complex Care for Patients with
 - Infectious Diseases including MRSA (Methacilline Resistant Staph Auerus – antibiotic resistant staph infection) and VRE (Vancomycin Resistant Enterococcus – antibiotic resistant enterococcus infection)
 - Congestive Heart failure
 - Uncontrolled Diabetes
 - Cardiovascular Diseases
 - HIV/Aids
 - Renal Failure
 - Multi-system Complications
- Neurological/Trauma for:
 - CVA (stroke)
 - Spinal Cord
 - Head Injury
 - Cerebral Hemorrhage
 - Anoxic Brain Injury
 - Neurological Complications
 - Trauma
- Wound Care for
 - Decubitus Ulcers
 - Degenerative Disease
 - Surgery or Amputation
 - Burns
 - Sepsis
 - Cellulitis

Select Specialty Hospital - Honolulu will fully comply with the conditions of participation as a hospital-within-a-hospital as established by Medicare. The LTACH will establish a separate governing board and management staff from The Queen's Medical Center, and will operate with a separate acute care hospital license and Medicare Provider number. In addition, a separate medical staff (including bylaws and rules and regulations) will be established, although physicians will be able to maintain privileges at both hospitals.

Lease Agreement

The Queen's Medical Center will lease to Select Specialty Hospital - Honolulu clinical and administrative space sufficient to house the 30-bed LTACH. The LTACH will be located on the Kamehameha 3 floor of The Queen's Medical Center and 1,500 square feet in support space will be provide at a proximate off-campus site located at 838 Beretania Street. The term of the lease will be six years with renewal options. Included in the lease agreement will be services such as utilities, housekeeping, facility maintenance, security, and access to parking.

Purchased Services Agreement

Select Specialty Hospital - Honolulu and The Queen's Medical Center will also execute a purchased services agreement for the same period as the lease agreement. The services to be provided by The Queen's Medical Center are likely to include the following:

- Dietary Services
- Laboratory Services
- Radiological Services
- Diagnostic Services
- Surgical Services
- Linen and Laundry Services

These services will be subject to the Medicare regulations for hospitals-within-hospitals and will be adjusted, as necessary, to assure compliance.

a) Relationship to the Hawaii Health Performance Plan (H2P2)

The proposed LTACH will be accessible to all residents and visitors to Oahu including the elderly, low-income persons, racial and ethnic minorities, women, persons with disabilities, and other underserved groups. The cost of such services will be competitive with general acute care rates within the area. As such, this project will be well positioned to support H2P2's goal to "achieve equitable and effective access at reasonable cost for all Hawaii's residents."

Select Specialty Hospital - Honolulu will focus on the treatment of patients that are critically ill and suffer from chronic illnesses. The treatment goals of the proposed LTACH are consistent with H2P2 objectives of "reducing the effects of chronic disease and prolonging health related quality of life."

H2P2 states that one of the desired characteristics of a health care delivery system is "supporting collaborative relationships between local, regional, and healthcare providers in order to provide the most appropriate level of care to our communities." The relationship that Select Specialty Hospital - Honolulu has sought in establishing the proposed LTACH at The Queen's Medical Center seeks to serve this purpose. Select Specialty Hospital - Honolulu also intends to implement a statewide effort focused on educating healthcare providers about the service capabilities of the LTACH and where it fits along the acute care continuum. The proposed LTACH will seek to facilitate referrals from other healthcare providers as well as establish appropriate placement options that may be required for LTACH patients upon discharge from the LTACH.

Chapter III, Statewide Priorities, speaks to "the development of care delivery systems for the elderly and chronically ill population." This LTACH project supports this priority in several ways – first, the clinical focus is on medically complex and chronically ill patients. Secondly, approximately 75 to 80% of the proposed patient population will be Medicare-aged individuals.

b) Need and Accessibility

The Hawaii State Health Planning and Development Agency has already recognized the need for LTACH services through the approval of Application #01-37A that provided for a 34-bed LTAC hospital-within-a-hospital that never opened. That application established need through a review of discharge data from St. Francis hospitals. It was determined that 88 LTAC beds would be required to accommodate the patient load at an 80% occupancy level for the St. Francis hospitals alone.

Select Medical completed a similar detailed review of patient discharges from The Queen's Medical Center for all patients that had a LOS of 15 days or greater (excluded rehab and SNF patients as well as those with obstetrical, psychiatric/substance abuse diagnoses, and those patients under age 17). In total, 1,582 patients were profiled. There was a total of 39,400 excess days in which patients stayed beyond the geometric mean length of stay for their assigned diagnosis. The results produced an internal need for 107 LTACH beds within The Queen's Medical Center.

Select Specialty Hospital - Honolulu will provide a level of care that is currently not available to the residents of the island of Oahu, including the elderly, low-income persons, racial and ethnic minorities, women, persons with disabilities, and other underserved groups.

c) Quality of Service/Care

Select Specialty Hospital – Honolulu will be licensed as an acute care hospital and, as such, will meet all applicable local, State of Hawaii and federal hospital licensure criteria. In addition, the LTACH will apply for JCAHO accreditation.

During FY2002, Select Specialty Hospitals provided care to more than 21,000 LTACH patients. With this data, Select Specialty Hospitals are benchmarked against the top five Select Specialty Hospitals for each quality indicator – regionally and nationally. In the area of patient satisfaction for FY2002, 94% rate care as good/excellent and 95% would recommend a Select Specialty Hospital to others. In addition to patient satisfaction, Select Medical employs the outside services of two different firms to separately monitor quality of care, physician satisfaction, payer satisfaction, employee satisfaction, and host satisfaction. Host satisfaction was demonstrated through the successful completion of 17 lease renewals in FY2002.

Select Specialty Hospital – Honolulu will be staffed by a full-time quality manager. The quality function works through the medical staff and reports at least quarterly to the Board. National consultants, senior quality managers, and the Select Medical's Vice President of Clinical Services will provide additional support for the LTACH.

The following is an overview of some of the categories and standards measured by our company at each Select Specialty Hospital.

Performance Indicators, Clinical Outcomes

Quality

Overall Quality Monitors

- Discharge destination
- Nosocomial infection rate
- Falls with injury requiring treatment
- Nosocomial wounds
- Medication error rate
- Re-hospitalization within 30 days of discharge from LTACH
- Mortality rate
- Unplanned discharges to short term acute hospital

Outcomes by Program

Ventilator Weaning/Pulmonary

- % of patients weaned from ventilator
- % of patients with improved ventilator status
- Wound Care Program

- % of wounds healed/viable flap
- % of wounds improved

Medically Complex

- % with stable vital signs upon discharge
- % with absence of complications
- % calorie/fluids meet nutritional needs
- % Oral temperature less than 100⁰ F for the last 48 hours without use of an antipyretic (temperature reducing drug)

Cardiac

- % with stable heart rhythms upon discharge
- % with PO₂ (oxygen) within normal parameters

Low Tolerance Rehab

- % demonstrates the ability to care for self or by a family member in a home care regime

Infectious Disease

- % free of infection

Efficiency

- Length of stay
- Cost per discharge

Patient Satisfaction

- % of patients that would recommend the hospital to family and friends

Care/Case Management, Including Use of Protocols

Standards of Performance

Payor/Referral

- Preliminary care plans same day requested
- Preliminary charge estimate prior to admission
- Payor needs assessment within 72 hours of admission
- Meets payor requirement 100% of time for communication, demonstrated effort to fulfill payor needs
- Conference report within 24 hours to payor
- Payor and referral satisfaction with Case Manager 90%
- 100% timeliness re-certification, demonstrated ability to successfully negotiate admission and continued stays

Care

- Communicate to team within 24 hours on every admission requirement of payor and/or referral source.
- Daily patient contact
- Family contact weekly during hospitalization
- Patient/family satisfaction with case management 90%
- Quality documentation
- Initial case management evaluation within 24 hours
- Weekly progress note with quality content
- Discharge summary within 48 hours of discharge
- Conference as required by payor and accreditors
- Follow-up with patient within 7 days of discharge (100%)
- Utilization review
- Admission review within 24 hours
- Continued stay review every 5 days
- Denial rate less than 5% of cases/quarter - all denials appealed within specified time frame

d) Cost and Finances

The total capital cost of the project is estimated to be \$3,295,140. Select Medical intends to fund the project with available cash.

On a cash flow basis, the proposed LTACH is expected to have a net income loss of approximately \$1,027,904 in year one with total operating revenue of \$4,301,406. For year three, income from operations is estimated at \$2,279,060 on net revenues of \$11,609,291.

e) Relationship to the Existing Healthcare System

Select Specialty Hospital - Honolulu will improve accessibility by offering a level of care for patients with serious and often complex medical conditions that who require long lengths of stay and high levels of clinical expertise. This level of care is not currently available on the island of Oahu. Physicians will be able to refer and follow their patients through treatment. Family members will be encouraged to be active participants in the recovery process. The LTACH will foster improved outcomes through accessibility to a wide range of specialty clinical programs.

The LTACH will complement the services currently being provided by The Queen's Medical Center and other acute care hospitals by providing a viable placement option in the continuum of care. By utilizing the LTACH as a placement option, acute care hospitals will be able to reduce their overall LOS in areas such as its ICU, thereby, increasing operating efficiencies and patient flow to such areas. The referring hospitals will also reduce their costs significantly through referral of outlier patients to the LTACH.

f) Availability of Resources

Select Medical ended calendar year 2002 with \$1.13 billion in net revenue, a 17.5% growth rate. Select Medical is well capitalized and, as previously stated, will use cash from existing operations to fund the proposed project. As a company, Select Medical has more than 16,400 employees. Our specialty hospitals employ approximately 7,800 people. We are well resourced and have solid recruitment capabilities.