



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 05-06A

Applicant: Samuel Mahelona Memorial Hospital
4800 Kawaihau Road
Kapaa, HI 96746
Phone: 808-822-4961

Project Title: Addition of Emergency Room services

Project Address: same

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

Public X
Private _____
Non-profit _____
For-profit _____
Individual _____
Corporation X
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: X
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) **Not applicable, the facility already exists**
- 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.) **Plan review/approval by OHCA**
- C. Your governing body: list by names, titles and address/phone numbers **ATT. A**
- D. If you have filed a Certificate of Need Application this current calendar year, you may skip the four items listed below. All others, please provide the following:
 - Articles of Incorporation **ATT B.**
 - By-Laws
 - Partnership Agreements
 - Tax Key Number (project's location)

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 Service	Change in Beds
Inpatient Facility				XX	
Outpatient Facility					
Private Practice					

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

Not applicable

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

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6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:

AMOUNT:

- | | | |
|----|--|------------------|
| 1. | Land Acquisition | _____ |
| 2. | Construction Contract | <u>\$850,000</u> |
| 3. | Fixed Equipment | _____ |
| 4. | Movable Equipment | <u>\$300,000</u> |
| 5. | Financing Costs | _____ |
| 6. | Fair Market Value of assets acquired by
lease, rent, donation, etc. | _____ |
| 7. | Other: _____ | _____ |

TOTAL PROJECT COST: \$1,150,000

B. Source of Funds

- | | | |
|----|----------------------|--------------------|
| 1. | Cash | _____ |
| 2. | State Appropriations | _____ |
| 3. | Other Grants | _____ |
| 4. | Fund Drive | _____ |
| 5. | Debt | <u>\$1,150,000</u> |
| 6. | Other: _____ | _____ |

TOTAL SOURCE OF FUNDS: \$1,150,000

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

Samuel Mahelona Memorial Hospital ("Mahelona") proposes to add an emergency room to its services. This service is part of Mahelona's plan to become a Critical Access Hospital (CAH).

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

Please see page 7

- 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,
- 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.

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

Please see page 7

- 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.

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

- It involves bed changes, which will have a capital expense of \$1,000,000 or less, and which will have an increased annual operating expense of less than \$500,000.
- It involves service changes which will have a capital expense of \$1,000,000 or less, and which will have an increased annual operating expense of less than \$500,000.
- It is an acquisition of a health care facility or service, which will result in lower annual operating expenses for that facility, or service.
- It is a change of ownership, where the change is from one entity to another substantially related entity.
- It is an additional location of an existing service or facility.
- The applicant believes it will not have a significant impact on the health care system.

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8. Implementation Schedule

1. April 1, 2005 -- develop construction drawings.
2. April 1, 2005 -- financing committed.
3. May 15, 2005 -- plan review/approval by Office of Health Care Assurance
4. June 1, 2005 -- contractor selected, construction begins
5. December 15, 2005 -- construction completed.
6. December 31, 2005 -- emergency room opens

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9. Executive Summary

Samuel Mahelona Memorial Hospital ("Mahelona") is an 81 bed inpatient facility in Kapaa, Kaua'i, which currently has the following bed count:

- 9 acute psychiatric
- 2 acute/SNF "swing"
- 70 SNF/ICF.

Mahelona, which does not now have an emergency room, plans to apply for federal designation as a Critical Access Hospital (CAH), and CAH facilities are required to have emergency services. Therefore, Mahelona is proposing this CON application to add emergency room service. We will also make some minor bed changes, which are not subject to CON review, and will then apply for CAH designation. Under Medicare reimbursement provisions, CAHs are eligible for cost-based reimbursement, which will provide increased reimbursement to our hospital.

The total capital cost of adding an emergency room is estimated at \$1,150,000, including construction (\$850,000) and equipment (\$300,000). The entire cost will be debt-financed, and will come through a line of credit which our parent Hawaii Health Systems Corporation (HHSC) has with Academic Capital. This source has also been used to finance projects for other HHSC facilities.

The emergency room will be established in existing space within the hospital. The space, which was a surgical area years ago, is currently being used for storage and central supply. The only construction outside the existing building will be ADA ramps and a canopy for the ambulance area. No County building permit will be required.

The new equipment will be minimal, since the room is intended only for minor emergencies and urgent care. Mahelona will arrange with the EMS system on Kaua'i that only minor emergencies will be served at Mahelona.

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Major emergencies, such as trauma and chest pain will continue to be served at Wilcox or KVMH.

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Although Mahelona will still operate at a loss as a CAH, we estimate that our losses in the fourth year of operation (FY 2008) as a CAH (compared to the status quo) will be reduced anywhere from \$687,000 to \$1,728,000, depending on which Medicaid reimbursement provision is applied.

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The emergency room will be a welcome element in the health care system of Kaua'i. Ho'ola Lahui operates a FHQC (Federally Qualified Healthcare Clinic) on our campus. The population they serve is largely Hawaiian and low income people, and one of their goals is to be able to provide basic acute hospital care in a facility close to their clinic. The CAH designation will further this goal. Our proposal is also fully supported by Wilcox Hospital.

The staff for the emergency room will be:

- A Nurse Practitioner (NP) 24/7 (requiring 5 FTE NPs)
- An on-call physician 24/7.
- RNs, if necessary can be floated in from the floor and no new hires will be necessary.

Since a Nurse Practitioner will be on-site 24/7, an on-call physician 24/7 may exceed the minimum federal requirements. However, we are committed to the highest quality of service, and we believe that an on-call physician will help us achieve that goal.

In summary, the advantages of adding the ER, making minor bed changes and achieving CAH designation are:

- The emergency needs of our community can be better met.
- The bed changes will give us greater flexibility in serving our patients.
- Our operating losses will be reduced, thus reducing State subsidies.

a) Relationship to the Hawaii Health Performance Plan (H2P2), also known as the State of Hawaii Health Services and Facilities Plan.

The Hawaii Health Performance Plan (H2P2) goals include: increasing "the span of a healthy life for Hawaii residents," reducing "health disparities among Hawaii residents," and achieving "equitable and effective access at a reasonable cost for all Hawaii residents to health services that are responsible to the holistic needs of community's members."

The emergency room service at Mahelona will contribute to these goals, albeit in a minor way. Kapaa and North Shore area patients needing urgent care, and care for minor emergencies, can be seen more quickly and closer to home, than if they had to travel to Lihue. Achieving CAH status, which is a consequence of adding the emergency room, will also strengthen the financial standing of Mahelona. It is important that Mahelona be as strong as possible so that it may continue to serve the needs of its community, and contribute towards the H2P2's goals.

b) Need and Accessibility

As a CAH, federal regulations require 24 hour emergency services with practitioners with training and experience in emergency care on call and immediately available within 30 minutes. The CAH must provide appropriate medical screening examination to any person who comes to the hospital emergency department and requests treatment or an examination for a medical condition. The proposed emergency room service at Mahelona is designed to meet the needs of Kapaa and North Shore residents for urgent care and minor emergency care. The 24 hour staffing with a NP will assure immediate attention to any patient who comes to the ER.

We anticipate that most patients will have urgent or minor emergencies such as flu, respiratory conditions, minor infections, minor injuries, etc. Major emergencies such as trauma, stroke or chest pain will require the services of the more sophisticated emergency room at Wilcox, and the EMS procedures for Kaua'i will continue to direct such patients there. However, we will have the staff, equipment and medication to meet the immediate needs of a walk-in patient with chest pain.

We project that approximately 4 patients per day will need the services of our ER. We expect that many of these will come after normal working hours, when the FHQC on our campus is closed. Four patients per day would translate to 1460 patients per year. However, for our financial projections, we have taken a more conservative approach and project only 1000 patients per year.

The proposed ER will improve the accessibility of service to residents in the Kapaa and North Shore communities. Residents with urgent or minor emergencies will no longer have to drive past Mahelona and go the extra miles to the ER at Wilcox. Although the distance is minimal, there is still the extra drive time and the usual waiting time for less serious (and lower priority) patients in the ER of a major hospital.

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Mahelona will provide service to all patients, including low income persons, racial and ethnic minorities, women handicapped persons, other underserved groups and the elderly.

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c) Quality of Service/Care

'05 ABR 11 Mahelona is certified by Medicare and Medicaid, and has a history of providing quality care. Although emergency service will be a new service, we already provide some acute inpatient services in the form of acute psychiatric care and acute medical care through our acute/SNF "swing" beds. We have extensive quality assurance procedures which will be expanded and applied to the emergency service. Federal review of our application to be designated as a CAH will provide an additional assurance of quality.

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

The capital cost of this proposal is \$1,150,000, including \$850,000 for construction and \$300,000 for equipment. The capital funds are already available through an existing line of credit that our parent corporation (HHSC) has with Academic Capital.

The emergency service per se will be a money-loser. We conservatively project that in 2006, the emergency room revenues will be \$175,101, while expenses will be \$672,557. Nevertheless, establishing the ER will improve Mahelona's overall financial position, since the hospital can then be designated as a CAH, with the accompanying improved Medicare reimbursement provisions.

Exhibit 1 on page 13 shows the projected impact of becoming a CAH on Mahelona's financials from 2006 to 2008. The first column, "PPS," is Mahelona's existing condition and shows the results of continuing the status quo. The second and third columns show the impact of CAH designation, with two alternative federal reimbursement schemes (we do not yet know which will be in effect). The fourth and the fifth columns show the difference between the status quo (column one) and CAH designation (columns two or three). For example, the bottom line for 2006 shows an improvement of \$1,393,000 or \$505,000 in CAH vs. status quo. Again, CAH designation requires that the hospital provide emergency services.

It should be noted that the expenses lines in Exhibit I include the debt service expenses, both interest and principal, of the \$1,150,000 loan from Academic Capital. Although the loan is formally an obligation of HHSC,

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Mahelona's parent corporation, the expense of servicing the debt is passed through to Mahelona.

e) Relationship to the existing health care system.

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Establishing emergency services at Mahelona will improve the existing health care system. As noted above, it will make services more accessible to patients with urgent conditions or minor emergencies. It will have only a slight impact on the island's major emergency room at Wilcox, since less than 4 patients a day are projected. It may even have a positive impact on the system by diverting a few less serious patients away from Wilcox, relieving the congestion for more serious patients.

Mahelona will educate the community on the proper role of the ER, i.e., that it is appropriate for minor emergencies only. We have already held one community meeting to present our CAH plans, and will have others. We will also issue press releases about the project. This kind of public information is already implemented at Kauai Veterans' Memorial Hospital (KVMH), and the public seems aware of which emergencies can be handled at KVMH and which require the higher level services at Wilcox. Of course, the most important element is the EMS system, with the ambulance staff knowing where to take emergencies.

A major benefit to the health care system will be the reduction of Mahelona's annual operating deficit, which will help it to continue to provide necessary, but unprofitable services. Mahelona provides the only inpatient psychiatric services on the Island of Kaua'i. Further, the ability to continue Mahelona's long term care services is also important, given the high utilization and lack of beds at the other facilities.

We anticipate that there will be a shared use of staff between the emergency room and other parts of the Mahelona operation. For example, an RN who is regularly assigned to a Mahelona floor unit may be called on to assist in the ER. Likewise, the NP can be used in the inpatient services when there are no patients in the ER.

As noted above, this proposal is supported by Wilcox Hospital and the FQHC at Mahelona. The ER will be able to serve some after-hours patients who would normally seek care at the clinic, and clinic physicians can have easier access to those of their patients who are inpatients at the Mahelona CAH. Finally, we are in discussions with the FQHC on our campus about using their physicians as necessary backup for our on-call ER physician.

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f) Availability of Resources

As noted in part d. above, the capital funds are available through our parent corporation, HHSC.

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Operating revenues from the emergency department will not offset operating expenses. However, the improved revenues to the overall hospital operation as a result of the CAH designation more than offset the emergency room losses,

The new staffing required for the emergency room are:

- 5 FTE Nurse Practitioners.
- A 24 hour on-call physician.
- (If additional RNs are needed on occasion, they will be floated in from the floor).

We acknowledge that NPs are in high demand, but so far we have been successful in recruiting needed staff.