



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 05-07A

Applicant: Kula Hospital
100 Keokea Place
Kula, HI 96790
Phone: 808-878-1221

Project Title: Addition of Emergency Room services and the deletion of 4
medical/surgical and 7 SNF/ICF beds and the addition of 5 Acute/SNF
beds

Project Address: same

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

Public	<u> X </u>
Private	<u> </u>
Non-profit	<u> </u>
For-profit	<u> </u>
Individual	<u> </u>
Corporation	<u> X </u>
Partnership	<u> </u>
Limited Liability Corporation (LLC)	<u> </u>
Limited Liability Partnership (LLP)	<u> </u>
Other: _____	<u> </u>

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2. **PROJECT LOCATION INFORMATION**

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

Statewide:	<u> </u>
O`ahu-wide:	<u> </u>
Honolulu:	<u> </u>
Windward O`ahu:	<u> </u>
West O`ahu:	<u> </u>
Maui County:	<u> X </u>
Kaua`i County:	<u> </u>
Hawai`i County:	<u> </u>

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	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.

Type of Bed	Current Bed Total (SHPDA-approved total as of 2000)*	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
Medical/Surgical	4	-4	0
Acute/SNF	0	+5	5
SNF/ICF	108	-7	101
ICF/MR	9	0	9
TOTAL	121	-6	115

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*The current bed total listed is that as made through a change recorded with SHPDA in 2000. The licensed count we are actually operating in 2005 varies slightly from the approved count. With the 2000 Administrators gone, we do not know why there is a difference. Perhaps the proposed changes could not meet licensure criteria.

6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:

AMOUNT:

- | | | |
|----|--|------------------|
| 1. | Land Acquisition | _____ |
| 2. | Construction Contract | <u>\$270,000</u> |
| 3. | Fixed Equipment | _____ |
| 4. | Movable Equipment | <u>\$200,000</u> |
| 5. | Financing Costs | _____ |
| 6. | Fair Market Value of assets acquired by
lease, rent, donation, etc. | _____ |
| 7. | Other: _____ | _____ |

TOTAL PROJECT COST: \$470,000

B. Source of Funds

- | | | |
|----|----------------------|------------------|
| 1. | Cash | _____ |
| 2. | State Appropriations | _____ |
| 3. | Other Grants | _____ |
| 4. | Fund Drive | _____ |
| 5. | Debt | <u>\$470,000</u> |
| 6. | Other: _____ | _____ |

TOTAL SOURCE OF FUNDS: \$470,000

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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.

Kula Hospital ("Kula") proposes to add an emergency room to its services, and make minor bed changes to provide acute/SNF bed service. These changes are part of Kula's plan to become a Critical Access Hospital (CAH).

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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

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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.

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

Personnel:

1. March 1, 2005 – Union consultation begins
2. April 30, 2005 – Begin hiring RNs and MDs
3. June 1, 2005 – Begin employee training
4. July 31, 2005 – End employee training – Emergency Room Opens

Construction and Equipment:

5. April 1, 2005 – develop construction drawings.
6. April 1, 2005 – financing committed.
7. May 15, 2005 – plan review/approval by Office of Health Care Assurance
8. April 1, 2005 – Order Equipment
9. June 1, 2005 – contractor selected, construction begins
10. July 15, 2005 – ER construction completed.
11. July 15, 2005 – Install and test equipment, protocols and procedures
12. July 31, 2005 – emergency room opens
13. August 15, 2005 – Acute/SNF swing bed improvements completed
14. August 31, 2005 – Acute/SNF beds open

Office of Health Care Assurance Certification:

15. October 31, 2005 - CAH certification survey completed.

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9. Executive Summary

Kula Hospital ("Kula") is a 121 bed (currently licensed and operating at 115 beds) inpatient facility in Kula, Maui, with the following SHPDA-approved bed count:

- 4 medical/surgical
- 108 SNF/ICF.
- 9 ICF/MR

Kula is planning to add an emergency room service and to make some changes in its bed count, including the addition of acute/SNF beds. The new bed count would be:

- 5 acute/SNF
- 101 SNF/ICF
- 9 ICF/MR (no change).

These changes will allow Kula to better serve the needs of its community, and the addition of an emergency room (ER) will make it eligible to apply for federal designation as a Critical Access Hospital (CAH). Under Medicare reimbursement provisions, CAHs are eligible for cost-based reimbursement, which will provide increased reimbursement to our

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hospital. This will put Kula, which operates at an annual loss, in a better financial position (although still operating at a loss) and make it more secure as a health resource for its community.

The total capital cost of the project, which is mostly due to the addition of the new ER, is estimated at \$470,000, including construction (\$270,000) and equipment (\$200,000). These costs are relatively low, since the ER will be established in existing clinical space which is already laid out and equipped for urgent care. Only minor improvements will be needed in the inpatient rooms designated for conversion to acute/SNF swing. 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.

As noted above, the emergency room will be established in an existing outpatient clinic which adjoins the hospital, connected by a covered walkway. The space is now part of our existing outpatient clinic, and some years ago the ambulance for Kula was stationed at this site (although it was never a formal-emergency room). The cost for renovations and new equipment will be minimal since the facility is already designed and equipped for an outpatient clinic, including the usual urgent cases. No County building permit is required.

Kula currently has 2 med/surg beds in operation which are reserved for acute patients only. (Our other 2 approved med/surg beds are not in operation). These beds have been somewhat underutilized, as shown by the 2002 average daily census of 0.6 patients. We plan to convert these 2 beds, plus 3 of our SNF/ICF beds, to 5 acute/SNF "swing" beds. This will give us more efficient use of our beds since 5 of them will be available for either acute or SNF long term care. We anticipate that our acute census may actually increase, since we will be able to accommodate more of our long term patients who may need low level acute care, such as during the flu season. Many of these now have to be transported to Maui Memorial, since we only have 2 acute beds available. We also expect that some acute patients will be admitted from the emergency room.

The Kula area is approximately 30 to 40 minutes away from Maui Memorial for Kula residents needing after-hour urgent care. Such patients also face waiting time in the Maui Memorial ER. Therefore, we expect that some patients will come to Kula, with little or no waiting time, for urgent care or minor emergencies. We will arrange with the EMS system on Maui that only minor emergencies will be served at Kula. Major emergencies, such as trauma and chest pain will continue to be served at Maui Memorial Medical Center. We do not anticipate any confusion on the part of Kula community as to what level of emergency we can handle;

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since the residents are already accustomed to coming to our clinic for urgent care but bypassing us for Maui Memorial for serious emergencies.

Although Kula will still operate at a loss as a CAH, we estimate that our losses in the third year of operation as a CAH (compared to the status quo) will be reduced anywhere from \$1,850,000 to \$3,530,000, depending on which Medicaid reimbursement provision is applied.

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The additional staff for the project will just be the new staff for the emergency room:

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- 1 FTE ER physician
- 4.3 RNs for evenings and weekends

No other additional staff will be needed since our existing daytime clinic staff of 2 physicians (rotating in and out of the clinic while also working in the inpatient units) and an RN will be available during ordinary working hours to care for emergency visits.

In summary, the ER will be staffed as follows:

- Monday to Friday, day shift – Physician on-site (existing) and RN as necessary (existing).
- Monday to Friday, evening shift – Physician on-site (new).
- Monday to Friday nights and weekends – RN on-site (new) and physician on call (from among 2 existing and 1 new).

Federal regulations only require that the ER provider (in our case, a physician) be on call and available within 30 minutes. However, since we expect that the majority of the after-hours ER visits will be on the evening shift during weekdays, we will have a physician on-site at those times. We believe that such staffing is necessary if we are going to provide timely quality service to our community.

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

- The emergent and urgent care 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 through increased federal reimbursement, thus reducing State subsidies.

A word on bed changes. As noted on page 3, Kula's SHPDA-approved bed count and its operating/licensed count vary. Namely, we are approved for 121 beds but and have been licensed for and operating 115 beds. We would like to use this application to reconcile the difference by making the formal changes shown on page 3. These changes also incorporate the bed changes proposed in this application which result in

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the deletion of med/surg service and the establishment of a 5 bed acute/SNF swing bed unit.

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 and bed changes at Kula will contribute to these goals, albeit in a minor way. Kula 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 Wailuku.

The change in bed configuration to provide 5 acute/SNF swing beds provides greater flexibility for taking acute patients, especially during flu season and then accommodating those patients in place as their level of care reduces to SNF care. They are discharged from those beds to ICF when that level of care is needed. Financially, Kula Hospital can capture additional federal funds by using the swing beds for SNF utilization.

Achieving CAH status, which is a consequence of adding the emergency room, will also strengthen the financial standing of Kula. It is important that Kula be as strong as possible so that it may continue to serve the needs of its community, and contribute towards the H2P2's goals.

We note that Kula, with its 2002 long-term care bed occupancy of 95.9%, has achieved and surpassed the H2P2's capacity threshold standard of 95%.

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.

It is important to note that Kula already operates a clinic out of the site which will also be the location of the emergency room. Kula employs two full time physicians (1 general practitioner and 1 internal medicine) which

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staff the clinic and provide physician services to our inpatients. They also provide physician services to the long-term level patients at Maui Memorial. The clinic is also staffed by an RN.

The proposed emergency room service at Kula Hospital will complement the existing clinic, and is designed to meet the needs of Kula residents for urgent care and minor emergency care. Kula will employ an additional physician to cover the evening shift, and an additional 4.3 FTE RNs to provide 24/7 care. This staffing will assure immediate attention to any patient who comes to the ER. A further discussion of staffing has been provided on page 9.

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 Maui Memorial, and the EMS procedures for Maui 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 (1460 patients per year) will need the services of our ER. We expect that many of these will come after normal working hours, when our hospital clinic is closed.

The proposed ER will improve the accessibility of service to the residents of our Kula community. Residents with urgent or minor emergencies will no longer have to drive all the way to Wailuku, in some cases passing Kula Hospital, to access the ER at Maui Memorial. The distance is anywhere from 20 to 40 miles, with travel time of 30 to 40 minutes, and the inconvenience is compounded by the potential waiting time in the ER of a major hospital.

The proposed bed changes will also meet the needs of our population better than the existing configuration. Currently, we have only 2 med/surg beds available to meet the acute care needs of our patients. Since they are both in the same room, the vacant bed is unavailable to a new patient if the filled bed is occupied by a person of the opposite sex.

We propose to establish 5 acute/SNF swing beds – two 2 bed units and a 1 bed isolation unit. This will accomplish several purposes:

- The isolation bed will be available to any acute patient requiring isolation.
- The other beds, being in 2 other units, can be configured to accommodate the needs of patients by sex.
- 5 beds will be available (vs. the current 2) to meet the needs of acute patients. Needs fluctuate, but we sometimes need more than

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2 beds, such as in the case of flu season, to care for our existing long-term patients who have an acute episode. Now, these extra patients have to be transported to Maui Memorial.

- The 5 beds will also be available to SNF patients, when their numbers increase. Now, the 2 acute beds are not available to such patients.

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In short, the new bed configuration will provide maximum flexibility to meet the needs of our community.

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

c) Quality of Service/Care

Kula Hospital is certified by Medicare and Medicaid, and has a history of providing quality care. Although emergency service will be a new service, we already have an outpatient clinic, and the addition of the basic emergency service will complement this existing service.

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Will already provide some acute inpatient care, as well as SNF and ICF care, so that the conversion of beds will only enhance our capacity to provide all levels of care as appropriate.

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.

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

The capital cost of this proposal is \$470,000, including \$270,000 for construction and \$200,000 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 minor money-loser. We roughly estimate annual revenue of \$159,027 vs. expenses of \$498,071.

Nevertheless, establishing the ER will improve Kula'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 15 shows the projected impact of becoming a CAH on Kula's financials from 2006 to 2008. The first column, "PPS," is Kula'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 systems (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 \$2,066,000 or \$1,001,000 in CAH vs. status quo. Again, CAH designation requires that the hospital provide emergency services.

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It should be noted that the expenses lines in Exhibit I include the debt service expenses, both interest and principal, of the \$470,000 loan from Academic Capital. Although the loan is formally an obligation of HHSC, Kula's parent corporation, the expense of servicing the debt is passed through to Kula.

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e) Relationship to the existing health care system.

Establishing emergency services and making the proposed bed changes at Kula will improve the existing health care system. As noted above, it will make services more accessible to Kula area residents with urgent conditions or minor emergencies. The new emergency service will have only a slight impact on the island's major emergency room at Maui Memorial, since only 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 Maui Memorial, relieving the congestion for more serious patients.

The bed changes will give us added flexibility to meet the needs of more acute and SNF patients, and should have little impact on Maui Memorial, which is already overcrowded at both the acute and long-term level. Hale Makua, the other long-term care service on the island, is already operating at more than 95% occupancy, so our bed changes should have no adverse impact on them.

There will continue to be a shared use of staff between the emergency room, the clinic and the inpatient services of Kula. For example, during the night shift, the RN who is assigned to the ER can assist on the floors when there are no patients in the ER.

The use of our ancillary services, such as x-ray and lab, will increase as additional patients come to the ER.

f) Availability of Resources

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

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

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As noted earlier, the new staff required for the emergency room will be relatively small, since we will use our existing physicians and nurses during the usual daytime hours. The new staff needed are:

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- 1 physician.
- 4.3 FTE RNs

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An expanded discussion of staffing has been provided on page 9.

Although RNs are in high demand, we have been able to successfully recruit them.

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