



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

STANDARD APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 05-13

Applicant: Hilo Medical Center
1190 Waianuenue Avenue
Hilo, HI
Phone: 808-974-4700

Project Title: Establishment of a 95-bed Veterans Home SNF/ICF facility
at 1190 Waianuenue Avenue

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) **N.A., this is on the campus of Hilo Medical Center**
- 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 page 6**
- C. Your governing body: list by names, titles and address/phone numbers **See attachment A**
- 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 B**
 - By-Laws
 - Partnership Agreements
 - Tax Key Number (project's location) **#2-3-27-2**

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						

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5. **TOTAL CAPITAL COST:** \$32,344,000

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.

Note: This table shows the beds for the State Vets Home only, not the existing beds at HMC

Type of Bed	Current Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
SNF/ICF	0	95	95
TOTAL	0	95	95

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.

The establishment of a new facility, the Hawaii State Veterans Home, a long-term care facility with 95 SNF/ICF beds.

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

A. List All Project Costs: (See ex. 1, p. 12 for details)	AMOUNT:
1. Land Acquisition	<u>-0-</u>
2. Construction Contract (includes fixed eqpmnt)	<u>\$19,727,580</u>
3. Fixed Equipment (included in const. contract)	<u> </u>
4. Movable Equipment	<u>\$1,898,000</u>
5. Financing Costs	<u>-0-</u>
6. Fair Market Value of assets acquired by lease, rent, donation, etc.	<u>n.a.</u>
7. Other: a. Demolition of existing building	<u>\$3,640,000</u>
b. Other costs (see Ex. 1, p.12 for details)	<u>\$7,078,420</u>
TOTAL PROJECT COST:	<u>\$32,344,000</u>

B. Source and Method of Estimation

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

Estimates provided by our consulting firm, Rider Hunt Levett & Bailey (see Ex. 1, p. 12).

C. Source of Funds

1. Cash	<u> </u>
2. State Appropriations	<u> </u>
3. Other Grants	<u> </u>
4. Fund Drive	<u> </u>
5. Debt HHSC	<u>\$2,477,140</u>
6. Other: <u>Federal funds</u>	<u>\$20,051,460</u>
TOTAL SOURCE OF FUNDS:	<u>\$32,344,000</u>

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See page 6 for continuation

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:

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, 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.

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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3.B Continuation of item 3.b, listing of other permits or approvals (from page 2 of 5).

Approval of Building Plans – Veterans Administration
Environmental Assessment – Office of Environmental Quality Control,
State Health Department
Building permit – County of Hawaii
State licensure – Office of Health Care Assurance, State Health
Department

8.A Continuation of item 8.A, listing of project costs (from page 4 of 5, by item number).

1. There are no land acquisition costs, since the land is already owned by Hilo Medical Center (HMC).
3. Fixed equipment is included in the construction contract.
4. The State Home will be a long term care (LTC) facility, with little medical equipment. Movable equipment includes such things as beds and OT/PT equipment.
5. The State Veterans Home will be built on the site of the old Hilo Hospital, a building which has been unoccupied and unused for several years. The old building is now being demolished at a cost of \$3,640,000. The demolition is a separate project and separate contract from the construction of the new facility. Nevertheless, the cost of demolition will be capitalized as part of the cost of the new facility.
6. Exhibit 1 on page 12 presents details of the project costs.

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9. **Continuation of item 9, implementation schedule (from page 5 of 5)**

- a) Financing acquired. The financing already exists. The State has appropriated \$9,815,400 through Act 41 SLH 2004. The Veterans Administration has approved a grant of \$20,051,460. Hawaii Health Systems Corporation ("HHSC"), HMC's parent corporation, will finance \$2,477,140 through an existing line of credit with Academic Capital.
- b) Building permit applied for -- April, 2005
- c) Construction contract executed -- March, 2005
- d) Building permit received -- awaiting, 2005
- e) Construction start date -- August, 2005
- f) Completion of project -- 4th Qtr, 2006
- g) Occupancy, licensing and operation of facility -- Jan.1, 2007

9. **EXECUTIVE SUMMARY**

Hilo Medical HMC is proposing to construct the Hawaii State Veterans Home on the grounds of HMC at a capital cost of \$32,344,000. The Home will be constructed adjacent to HMC, on the site of the old Hilo Hospital, which is currently being demolished (see Exhibit 2 on page 13 for a site plan). The Home will provide skilled nursing and intermediate care (SNF/ICF) services to veterans and qualified non-veterans (gold star mothers, widows and spouses).

Population to be served. The population to be served is the veterans of the State of Hawai'i, primarily those on the Island of Hawai'i, plus some non-veterans (veteran-related family members) needing a range of LTC service. The VA allows up to 25% non-veterans (gold star mothers, spouses, and widows), but HMC projects only 15% of the patients will be non-veterans.

State Homes under the Veterans Administration ("VA"). State Homes are one way that the VA provides LTC to veterans. Hawai'i is one of only three states (the other two being Alaska and Delaware) without such a home. Under the program, the VA provides up to 65% of the cost of constructing a State Home, which is operated by the State. The VA will then pay a patient per diem for the care provided in the Home.

Congressional request. In October 2001, the U.S. Senate Appropriations Committee urged the VA "to work with the State of Hawaii Health Care Corporation [sic] (HHSC) to assess veterans' long-term care needs and to

make recommendations on the most cost-effective means of providing a State Veterans home.”

Feasibility Study. The HHSC contracted with Health Dimensions Group (HDG) to do a feasibility study. This extensive study considered: the future of veterans’ LTC; and a demand analysis including veterans’ demographics, current LTC utilization, the need for State Home beds, the need for domiciliary beds, the need for day services, and financial analyses of various options and assumptions. The study concluded that there was a need for a State Home on the campus of HMC, and that the facility should be operated under a management contract with a non-state agency. No management contract has been signed at this early date, but information about the expected provisions of the contract will be found in Exhibit 3, page 14 of this section. A copy of the feasibility study has been submitted to SHPDA as supporting documentation for this application. (“Feasibility Analysis Report for a State Home in Hawaii County, city of Hilo, Hawaii, for Hawaii Health Systems Corporation, July 21, 2003”).

Differences between the feasibility study and this proposal. The feasibility study was very conservative in its estimate of the number of Big Island veterans who would seek SNF/ICF at the State Home. Using a Veterans Administration (VA) methodology, it assumed that only 11.5% of Big Island veterans needing SNF/ICF care would seek it at the State Home, leaving the other 88.5% seeking care at some other facility. (See page B-5 of this document). Therefore, the study recommended that the inpatient/residential care at the State Home be a mixture of SNF/ICF and domiciliary (care home) care. HMC believes that this estimate is unrealistically low, and that more than 11.5% of Big Island veterans will seek care at the State Home. Indeed, we expect to be overwhelmed. We believe that our responsibility to the veterans is to serve those with the highest level of need first. Therefore, we are proposing that all 95 beds be established as SNF/ICF beds. If the facility does not achieve 90% occupancy we would propose to reduce the number of SNF/ICF beds and convert some of them to domiciliary care.

Adult day services. The feasibility study also recommends the provision of adult day care and adult day health services (which are not subject to CON in a LTC facility). However, the study does not specify the number of “slots,” and it makes no projections of the financial details. HMC expects to provide adult day services to approximately 35 veterans as an integral part of the Veterans’ Home.

Management contract. As noted above, the feasibility study concluded that operation under a management contract, rather than by HHSC itself, is necessary to reduce and/or mitigate operating losses which would require additional annual operating subsidies from the State. State

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operation would be more expensive primarily because of higher fringe benefit expenses (36% State vs. 25% under a management contract), and lower "nursing productivity" (a result of significantly higher annual vacation and sick leave days for State employees).

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A. Relationship to the Hawai'i Health Performance Plan (H2P2).

This project relates well to the H2P2. Chapter II of the H2P2 provides an occupancy rate of 95% as a capacity threshold for LTC beds which must be met before additional beds are added in a service area. This standard might not be applicable, since the target population is veterans in Hawai'i, not the general population of the Big Island service area. Nevertheless, the standard is met since the LTC occupancy rate for the Island of Hawai'i in 2003 was 94.6% (including acute/SNF beds) or 95.3% (excluding acute/SNF). The occupancy rate in the Hilo area was even higher.

This proposal also complies with the vision and guiding principles established in the H2P2, as well as the values established by the Hawai'i County (Big Island) Subarea planning Council.

B. Need and Accessibility

There is a need for this proposal, and its services will be accessible to all those in the target group (State and Big Island veterans) in need. The need for LTC services for veterans is demonstrated in the HDG feasibility study, as well as by the current crowding in other Big Island LTC facilities.

The State Home's services will be accessible to those veterans in need, without regard to ability to pay. The fact that the VA will pay a per diem for the care of the veterans mitigates financial problems and further enhances accessibility.

C. Quality of Service/Care

HMC will be responsible for operating the State Home, and will hold the license and medicare/medicaid certification. HMC has a track record of providing a high quality of service. HMC is JCAHO accredited, State licensed and certified for Medicare and Medicaid. HMC already has extensive quality assurance policies and procedures, and will also meet the operational standards required by the VA. All of these standards will be required in our expected management contract.

D. Cost and Finances

The capital cost of the project will be \$32,344,000. The capital financing of the first \$30,848,400 will be a 65/35% federal/state mix, i.e., \$20,051,460 federal funds and \$9,815,400 state funds. These funds have already been appropriated and the state funds already released. On June 9, 2005, we also received formal notice that the federal grant had been awarded. The remaining \$2,477,140 will be provided through a loan from Academic Capital through HHSC.

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In our utilization and financial projections, HMC conservatively estimates a "ramp up" period before the State Home reaches a "stabilized" level in the third year of operation. Once it has reached this level, the Home will be financially feasible, i.e., revenues will cover expenses. This projection is based on certain assumptions, the main one being that the Home is operated under a management contract.

E. Relationship to the Existing Health Care System

This proposal relates well to the existing health care system. Adding a State Home for veterans to the existing system will enhance the system, mainly by adding a dedicated service for veterans. (Hawaii is one of only three states without a State Home in its health care system). As existing and future LTC level veterans move to the new Home, it will open up beds in existing facilities for other people in the community. This will help relieve the burden on the island's existing LTC facilities, which are operating at a 95% occupancy rate. If the Home were not built, the system would soon have to provide additional LTC beds anyway to meet the community's need, and this would be without benefit of federal funding.

F. Availability of Resources

The financial resources are available to construct and operate the State Home. Ninety-two percent of the capital funds have already been appropriated by the federal and state governments, and the remaining 8% are available by loan through HHSC. Operating funds will be mixture of VA, Medicaid, private pay, and Medicare. By the third year of operation, the operating revenue of the Home will be enough to cover expenses.

Section F of this application presents a staffing pattern. We believe that needed staff will be available, although we acknowledge that there is a statewide shortage of nurses. However, HMC has a history of being able to recruit nursing staff, and we believe that they will be available for the State Home. Further, the University of Hawaii system