



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number: #09-05A

Applicant: Rehabilitation Hospital of the Pacific
226 N. Kuakini Street
Honolulu, Hawaii

Project Title: Deletion of 20 Skilled Nursing Facility Services (20 beds)

Project Address: same

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

- Public _____
Private 109 APR x-2 P 3:12 _____
Non-profit x _____
For-profit _____
Individual _____
Corporation x _____
Partnership _____
Limited Liability Corporation (LLC) _____
Limited Liability Partnership (LLP) _____
Other: _____

REPLACEMENT PAGE

2. **PROJECT LOCATION INFORMATION**

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

- Statewide: _____
O`ahu-wide: x _____
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) :facility is located on the Rehabilitation Hospital Campus
- 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.): Office of Healthcare Assurance – State Licensing Section deletion of licensed beds.
- C. Your governing body: list by names, titles and address/phone numbers—see attached
- 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-see attachment
 - By-Laws- see attachment
 - Partnership Agreements- NA
 - Tax Key Number (project's location)TKM#170140420000

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. **REPLACEMENT PAGE**

09 APR -2 P 3 :12

	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				X	X
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 Total	Bed	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
SNF Closure	20		0	
TOTAL	20		0	

6. PROJECT COSTS AND SOURCES OF FUNDS

REPLACEMENT PAGE

Not applicable-closing unit.

A. List All Project Costs: 09 490 -2 P3 12

AMOUNT:

- 1. Land Acquisition _____
- 2. Construction Contract _____
- 3. Fixed Equipment _____
- 4. Movable Equipment _____
- 5. Financing Costs _____
- 6. Fair Market Value of assets acquired by
lease, rent, donation, etc. _____
- 7. Other: _____

TOTAL PROJECT COST: 0

B. Source of Funds

Not applicable -closing unit

- 1. Cash _____
- 2. State Appropriations _____
- 3. Other Grants _____
- 4. Fund Drive _____
- 5. Debt _____
- 6. Other: _____

TOTAL SOURCE OF FUNDS: 0

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.

Deletion of Skilled Nursing Facility Services (20 beds)

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:

- a) Date of site control for the proposed project, NA
- b) Dates by which other government approvals/permits will be applied for and received, by June 1, 2009
- c) Dates by which financing is assured for the project, NA
- d) Date construction will commence, NA
- e) Length of construction period, NA
- f) Date of completion of the project, NA
- g) Date of commencement of operation: NA

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. See attachment.

- 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.

EXECUTIVE SUMMARY

Proposal Summary:

09 APR -9 P2:56

Requesting administrative approval to delete the skilled nursing facility services (20 beds) located on the campus of the Rehabilitation Hospital of the Pacific. We refer to this level of care as the Sub Acute Unit. This unit has been in operation since September 2005 serving a predominantly orthopedic population, in particular, elective single knee replacements. The average daily census for this fiscal year 2009 (October 2008-February 26, 2009) has been 8.1 with an average length of stay of 9 days. In offering this service we have suffered financially. This service is, unfortunately, unaffordable for REHAB. Over the past three fiscal years, the unit has been under its contribution margin by \$ 831,000 and its net margin, including fully allocated overhead, has been a negative \$3,880,000. The program is financially unsustainable given inadequate reimbursement and raising costs. Efforts to control expenses have been futile. The prospects of higher reimbursement are dim. In this prolonged recession, investment earnings have plummeted, depleting our defined pension account requiring us to use available cash to replenish it and therefore taking away our financial safety net.

Losses in the Sub Acute Unit have aggravated our overall hospital financial burden. At stake is REHAB as the only licensed facility for acute inpatient rehabilitation in Hawaii and its ability to develop core acute inpatient rehabilitation programs, serving patients with neurological, complex orthopedic or severe debility. Without a consistent positive operating margin we will fail to obtain the necessary capital for badly needed renovation of a 50-year-old plant and to modernize our acute inpatient programs.

A. Relationship to the Hawaii Health Performance Plan

REHAB is the only facility with licensed acute inpatient rehabilitation beds (80 beds) in Hawaii. This "tertiary" specialized hospital provides highly skilled practitioners who treat adolescents, young and older adults who have physical and cognitive impairments resulting from Stroke,

brain and or spinal cord injury, complex orthopedic and other severe conditions. Consistent with Hawaii's Health Performance Plan, REHAB goals include preventing primary and secondary injuries, minimizing impairments and disability resulting from illness/injury and chronic disease, and to prolong a healthy quality of life for populations served. REHAB also supports a person's emotional adjustment and psychological well-being. A key outcome is to assist patients to achieve their highest level of independent functioning and return to home and community. REHAB discharges 86% of acute inpatients to home and community as compared to 72% for other national rehab hospitals/units.

REHAB provides an integral role in Hawaii's health care system. Approximately 1,600 inpatient rehab admissions per year are received statewide from local acute care hospitals. REHAB maintains a close collaboration and referral relationship with other post acute care providers to include skilled nursing facilities, care homes, outpatient providers and home health to improve the health of our community.

The goal of this proposal is to delete our current skilled nursing facility services (20 beds) so we no longer need to subsidize this unit and can sustain our inpatient rehab beds. Without this relief, REHAB will need to limit access to inpatient rehab beds by capping average daily census, limiting patient admissions based on acuity, cost factors (i.e. patients with dialysis, high medication costs, and one to one care) and restrict charity care which will only back patients up in the referring acute care hospitals. These high cost complex patients will not be accepted by skilled nursing facilities. Given limited health care resources, we need to insure the only inpatient rehab beds/programs and facility in Hawaii are sustained and modernized for the future.

B. NEED AND ACCESSIBILITY

Based on feedback from the top referring orthopedic surgeons, SNF-level rehabilitation is a perceived need for some of their patients whose orthopedic recovery could be complicated by medical, behavioral, or social factors. In

an SNF-unit, an additional 7 to 10 day^{02.56} stay provides for a lower level of 24/7 care that addresses or stabilizes these factors.

After the deletion of the skilled nursing facility services, there will be alternatives for patients who have undergone knee replacement and who would have been transferred to REHAB's SubAcute Unit. First, hospitals may discharge these patients at or closer to their DRG-days, giving the patient another day or two of inpatient care. This may be sufficient time to stabilize or resolve medical issues.

Second, medical centers could increase their referrals to their own SNF-units on campus. For example, Queen's Medical Center has an SNF-Unit ("Progressive Care Unit"); Kuakini Health System has Hale Palama Mau; and Hawaii Medical Center East has an SNF-wing. Internal transfers have been practiced for the past several years at one or all of these local medical centers. Existing private community based skilled nursing facilities will also continue to be a referral source for these short term patients.

Third, following mainland trends and potential for denial of payment under new Medicare enforcement, more of these elective orthopedic patients will be sent directly home. SNF-units will be bypassed. Once at home, these patients will receive physical therapy from home care agencies. Patients who have nursing needs will have home care nurses. All patients who are about to undergo elective joint replacement will have pre-arranged caregivers such as family or friends. For those patients who are not homebound, outpatient physical therapy and visits to their primary care physician will be feasible.

Fourth, during a four month period when we reduced and flexed our staffing to control cost overruns, going from 18-20 to 10-12 to 4-6 average daily census (ADC), it was our impression that patients were being discharged without being waitlisted; that patients were being operated on without regard for any delay in transfers to REHAB's SubAcute Unit; and that existing alternatives were being used more.

The closure of the SubAcute Unit will not affect the "ability of the elderly, low income persons, racial and ethnic minorities, women, persons with disabilities and other underserved groups to obtain needed health care." The SubAcute Unit was set up to serve those patients undergoing elective single joint replacement, regardless of their age, race, ethnicity, gender, and disability. They must have adequate health insurance coverage, such as Medicare or HMSA.

Because of the weak reimbursement, we did not apply for a Medicaid license. Thus, the SubAcute Unit has not admitted low-income patients on Medicaid. Charity care has been provided to mainly non-insured or indigent patients in REHAB's acute rehab-beds.

C. QUALITY of SERVICE/CARE

REHAB meets all federal and State licensure and certification requirements.

D. COST and FINANCES

REHAB subsidizes this program which has a negative impact on the hospitals total operating margin. Reimbursement for the sub acute unit does not even cover direct variable costs, much less support direct fixed costs and overhead.

SNF Impact	FY 2007	FY 2008	FY 2009*
Patient admits	466	480	305
Loss per Admit	(\$2,245)	(\$3,887)	(\$3,318)
SNF operating margin (loss)	(\$1,046,000)	(\$1,866,000)	(\$1,012,000)
Total REHAB Hospital operating margin (loss)	(\$2,061,000)	(\$848,000)	(\$1,320,000)

*Oct-Feb 2009 Year to date annualized-clearly the deletion of the skilled nursing beds will improve REHABS financial positioning and ability to continue the acute inpatient rehab level of care.

For FY 2010: given no skilled nursing reimbursement updates, expense structure increasing by 5%, and same volume as FY09, we anticipate an even greater loss in the sub acute unit in 2010.

In addition, our acute inpatient rehab level of care which subsidizes the sub acute unit has not had a market basket payment increase from the Centers for Medicare and Medicaid Services (CMS) since 2007, with a continued freeze for 2010, which makes it even more difficult for the hospital to continue this practice. Closure of the unit will improve the finances of the applicant.

No impact to overall costs of health services to the community.

E. RELATIONSHIP TO THE EXISTING HEALTHCARE SYSTEM

We do not believe that our request to delete the skilled nursing facility services (20 beds) will have a significant impact on the health care system and its priorities.

Deletion of the skilled nursing facility services (20 beds) will take away a potential discharge destination for a subset of patients who cannot be discharged within their DRG-average length of stay. These patients will not be sufficiently complicated to justify an extended stay at an acute medical or surgical level but not medically stable enough for the orthopedic surgeon to feel comfortable with home care nurses, patient's care-givers, and office visits to physicians. We believe that this number of patients is small.

Based on mainland trends, patients who have undergone elective single joint replacement by Medicare and commercial health plans are increasingly being discharged to home with home care or outpatient physical therapy. SNF-rehabilitation is a more expensive level of care. Many more post acute treatment options exist for this population than the acute inpatient rehab patient.

A significant issue will arise should we be unable to delete the skilled nursing facility service (20 beds). As a consequence, REHAB will need to limit access by restricting inpatient rehab patients with high acuity costly needs. This will only aggravate the current and ongoing wait list issue within the acute referring hospitals.

F. AVAILABILITY of RESOURCES

Not applicable to purpose of request. Health personnel employed in the skilled nursing facility (20 beds) are being assumed in the inpatient rehab level of care. No capital resources are required for this project.