



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM

Application Number: A 10-11A
To be assigned by Agency

Date of Receipt:

APPLICANT PROFILE

Project Title: ADDITION OF 5 ACUTE/LONG-TERM SWING BEDS AND 10 SNF/ICF BEDS

Project Address: 100 Keokea Place
Kula, Hawai'i 96790

Applicant Facility/Organization: Kula Hospital

Name of CEO or equivalent: Nick Hughey, RN, MBA, NHA

Title: Hospital Administrator

Address: 100 Keokea Place, Kula, Hawai'i 96790

Phone Number: 808-876-4307 Fax Number: 808-876-4387

Contact Person for this Application: Nick Hughey

Title: Hospital Administrator

Address: 100 Keokea Place, Kula, Hawai'i 96790

Phone Number: 808-876-4307 Fax Number: 808-876-4387

CERTIFICATION BY APPLICANT

I hereby attest that I reviewed the application and have knowledge of the content and the information contained herein. I declare that the project described and each statement amount and supporting documentation included is true and correct to the best of my knowledge and belief.

Signature

Date

Nick Hughey
Name (please type or print)

Hospital Administrator
Title (please type or print)

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

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

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 THE EXISTING SITE FOR KULA HOSPITAL**
- B. 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.) **None**
- 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
 - By-Laws **ATT. B**
 - Partnership Agreements
 - Tax Key Number (project's location) 2-2-04:36

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					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 Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
Acute/long-term swing	5	+5	10
SNF/ICF	101	+10	111
ICF/MR	9	0	9
Total	115	+15	130

6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:

AMOUNT:

1.	Land Acquisition	_____
2.	Construction/renovation	<u>2,991,000</u>
3.	Fixed Equipment	_____
4.	Movable Equipment	<u>68,000</u>
5.	Financing Costs	_____
6.	Fair Market Value of assets acquired by lease, rent, donation, etc.	_____
7.	Other: <u>Contingency</u>	<u>459,000</u>

TOTAL PROJECT COST: \$3,518,000

B. Source of Funds

1.	Cash (from operating revenues)	_____
2.	State Appropriations	<u>\$3,518,000</u>
3.	Other Grants	_____
4.	Fund Drive	_____
5.	Debt	_____
6.	Other: _____	_____

TOTAL SOURCE OF FUNDS: \$3,518,000

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.

No new services will be added. Kula already has acute/long-term swing and SNF/ICF 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:

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.

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.

REPLACEMENT PAGE

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.

8. Implementation Schedule

Begin renovation/construction	Feb. 1, 2011
Complete renovation/construction	Oct. 1, 2011
Commence operations of additional beds	Nov. 1, 2011

9. Executive Summary

Kula Hospital ("Kula") is an existing Critical Access Hospital (CAH) with 5 acute/long-term swing beds, 101 SNF/ICF beds and 9 ICF/MR beds.

This proposal is to add 5 acute/long-term swing beds and 10 SNF/ICF beds by renovating space within the existing building on the second and third floors, and relocating some existing services. Please see figures 1 and 2 on pages 14 and 15. The existing 5 bed "CAH" unit (acute/long-term swing beds) on the second floor will be converted to 7 SNF/ICF beds. A new 10 bed acute/long-term swing unit will be established on the third floor. 3 additional SNF/ICF beds will be established on the third floor through the conversion of existing storage and physician rooms.

The purposes of the project are: (1) to partially meet Maui's need for increased long-term care (LTC) beds; (2) to more appropriately meet the need of LTC level patients who are now "waitlisted" in acute beds at Maui Memorial Medical Center (MMMC); and, (3) to improve revenues in the Maui health care system by placing patients in beds that receive appropriate reimbursement.

The capital cost of the project is \$3,518,000. \$5,000,000 of State funds have already been appropriated and released for the project.

a. Relationship to the State of Hawaii Health Services and Facilities Plan (HSFP).

This proposal by Kula to add acute/long-term swing beds and SNF/ICF beds is consistent with the provisions of the HSFP.

As provided in the HSFP, the Statewide Health Coordinating Council (SHCC) statewide priorities include the following:

General Principles

- 1. Promote and support the long-term viability of the health care delivery system.*
- 3. Ensure that any proposed service will at least maintain overall access to quality health care at a reasonable cost.*

5. *Ensure all projects are appropriate for the regional and statewide continuum of care.*

Specific Health Areas of Concern

1. *Ensure capacity and access to a continuum of long-term care services.*

This project specifically addresses these provisions of the HSFP. There is a statewide (and Maui-wide) shortage of LTC beds. This project totaling 15 beds, albeit small, will improve both capacity and access to LTC services. It also enhances the continuum of services, since patients can move from acute to SNF in the swing beds. In the SNF/ICF beds, patients can move from one level to another as their condition deteriorates or improves. All three levels of care are available in one facility.

The project enhances the viability of the overall Maui healthcare system by enhancing the viability of the HHSC - Maui region, the most significant inpatient component of that system. The additional beds will improve reimbursement. At present, MMC receives no per diem reimbursement for Medicare and most commercial insurance company patients being treated at the SNF level of care and deemed to be "waitlisted" in an acute bed. Such patients are reimbursed on the DRG level. However, Medicare SNF patients in the acute/long-term swing or SNF/ICF beds at Kula can be reimbursed on a per diem basis. Further, since Kula is a Critical Access Hospital, the reimbursements are on a cost-based formula. This means that Kula Hospital can provide the optimal staff and services for quality care of the patient, and be reimbursed for providing the vital services.

The proposal is also consistent with the priorities of the Maui County/Tri-Isle SAC in the HSFP.

2. HOME AND COMMUNITY-BASED SERVICES.

- *Address the immediate shortages of long term care beds and services.*
- *Increase home and community-based services and bed supply including nursing facilities . . .*
- *Optimize reimbursement through Medicare, Medicaid and third party insurers.*

As already noted, this project will increase the supply of long-term beds. Also, as noted above, it will optimize Medicare reimbursement for the Maui region of the HHSC.

Finally, Chapter 2 of the HSFP addresses thresholds for certain services. For the category "Long-term Care Bed," the plan provides the following:

1. *Define target population.*

REPLACEMENT PAGE

2. National utilization rates should be applied to the estimated target population to determine need.
3. Need estimates should be compared to current Hawaii licensed long-term care bed usage.

Compare current and anticipated licensed long-term care bed usage in service area.

This proposal also complies with these provisions of the HSFP. The next section of this application, "Need and Accessibility," provides more information about the need of the Maui community for additional long-term care beds. It discusses the target population, discusses local and national utilization rates and makes appropriate need estimates

b. Need and Accessibility

Need. This proposal addresses the need of Maui residents for additional long-term care beds. There are several indicators of this need.

Target population. The target population for long-term care is routinely measured by the population over 65.

**Table B-1
Maui Island Population Age 65+**

Age	2009 Population	2014 Projection
65-69	5,105	7,278
70-74	3,579	4,750
75-79	2,845	3,183
80-84	2,287	2,240
85+	2,391	2,658
Total 65+	16,207	20,109

Source: Thomson Reuters Market Planners Plus

The State of Hawaii already has a large elderly population, which is rapidly increasing. Table B-1 shows a predicted 24% increase in Maui's over 65 population in just the five years from 2009 to 2014. There will be a need for more LTC beds.

Utilization at existing facilities. The latest utilization data published by SHPDA is for the year of 2007. Table B-2 shows the number of beds and utilization

rates for Kula Hospital and Hale Makua, the only other LTC facility on the island. MMMC also reported a small SNF unit which has since been closed.

**Table B-2
Maui Island Long-Term Care Beds, 2007**

Facility	Bed Number & Type	% Occupancy
MMMC	4 SNF	3.6%
Kula Hospital	5 Acute/long-term	28.7%
	swing	96.7%
Hale Makua	99 SNF/ICF	96.6%
	378 SNF/ICF	
	486 LTC beds total	96.6%

Estimated bed need. As noted above, the HSFP contains the statement that “National utilization rates should be applied to the estimated target population to determine [LTC bed] need.” The U.S. rate of LTC beds per population aged 65 and over is about 43 beds/1000. (The Hawaii rate is about 22/1000). If we apply the national rate of 43/1000 to the estimated 2014 Maui population 65+ of 20,109, we get an estimated bed need of 865 LTC beds, as compared to the 2007 inventory of 486. This amounts to a deficit of 379. The 15 beds proposed in this project are well within the estimated need.

Waitlisted patients at MMMC. “Waitlisted” patients are those patients who are at the LTC level, but who are occupying an acute bed since there are no LTC beds available for their placement. These patients would have come into the hospital at an acute level, but who have since improved to either SNF or ICF status. They are put on a waitlist for an opening in an SNF or ICF bed.

Waitlisted patients have become a serious problem at MMMC. A recent tracking of the 21 month period from January 2008 to September 2009 showed an average daily census of 38.6 waitlisted patients. This number is further indication of the need on Maui for additional LTC beds.

The occupation of acute beds by LTC patients means that fewer acute beds are available for acute patients. There are also financial implications, especially with Medicare patients, since MMMC is reimbursed on a DRG basis for a patient that is admitted at the acute level and then progresses to the SNF level. MMMC receives no Medicare per diem reimbursement for an SNF patient in an acute bed, no matter how many days the patient occupies that bed.

Finally, there is a matter of appropriate care for a waitlisted patient. LTC patients are best cared for in a LTC facility, not an acute facility which is not designed for LTC patients.

Projected Utilization. Exhibit D on page 12 is a revenue and expense projection for the increment of the additional 5 acute/long-term swing and 10 SNF/ICF beds. We project that in year one the acute/long-term swing beds will have an average daily census (ADC) of 3.5 and the SNF/ICF beds will have an ADC of 8.0. As noted earlier, we expect the beds to be quickly filled with waitlisted patients from MMMC.

Accessibility. Kula Hospital now provides, 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. The quality of care for Maui residents will be improved simply by adding these beds which will allow more people to get the care they need at an appropriate level of service.

d. Cost and Finances

The capital value of the project is \$3,518,000. \$5,000,000 in State funds have been appropriated and released.

Exhibit D on page 12 is a revenue and expense projection for the additional 5 acute/long-term swing beds and additional 10 SNF/ICF beds at Kula Hospital. The Exhibit shows that, in year one of operation, the expenses of operating the new beds will exceed revenue by approximately \$482,000. This loss will be offset by operating revenue and State appropriations.

More importantly, we must look at the impact on the island's entire system, which includes MMMC as well as Kula. In summary, the operating losses of the system will be reduced by this project. For example, the cost of caring for a Medicare SNF level waitlisted patient in an acute bed at MMMC is about \$1300 per day. MMMC receives \$0 in Medicare and most commercial payer reimbursement for this patient beyond the flat rate DRG reimbursement received when the patient was first admitted at the acute level. The same patient could be transferred to an SNF bed at Kula, where the loss would be closer to \$80 to \$100 per day. Although this is still a loss, it is a much less significant loss than maintaining the waitlisted patient at MMMC. Further, freeing up the MMMC acute bed means that MMMC has opportunity to generate revenue from a new acute patient in that bed.

EXHIBIT D

Name:	Kula Hospital - Bed Expansion
Cost Est. Number:	
Sheet:	
Page:	

	Year 1	Year 2	Year 3	Year 4	Year 5	8 Year Totals	Average
Primary Drivers							
Average Daily Census-Acute	3.5	4.0	4.5	5.0	5.0	22.0	4.4
Average Daily Census-Swing	-	-	-	-	-	-	-
Average Daily Census-SNF/ICF	8.0	8.0	8.0	8.0	8.0	40.0	8.0
Average Daily Census-Crisis Care/Respite	-	-	-	-	-	-	-
Days of Care-Acute							
Days of Swing Bed	1,278	1,480	1,643	1,825	1,825	8,030	1,606
Days of Care-SNF/ICF	2,920	2,920	2,920	2,920	2,920	14,600	2,920
Days of Care-Crisis Care/Respite	365	365	365	365	365	1,825	365
Revenue							
Acute Care	\$ 1,071,077	\$ 1,368,297	\$ 1,563,768	\$ 1,854,710	\$ 1,854,710	\$ 9,600,725	\$ 1,200,145
Swing Bed	\$ 691,112	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SNF/ICF	\$ 472,511	\$ 1,380,599	\$ 1,380,599	\$ 1,380,599	\$ 1,380,599	\$ 6,902,895	\$ 1,380,599
Contingency/Crisis Care	\$ (821,222)	\$ (906,806)	\$ (1,020,359)	\$ (1,133,732)	\$ (1,133,732)	\$ (4,986,420)	\$ (897,684)
Less Unpaid Care - Acute	\$ (214,96)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less Unpaid Care - Swing	\$ (84,56)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less Unpaid Care - SNF/ICF	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less Unpaid Care - Crisis Care/Respite	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Physician Revenue Offset	\$ 10,00	\$ 3,650	\$ 3,650	\$ 3,650	\$ 3,650	\$ 18,250	\$ 3,650
Total Revenue	\$ 1,882,814	\$ 1,784,912	\$ 1,847,610	\$ 1,828,108	\$ 1,828,108	\$ 9,182,861	\$ 1,130,690

	Year 1	Year 2	Year 3	Year 4	Year 5	8 Year Totals	Average
Expense							
Personnel							
RN	7.0	7.0	7.0	7.0	7.0	35.0	7.0
Nurse Manager	1.0	1.0	1.0	1.0	1.0	5.0	1.0
LPN	12.0	12.0	12.0	12.0	12.0	60.0	12.0
CNA	1.0	1.0	1.0	1.0	1.0	5.0	1.0
Physical Therapy Aid	1.0	1.0	1.0	1.0	1.0	5.0	1.0
Physical Therapist	1.0	1.0	1.0	1.0	1.0	5.0	1.0
SW	1.0	1.0	1.0	1.0	1.0	5.0	1.0
Chaplain	1.0	1.0	1.0	1.0	1.0	5.0	1.0
Ward Clerk	1.0	1.0	1.0	1.0	1.0	5.0	1.0
Facilities/Cleaning/Other	1.0	1.0	1.0	1.0	1.0	5.0	1.0
Manager	0.5	0.5	0.5	0.5	0.5	2.5	0.5
Physician	0.5	0.5	0.5	0.5	0.5	2.5	0.5
Total Personnel Expense	\$ 131,375.50	\$ 131,375.50	\$ 131,375.50	\$ 131,375.50	\$ 131,375.50	\$ 656,877.50	\$ 82,109.69

	Year 1	Year 2	Year 3	Year 4	Year 5	8 Year Totals	Average
Operational							
Utilities	\$ 1,94	\$ 1,94	\$ 1,94	\$ 1,94	\$ 1,94	\$ 9,80	\$ 1,225
Other-Purchased Sv	\$ 4,86	\$ 4,86	\$ 4,86	\$ 4,86	\$ 4,86	\$ 24,30	\$ 3,038
Laundry	\$ 4,30	\$ 4,30	\$ 4,30	\$ 4,30	\$ 4,30	\$ 21,50	\$ 2,688
Building Maintenance	\$ 1,08	\$ 1,08	\$ 1,08	\$ 1,08	\$ 1,08	\$ 5,40	\$ 675
Dietary (food)	\$ 9,20	\$ 9,20	\$ 9,20	\$ 9,20	\$ 9,20	\$ 46,00	\$ 5,750
Other Supplies	\$ 19,01	\$ 19,01	\$ 19,01	\$ 19,01	\$ 19,01	\$ 95,05	\$ 11,881
Equipment Rental	\$ 1,23	\$ 1,23	\$ 1,23	\$ 1,23	\$ 1,23	\$ 6,15	\$ 769
Interest Expense	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Training	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Due & Subscriptions	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Advertising And Marketin	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Additional Insurance	\$ 4,18	\$ 4,18	\$ 4,18	\$ 4,18	\$ 4,18	\$ 20,90	\$ 2,613
Professional Fees	\$ 1,86	\$ 1,86	\$ 1,86	\$ 1,86	\$ 1,86	\$ 9,30	\$ 1,163
Other expenses	\$ 1,77	\$ 1,77	\$ 1,77	\$ 1,77	\$ 1,77	\$ 8,85	\$ 1,107
Contingency	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Miscellaneous and Admi	\$ 5,78	\$ 5,78	\$ 5,78	\$ 5,78	\$ 5,78	\$ 28,90	\$ 3,613
Total Operational Expense	\$ 219,939	\$ 226,371	\$ 235,603	\$ 245,235	\$ 245,235	\$ 1,189,602	\$ 148,700

	Year 1	Year 2	Year 3	Year 4	Year 5	8 Year Totals	Average
Community Support							
Community Support	\$ 515,117	\$ 540,524	\$ 570,548	\$ 605,018	\$ 621,903	\$ 2,853,109	\$ 570,622
Depreciation	\$ 7,84	\$ 35,916	\$ 35,776	\$ 37,209	\$ 37,209	\$ 177,468	\$ 35,492
Net Contribution with Depreciation & Support	\$ (58,689)	\$ (148,644)	\$ (265,089)	\$ (771,099)	\$ (80,633,64)	\$ (82,031,7)	\$ (18,406,3)
Estimated Community Support, per patient day (including Depreciation)	\$ 122.73	\$ 123.44	\$ 125.11	\$ 127.87	\$ 150.21	\$ 130.14	\$ 130.14

e. Relationship to the Existing Health Care System

The proposal will strengthen the existing health care system on Maui.

- It will add badly needed LTC beds to the Maui System.
- It will provide some relief to the waitlist problem at MMMC.
- It will provide a more appropriate level of care to those waitlisted LTC patients at MMMC by enabling them to be cared for in a LTC bed in a facility which is primarily a LTC facility rather than an acute bed in an acute hospital.

Finally, the project will improve reimbursement and therefore the financial status for the Maui Regional System. Medicare does not reimburse on a per diem basis for SNF level patients waitlisted in an acute bed at MMMC. The per diem cost to MMMC to care for such a patient is about \$1300. However, Medicare will pay cost-based reimbursement for the same patient in an acute/SNF bed at Kula.

f. Availability of Resources

Both the financial and personnel resources needed to implement the proposal are available. As noted above, the State has already appropriated and released the capital funds for the renovation, and State subsidies are expected to continue to offset operating losses. (We again point out that this project will reduce overall regional operating losses and therefore contain the subsidies needed from the State.)

We anticipate that Kula will need some additional staff to care for the higher level of acuity patients admitted from the MMMC waitlist. We expect that we will need an additional:

- .5 Medical staff member
- 8 RNs
- 1 Physical Therapy Aide
- 12 CNAs
- 1 Health Unit Clerk.

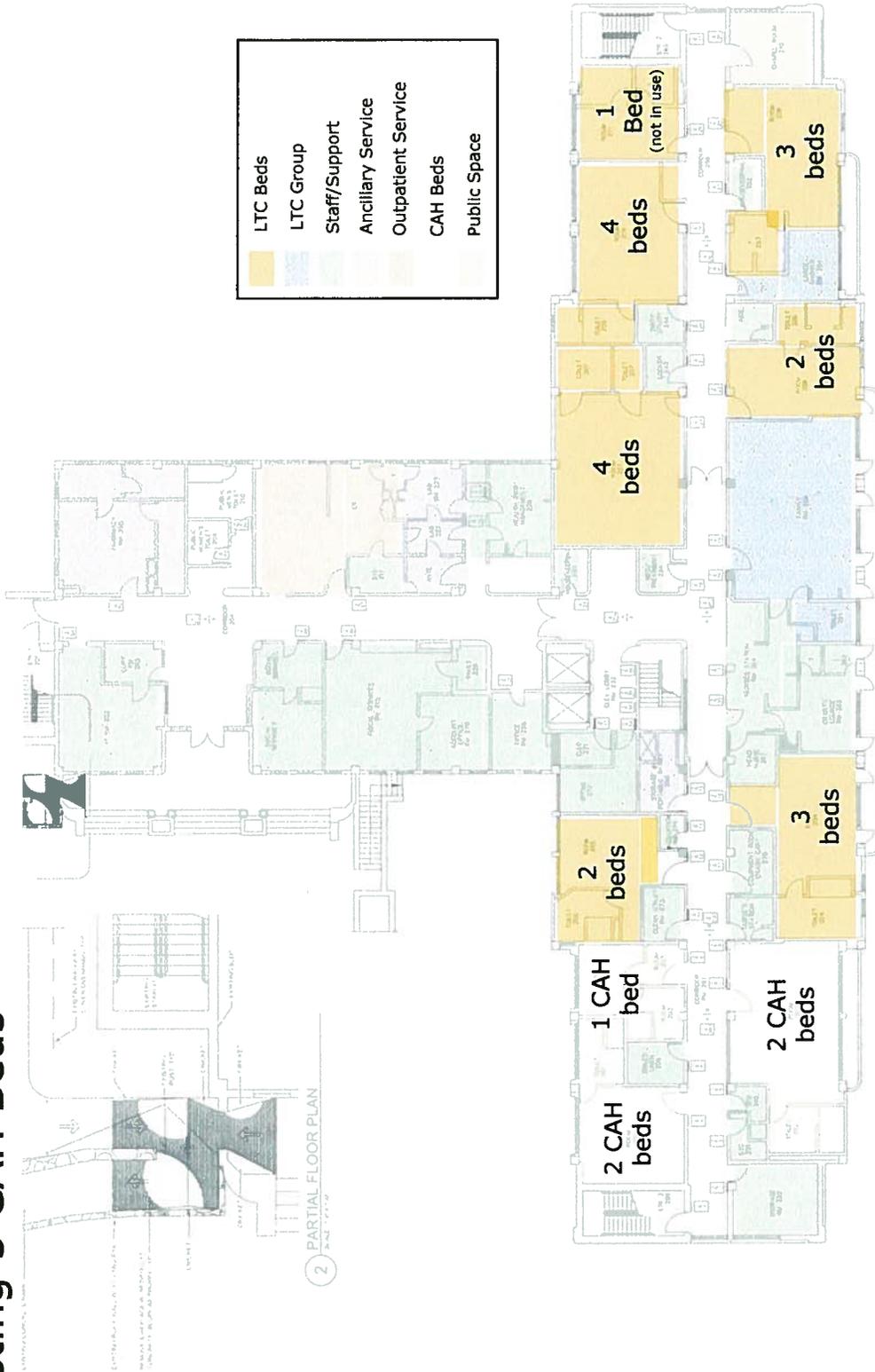
Kula has always been successful in recruiting new nursing staff, and we expect that the new staff can be hired.

Existing Facility, Second Floor

STROUDWATER ASSOCIATES

Main facility entrance is on 2nd Floor.
 Existing 18 Long Term Care Beds
 Existing 5 CAH Beds

The 5-bed "CAH" (acute/SNF) unit will be converted to 7 SNF/ICF beds (the large 2-bed unit will become a 4-bed ward).



1 2ND FLOOR PLAN

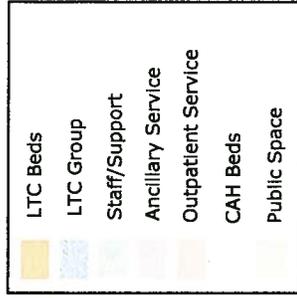
Option B2: Semi-Private – Third Floor

Option Summary

- Reflects option to add LTC beds with as much privacy and infection control as possible
- Sacrifices total bed count
- Preserves many interior walls to manage costs
- Adds 13 beds overall
- Approximately 3,150 square feet of space to be renovated

Kula draft 15 6-17-10

The five 2-bed rooms at the top will be the 10 bed acute/LT swing (“CAH”) unit. The other three 1-bed rooms will be SNF/ICF



1 3RD FLOOR PLAN