



STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

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May 27, 2005

CERTIFIED MAIL, RETURN RECEIPT REQUESTED

John Schaumburg
Administrator
Kula Hospital
100 Keokea Place
Kula, HI 96790

Dear Mr. Schaumburg:

The State Health Planning and Development Agency has evaluated Certificate of Need application #05-07A from Kula Hospital (the "applicant") for the establishment of emergency room services, the addition of 5 Acute/Long term swing beds, the deletion of: 4 medical/surgical beds and 7 SNF/ICF beds at capital cost of \$470,000.

As provided under Section 11-186-99.1 of the Hawaii Administrative Rules (HAR), the Agency has determined that this proposal is eligible for administrative review as it meets the criterion in Section 11-186-99.1(b) (6), i.e.: "any proposal which is determined by the agency not to have a significant impact on the health care system."

In accordance with the criteria in Section 11-186-15, HAR:

- a. The applicant states that the proposed bed changes will allow the hospital to better serve the needs of its community and the addition of an emergency room (ER) will make the hospital eligible for federal designation as a Critical Access Hospital (CAH).
- b. The applicant states that "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."
- c. The applicant states that the "The proposed ER will improve the accessibility of service to residents of our Kula community."
- d. The applicant states that "...the new bed configuration will provide maximum flexibility to meet the needs of our community."
- e. The applicant states that "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."

- f. The applicant states that "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."
- g. The applicant states that "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."
- h. The applicant states that "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."
- i. The applicant states that "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."
- j. The applicant further projects reduced losses anywhere from \$1,001,000 to \$2,066,000 in FY 2006 and \$1,389,000 to \$2,735,000 in FY 2007.
- k. The applicant states that its proposal will contribute to the goals of the Hawaii Health Performance Plan ("H2P2").
- l. The applicant states that "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... 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."
- m. The applicant states that "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."
- n. The applicant states that "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."

- o. The applicant states that "Establishing emergency services and making the proposed bed changes at Kula will improve the existing health care system... it will make services more accessible to Kula area residents with urgent conditions or minor emergencies."
- p. The applicant states that "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 service on the island, is already operating at more than 95% occupancy, so our bed changes should have no adverse impact on them."
- q. The applicant states that "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."
- r. The applicant states that it will require an additional 4.3 FTE RNs and one physician for its proposal.
- s. The applicant states that "Although RNs are in high demand, we have been able to successfully recruit them."

There is no compelling public interest which will be served by requiring the application to go through the standard review process.

Accordingly, the State Health Planning and Development Agency hereby APPROVES and ISSUES a CONDITIONAL Certificate of Need to Kula Hospital for the proposal described in Cert. #05-07A. The conditions are that:

1. Prior to opening the ER, the applicant shall meet with Maui Memorial Medical Center and local emergency medical service providers to ensure that the Kula ER is appropriately integrated into the existing healthcare system of the area.
2. Prior to opening the ER, the applicant shall issue an informational press release and hold at least one public information meeting, to advise the community of the ER services that will be available at the Kula ER. The said press release as well as the notification of the public information meeting shall be published in all Maui island newspapers.

On or before February 1, 2006, the applicant shall certify in writing to the Agency that it has fulfilled the above stated conditions.

These modifications are required for the application to successfully meet the Certificate of Need criterion in Section 11-186-15(10) HAR.

As provided under Section 323D-46, HRS and Section 11-186-77 HAR, the Agency establishes June 30, 2005 as the date by which the applicant must certify in writing that it accepts these conditions, otherwise this application shall be deemed to be DENIED as provided under Section 11-186-77 HAR.

The Agency has determined that the applicant has proven by a preponderance of the evidence that its proposal, if modified in accordance with the terms of the conditional certification, meets the Certificate of Need criteria in Section 11-186-15, HAR.

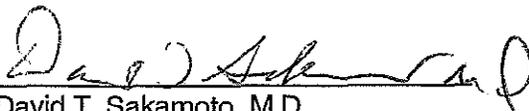
Pursuant to Section 323D-43(b), Hawaii Revised Statutes (HRS), the Agency determines that, if the proposal is modified in accordance with the terms of the conditional certification:

1. There will be a public need for this proposal.
2. The cost of the service will not be unreasonable in light of the benefits it will provide and its impact on health care costs.

The maximum capital expenditure allowed under this approval is \$470,000.

Please be advised that pursuant to Section 323D-47, HRS and Section 11-186-99.1(g) HAR, any person may, for good cause shown, request in writing a public hearing for reconsideration of the Agency's decision within ten working days from the date of this decision. Accordingly, if no person makes such a timely request for reconsideration, this decision shall become final immediately after the deadline for making such a request has expired.

C: OHCA

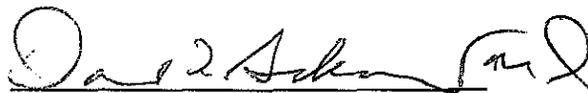

David T. Sakamoto, M.D.
Administrator

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the attached Administrative Review Decision was duly served upon the applicant by sending it by certified mail, return receipt requested, in the United States Postal Service addressed as follows on May 27, 2005:

John Schaumburg
Administrator
Kula Hospital
100 Keokea Place
Kula, HI 96790

HAWAII STATE HEALTH PLANNING
AND DEVELOPMENT AGENCY



David T. Sakamoto, M.D.
Administrator