



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 03-27A

Applicant: Maui Memorial Medical Center
221 Mahalani St., Wailuku, HI
Phone: 808-242-2036

Project Title: Addition of 28 skilled nursing facility (SNF) beds and the
deletion of 21 medical/surgical beds

Project Address: 221 Mahalani St., Wailuku, HI

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

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

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2. **PROJECT LOCATION INFORMATION**

A. Project will be located in:

State Senate District Number: 9 State House District Number: 4

County Council District Number: _____ Neighborhood Board District
Number: All Maui County (Maui County has no county council district numbers
(O'ahu only)

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

Statewide: _____
O'ahu-wide: _____
Honolulu: _____
Windward O'ahu: _____
West O'ahu: _____
Maui County: XX
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.**
- 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.) **Licensure from OHCA**
- C. Your governing body: list by names, titles and address/phone numbers (**See 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 **N.A.**
 - By-Laws **Submitted previously with CON #03-08A**
 - Partnership Agreements
 - Tax Key Number (project's location) **2-3-8-0-46-013**

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	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
SNF	0	+28	28
Medical/Surgical	167	-21	146
Critical Care	15	no change	15
Obstetric	23	no change	23
Psychiatric	18	no change	18
TOTAL	223	+7	230

6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:

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:

\$ 0.00*

B. Source of Funds

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

TOTAL SOURCE OF FUNDS:

\$ 0.00*

*** There is no capital expense involved. The rooms are available and there are no renovation or equipment expenses**

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.

Addition of SNF (Skilled Nursing Facility) service

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.

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.

 XX The applicant believes it will not have a significant impact on the health care system.

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8. Implementation Schedule

Maui Memorial Medical Center (MMMC) will establish a 28 bed SNF (skilled nursing facility) unit by converting an existing 14 room unit in the hospital from acute medical/surgical ("med/surg") usage to SNF. The 14 room unit now has 21 med/surg beds, so that the project will result in the deletion of 21 med/surg beds as well as the addition of the 28 SNF beds. The beds and space are already available, and MMMC will be able to begin operating the SNF unit as soon as the Certificate of Need ("Certificate") is granted and as soon as the necessary licensure and certification are received from OHCA (Office of Health Care Assurance).

- a) Date of site control for the proposed project. **Not applicable. MMMC already controls the site.**
- b) Dates by which other government approvals/permits will be applied for and received. **The only other government approvals needed are licensure and certification from OHCA. MMMC will apply for these approvals as soon as the Certificate is issued.**
- c) Dates by which financing is assured for the project. **Not applicable. There is no capital expense and no financing required.**
- d) Date construction (renovations) would commence: **Not applicable. No construction or renovations are necessary.**
- e) Length of construction period: **Not applicable.**
- f) Date of completion of the project: **Immediately upon receipt of the Certificate and OHCA approvals.**
- g) Date of commencement of operation: **Immediately upon receipt of the Certificate and OHCA approvals. MMMC estimates 60 days after SHPDA approval.**

9. Executive Summary

Maui Memorial Medical Center ("MMMC") has a serious LTC (long term care) waitlist problem. These are patients that were admitted as acute patients, but now have improved to the point where they need subacute care – either SNF or ICF (intermediate care). Recently the daily number of waitlisted patients has ranged from about 30 to 50, with an average of 38.44 in the last fiscal year. These patients should be discharged from the acute setting at MMMC to a LTC facility. However, there are only three LTC facilities on Maui, and they are usually so full that they have no room for new patients. Consequently, MMMC must keep the LTC patients in acute hospital beds while waiting for a bed to open up at one of the LTC facilities. This is a major financial drain on the hospital since, for most patients, the hospital receives no reimbursement for waitlisted patients

occupying an acute bed while waiting for an opening in an LTC facility. We estimate that we are losing a minimum of \$4,000,000 per year. However, the hospital can receive some reimbursement for some SNF patients if the hospital has licensed and certified SNF beds. Further, the LTC patients will receive a more appropriate level of service (increased recreational therapy, for example) if an SNF unit is established and dedicated for their needs.

As Maui's population continues to grow and age, the need for LTC beds will only increase. The best way to meet this increased need will be to add more LTC beds, either by building new facilities or by making major expansions to the existing facilities. In the meantime, MMMC proposes to establish a 28 bed SNF unit to alleviate some of the immediate and urgent problems.

MMMC proposes to convert an existing 14 room unit of 21 med/surg beds to a 28 bed SNF unit. Currently 7 of the rooms are private (7 beds) while 7 of the rooms are semi-private (14 beds). MMMC proposes to make all 14 rooms semi-private, so that the unit can accommodate 28 patients. This proposal will require waivers from OHCA (room size, no large congregate dining or activity room. MMMC is hopeful that it can get the waivers, since Hilo Medical Center recently received waivers for a 22 bed SNF unit.

Although this proposal will result in the decrease of 21 med/surg beds, this should not have an immediate adverse effect on the hospital since on a daily basis about 40 of its acute beds are already occupied by waitlisted LTC patients. In the long term, MMMC will need these or other beds for acute care.

A. Relationship to the Hawaii Health Performance Plan (H2P2).

The proposal in this application relates well to the provisions of the H2P2. The plan states that "for a new or additional long-term care beds, the average annual occupancy rate for all existing long term-care beds in the service area is at least 95 percent." Table 1 below, taken from SHPDA's annual utilization reports, shows the occupancy rate for Maui's LTC facilities for the last 2 years. All the facilities were over 95% for these two years. Consequently, this proposal complies with this criterion of the plan.

Table 1*
LTC Occupancy Rates – Maui Island

Facility	SNF/ICF beds	ICF beds	% Occ. 2001	% Occ. 2002
Hale Makua	--	124	95.57%	97.46%
Hale Makua	238/240**	--	96.26%	95.70%
Kula Hosp.	104	--	95.49%	95.94%

*Source: SHPDA Utilization Reports, 2001 and 2002

**238 beds in 2001; 240 beds in 2002

Table 1 shows that the existing facilities are crowded with patients. However, the need for LTC beds and services is even greater, as shown by the number of waitlisted patients at MMMC whose data are not included in this table.

The critical elements of a health care delivery system, as defined in the H2P2, are access, quality management, cost-effectiveness, continuity of care and constituent participation. All these elements are addressed by MMMC in general and this proposal in particular.

- Access to SNF services for the people of Maui requires an adequate supply of beds. Currently, there are not enough beds on the island, as indicated by the number of waitlisted patients at MMMC who are occupying acute beds while waiting for a LTC bed to open up in the community. Further, it is more appropriate for an SNF patient to be cared for in a dedicated SNF unit, rather than a med/surg unit.
- Quality is assured through the hospital's standard quality control programs.
- Cost-effectiveness for patients is assured through the provision of sufficient beds to provide appropriate service to patients needing an SNF bed. The cost-effectiveness benefit to the hospital is significant. The hospital receives no reimbursement for most SNF patients while they are waitlisted in an acute bed. The hospital will be reimbursed for most SNF patients if they are in an SNF bed.
- Continuity of care is assured through the provision of an appropriate level of service at Maui's only medical center, with its comprehensive range of medical professionals and inpatient services. However, MMMC acknowledges that it would be preferable for the existing LTC facilities on Maui to expand their beds, or for new facilities to be built.
- Constituent participation is assured through the input of various consumer and provider groups in the function of the medical center.

The proposal also relates well to the values and priorities of the Maui County "Tri-Isle" Subarea Health Planning Council ("SAC") as identified on

pages III-9 to III-12 of the H2P2. For example, the proposal to increase the number of SNF beds meets the SAC's values that services should be accessible, effective and appropriate. Currently, there are not enough LTC beds to meet the need, so that LTC care is inaccessible to some patients at some times. Further, it is more appropriate to serve an SNF patient in a dedicated SNF unit, rather than waitlisting them in an acute bed.

B. Need and Accessibility Criteria

The proposal relates well to these criteria. There is an immediate need for additional SNF beds on Maui, and the beds will be accessible to those in need.

As shown in Table 1 above, the current LTC facilities on Maui already exceed the 95% occupancy rate which justifies additional LTC beds under the provisions of the H2P2.

These figures do not even include the waitlisted patients at the hospital, which is further indication of the insufficiency of the current system. The last statistics published by SHPDA (Table 14, 2001 Utilization report) showed that on December 31, 2001, there were 25 waitlisted patients at Maui Memorial. Similar data for 2002 have not been published by SHPDA, but the hospital's own internal data show a daily average of 38.44 waitlisted patients in the last fiscal year. On August 26, 2003, the day this application is being prepared, the waitlist is up to 48.

This proposal is for a 28 bed SNF unit to meet part of Maui's immediate need for LTC beds. We have not projected future needs for Maui, since this unit is not intended to be permanent, and since the need for more LTC beds will only increase as the population itself increases and ages. The solution to that need will be major expansions at the existing LTC facilities, or the construction of new facilities. Eventually, Maui will need additional acute beds, and it is the hospital's hope to return these proposed SNF beds to med/surg usage as quickly as possible.

Another alternative would be for the hospital to propose these beds be made SNF/ICF swing beds rather than just SNF beds. This would lead to more problems for the hospital. According to Medicare regulations, once a LTC patient is assigned a bed, it is their residence. Thus the facility cannot move the resident without their permission. The intention of the conversion of acute beds to SNF beds is to have a more frequent turnover of SNF residents (thus freeing acute beds for acute patients) rather than having ICF residents staying in the acute hospital. If MMMC were to have SNF/ICF swing beds in the acute hospital, they could eventually be filled

with ICF residents who prefer to be in a hospital setting. When SNF residents are downgraded to ICF, if the beds were SNF/ICF swing, the new ICF resident could elect to remain in their current bed, resulting in no resident movement. If the beds are licensed as SNF only, the hospital can work to place the newly downgraded ICF resident in another facility, resulting in patient movement and making the bed available for another SNF waitlisted patient. Further, patients with higher acuity (SNF vs. ICF) are better served in a hospital, with its staff and services already geared to higher acuity patients

The services at MMMC are accessible to all patients. MMMC has provisions to assure that services are provided to all residents of the area, including low income persons, racial and ethnic minorities, women, handicapped persons, other underserved groups and the elderly.

C. Quality of Service/Care Criteria.

The proposal relates well to these criteria. MMMC is accredited by the Joint Commission of Accreditation of Healthcare Organizations, licensed by the Department of Health and certified by Medicare. MMMC has ongoing quality improvement programs, and a history of providing quality service.

The establishment of a specific 28 bed SNF unit will provide more appropriate care for SNF patients than if they are simply waitlisted in acute beds. The unit will increase the level of activities, rehabilitation services, and clinical dietary services beyond that which is currently provided under an acute setting. The hospital will provide an additional physical therapist and occupational therapist for the unit. The additional individual and small group activities will increase socialization, prevent cognitive degeneration, and prepare the individual to return to their home setting. Space limitations will make it difficult to have a congregate dining or activity room and the hospital will seek a waiver from OHCA for this requirement.

In short, SNF patients are better served in an SNF unit than in an acute unit, and MMMC has a history of providing quality care.

D. Cost and Finances Criteria.

The proposal meets these criteria. There are no capital costs involved, since the rooms and equipment are already available.

The major financial benefit to the hospital (and ultimately to the community it serves) is that the hospital can receive some reimbursement for its SNF

patients. Currently, MMC receives no reimbursement for its waitlisted patients (8,366 patient days in 2001, according to the SHPDA 2001 Utilization Report). When a Medicare patient is admitted to the hospital as an acute patient, the hospital receives a single DRG (diagnostic related group) reimbursement for that patient. But, if the patient is downgraded to the SNF level and waitlisted in an acute bed, Medicare and HMSA 65C+ will provide no additional reimbursement for that patient. SNF patients waitlisted in a med/surg bed are considered to be receiving acute care, and therefore, these insurances do not pay for what is considered an "inappropriate" level of care. Therefore, the hospital is faced with the considerable expense of providing expensive care for a waitlisted patient and receiving no reimbursement at all.

However, if an SNF-level patient can be transferred to an SNF bed, the insurers will pay a per-diem rate. MMC projects that the average per diem reimbursement for an SNF patient will be \$313.

Attachment B to this application is a 3 year revenue and expense projection for the 28 bed SNF unit, showing the expected impact of this project. Given the assumptions in these projections, the current \$4,000,000 annual loss from waitlisted patients will be replaced by a \$51,573 "profit" in the first year, and an \$87,325 loss in the second year.

The most important assumptions are:

- 28 beds – unit size
- 24 patients – average daily census
- 85.7% -- average daily occupancy rate
- \$710 – daily rate (room & board of \$625 + ancillary of \$85)
- 56.2% -- contractual allowance percentage ("discount")
- \$313 daily revenue per bed, years 1,2 & 3
- \$307 daily operating expense per bed, year 1
- \$6 daily operating income per bed, year 1

E. Relationship to the Existing Health Care System Criteria.

The proposal relates well to these criteria. A better alternative would be to care for LTC patients by expanding existing LTC facilities, or building new ones. Since this alternative is not available, establishing a 28 bed SNF unit at the hospital is the next best alternative. Since the hospital already has high acuity services on site, it is appropriate to have the higher-acuity LTC patient (SNF vs. ICF) at the hospital.

The anticipated revenues for this service will produce a small income (\$51,573) in the first year, and a small loss (\$87,325) in the second year.

These are far better than the minimum \$4,000,000 annual loss the hospital is now experiencing. The financial status of MMMC will be bolstered with this SNF unit. The Maui community, which relies on MMMC for a full range of services, can be more secure in these services when the financial bloodletting is reduced.

F. Availability of Resources.

The proposal meets these criteria. There are no new capital expenses involved. Operating revenue will improve since the hospital will receive revenue for services it is now providing without being reimbursed.

The service will require a total of 3.0 FTE new staff:

- 1 FTE physical therapist
- 1 FTE occupational therapist
- 1 FTE clerk

MMMC is confident that it will be able to recruit and hire these staff.

All the other staff for the unit will come from existing staff now serving the acute side of the hospital, and no other new staff will be required. There will be changes in the staffing patterns of the nursing staff, with relatively fewer RNs and LPNs, and more CNAs. These changes can be met through reassigning existing staff.