



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 04-11A

Applicant: Garden Isle Healthcare, LLC
45-181 Waiakalua Road
Kaneohe, HI
Phone: 808-247-0003

Project Title: Acquisition of the Wilcox Memorial Hospital 110 bed
Skilled Nursing/Intermediate Care unit

Project Address: 3420 Kuhio Highway
Lihue, Kauai, Hawaii

REPLACEMENT PAGE

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

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

Purchase / Lease Agreement(s), Exhibit 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.)

Department of Health License and Certification

C. Your governing body: list by names, titles and address/phone numbers

See Exhibit B

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 Exhibit C**
- Bylaws **See Exhibit D**
- Partnership Agreements **Not applicable**
- Tax Key Number (project's location) **3.7.001.030**

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
SNF/ICF	110	N/A	110
TOTAL	110	N/A	110

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. \$2,500,000
- 7. Other: _____

TOTAL PROJECT COST: \$2,500,000

B. Source of Funds

- 1. Cash _____
- 2. State Appropriations _____
- 3. Other Grants _____
- 4. Fund Drive _____
- 5. Debt _____
- 6. Other: Fair Market Value of leased facility 2,500,000

TOTAL SOURCE OF FUNDS: \$2,500,000

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.

The proposal is for the sale of 110 SNF/ICF beds from Wilcox Memorial Hospital to

Garden Isle Healthcare, LLC. No change in capacity or scope of 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:

- a) Date of site control for the proposed project,
Effective Date of Implementation of Lease- anticipate September 1, 2004
- b) Dates by which other government approvals/permits will be applied for and received,
Department of Health, Office of Health Care Assurance- anticipate July 1, 2004
- c) Dates by which financing is assured for the project,
Financing through First Hawaiian Bank- February 20, 2004
- d) Date construction will commence,
Not applicable (no construction required)
- e) Length of construction period,
Not applicable (no construction required)
- f) Date of completion of the project, and
Anticipate September 1, 2004
- g) Date of commencement of operation.
Anticipate September 1, 2004

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.

- 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.

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EXECUTIVE SUMMARY

Wilcox Memorial Hospital ("Wilcox") has an existing 110 bed long term care unit located in Lihue on the Island of Kauai. This is an application for a change in the ownership of the long term care unit consisting of 110 beds to Garden Isle Healthcare, LLC ("Garden Isle"). Both Garden Isle and Wilcox believe the transition of the 110 long-term care beds to Garden Isle will better serve the long-term patients and is in the best interest of the Kauai community. The applicant is Garden Isle Healthcare, LLC.

Wilcox, in conjunction with Kauai Medical Clinic, is a leading provider of a wide range of health care services on Kauai. Efforts in clinical, operational and financial improvements during the mid 1990s enabled Wilcox to be recognized by HCIA-Sachs as one of the "100 Top Hospitals" in the nation. Wilcox's mission and vision is focused on the provision of quality health care services. Wilcox recognizes, on both a short and long term basis, it cannot excel in all areas of health care services. Wilcox is incurring a significant financial loss in the provision of long-term care services. With limited capital and other resources, Wilcox must focus on acute inpatient and outpatient hospital services.

Long term care requires clinical, operational, management, and financial expertise specifically developed and tailored to this sector of health care. Wilcox simply does not have the full range and depth of expertise and resources required (nor does Wilcox's parent organization, Hawaii Pacific Health). Although Garden Isle does not have a record of managing nursing homes, Ohana Pacific Management Company (OPMC or Ohana) is the parent organization of Garden Isle. Ohana has the expertise and experience in the operation and management of long-term care facilities. Ohana is currently managing and operating the long term care unit at Wilcox. In addition, OPMC owns and operates Hale Kupuna Heritage Home, an 84 bed long term care facility in Omao, Kauai; Ann Pearl Nursing Facility, a 104 bed long term care facility and day health in Kaneohe, Oahu; and Leeward Integrated Health Services, a 93 bed long term care facility in Waianae, Oahu. The owner and several management level employees of Ohana have been providing long term care services to the people of Hawaii since 1992. We believe that the long term care needs for Kauai will best be served with the transfer of the long-term care unit to Garden Isle.

A primary concern is assuring continued care and service to the existing long term care patients. Under this proposal, the facility will be able to continue to operate and serve the existing and future needs of the Kauai Community for long term care services. Ohana's expertise and focus as a long-term care provider will further enable continuing improvement in the quality of care. Other alternatives such as reduction in the number of long-term care beds or outright closure of the unit could have severely impacted Kauai. Ohana also brings the

benefit of being a known provider in Hawaii with a proven track record versus the uncertainties and concerns that a mainland based buyer may have created.

a) Relationship to the Hawai`i Health Performance Plan (H2P2), also known as the State of Hawai`i Health Services and Facilities Plan

The transfer of 110 long-term care beds by Wilcox to Garden Isle fits within the Hawaii Health Performance Plan (H2P2) and meets the specific objectives of H2P2:

- "A health care delivery system that is comprehensive, cost-effective, well coordinated, and responsive to community/regional needs, can help us achieve our goals and objectives" (H2P2, page II-2, section D).
- "Well-functioning health care delivery addresses: access to care, continuity of care, constituent participation, resource management / cost containment, and quality management" (H2P2, page II-3, section F).

The H2P2 also establishes five "critical elements" of a health care delivery system:

- Access: The project enables Garden Isle to provide the best solution for the retention of 110 long-term care beds on Kauai, thus continuing long-term care which is appropriate and culturally sensitive to meet the needs of the residents of Kauai.
- Quality Management: Ohana, which owns Garden Isle, has an established track record of providing quality long-term care to the people of Hawaii.
- Cost-effectiveness: Ohana facilities, who own Garden Isle, provide cost-effective and good quality care to the residents that we serve.
- Continuity of care: The facility will continue to provide the right care, at the right time, in the right setting. The facility will work collaboratively with other providers in the community.
- Constituent Participation: The facility will have an active Resident and Family Council which will provide a forum for comments, suggestions and improvement in care.

This proposal also relates well to several of the particular values established by the Kauai County Subarea Health Planning Council on pages III-3 to III-4 of the H2P2. In particular, the proposal addresses the values of: cultural sensitivity, access to health care, caring environment, and caring.

The project enables Wilcox and Garden Isle to achieve these objectives by:

- Providing the best solution for retention of 110 long-term care beds on Kauai
- Brings in the expertise of Ohana in managing and operating long-term care services

b) Need and Accessibility

Wilcox's Long Term Care unit is an existing service and is an important element of Kauai's long-term care system. Wilcox's LTC unit continued existence is critical to meet the needs of the community for long-term care. The transfer of the (110) long term care beds will assure the continuation of the facilities operation and its services. In addition, the current patients in the unit will remain unaffected by the transfer.

Wilcox's long term care unit is one of only five long term care facilities on Kauai, providing 110 of the island's 324 beds. With its 110 beds, Wilcox provides one third of the beds located on the island of Kauai.

The 2003 occupancy of Wilcox's long term care unit is 91.82%. Garden Isle expects that this occupancy will stay the same, or increase over the next several years.

The facility is accessible to those in need. It is geographically accessible to the entire island and its location is especially desirable since it is centrally located on the island and connected to an acute care hospital and multi-specialty medical group. The facility will accept all patients, including Medicaid and Medicare, regardless of their source of payment and will provide care to all cultural and socioeconomic groups to include, but not limited to low income persons, racial and ethnic minorities, women, people with disabilities, and other underserved groups, and the elderly. This precedent has been established by the existing Wilcox facility and its continuance is assured by the history of care demonstrated by other OPMC facilities. In summary, this proposal will insure that the needs of the people of Kauai for SNF/ICF long term care services will continue to be met in an uninterrupted manner.

c) Quality of Service/Care

The project is expected to have improvement on the quality of service and care due to Ohana's (owner of Garden Isle) experience in providing term care services. Further, this will allow Wilcox to focus its energies and resources on acute inpatient, outpatient and emergency services, thereby enhancing the quality of care and service levels in those areas.

Ohana has a well-defined performance improvement (PI) plan which we will use to improve the quality of care being provided to the residents of Wilcox Long Term Care. Ohana utilizes a team of health care professionals to participate in decision making to assure that quality of care is being provided. The PI team consists of (at a minimum) the Administrator, Medical Director, Director of Nursing, Nurse Managers, Social Service Director, Dietitian, and Activities Coordinator. Ohana's performance improvement plan reviews areas that are high risk or problem prone for long term care facilities. Once these high risk

areas are defined, tools are developed to measure them. Measurement is completed timely depending upon the area being measured. Once measurement occurs, then the data is assessed to give the PI team the ability to determine if there is a problem in this area. If a problem is identified, then improvement occurs in the facilities systems to maintain the quality of care necessary for the residents. The PI team meets monthly and reviews some areas each month and other areas quarterly. Each department of the long term care facility has quality controls which are measured and assessed.

Garden Isle will utilize Ohana's program to determine which high risk areas are not currently meeting established criteria for quality care. Once these areas are determined, then Ohana will work with the Garden Isle staff to modify systems to assure that quality care is being provided.

Three "actual harm" deficiencies were given by the Office of Health Care Assurance on Wilcox Long Term Care's most recent survey. These areas are a primary focus of Garden Isle to assure that the residents of the long term care unit will be provided high quality care. Ohana has a team of nurses, dietitians, and Administrators to assess quality of care concerns and work with staff members to modify systems for provision of care.

Garden Isle will have adequate staff to provide quality care to the residents. Residents will receive approximately 0.59 hours of Registered Nurse time per resident per day, 0.81 hours of Licensed Practical Nurse time per resident per day, and 2.35 hours of Certified Nurses Aide time per resident per day. Overall, this is approximately 3.74 hours of nursing time per resident per day.

Ohana has three other nursing facilities: Ann Pearl Nursing Facility in Kaneohe, Hale Kupuna Heritage Home in Lawai, Kauai, and Leeward Integrated Health Services in Waianae. All three of Ohana's facilities are licensed by Office of Health Care Assurance to provide long term care to the residents in our facilities as well as certified to provide services to Medicaid recipients. Both Ann Pearl and Leeward are certified to provide services to Medicare recipients. All of the staff members who work at an Ohana facility possess valid licenses and certifications required for their position.

Garden Isle needs to be licensed and certified in order to provide long term care in the state of Hawaii and to continue to provide services to Medicare and Medicaid recipients. Office of Health Care Assurance issues this license. Wilcox Memorial Hospital currently has the license to operate the beds at this location. Garden Isle will not seek other certificates or accreditations at this time. All of the staff members who will work for Garden Isle will possess valid licenses and certifications necessary for their positions.

d) Cost and Finances (include revenue/cost projections for the first and third year of operation)

Garden Isle is leasing space and equipment as well as purchasing dietary and rehabilitation services from Wilcox Memorial Hospital. The leased space will be utilized to run the existing long term care unit. The long term care unit will be owned and operated by Garden Isle. The purchase price of \$250,000 is for supplies, contract rights, books and records, medical records, permits, and warranties and claims. Garden Isle will make an initial payment to Wilcox of \$50,000 and then pay off remaining balance of \$200,000 over the next four years *by utilizing revenue generated from operations*. First Hawaiian Bank has approved a \$600,000 line of credit for working capital. Revenue and Expense projections are based upon historical data (census, rates, care costs, supplies, etc.), current data (lease rent, dietary and rehabilitation agreements, etc.), and projected data (insurance quotes, wage and benefits based on future staffing patterns, etc.). See Exhibit E.

e) Relationship to the Existing Health Care System

The transfer of (110) long-term care beds will have no impact on the existing health care system since it will not change capacity nor access on Kauai. The facility is an important element in the long term care component of the overall health care system on the Island of Kauai. The facility maintains good relations and collaborates with other components in the Kauai healthcare system such as the acute care facilities. *The facility will continue its current positive relationship with Wilcox Memorial Hospital. Garden Isle anticipates that referrals will be received from Wilcox and that Wilcox will be able to maintain a low waitlist of patients in their acute care facility who need long term care placement.*

The proposal will assure that current and improved services will be available and accessible to the people of Kauai.

f) Availability of Resources

Garden Isle has the financial, clinical, administrative, and other resources necessary to implement this proposal. Garden Isle has both the capital and cash flow to continue to run this facility with the revenue generated from Wilcox's long term care unit. See Exhibit E. Garden Isle has obtained a credit line from First Hawaiian Bank, which will fund the purchase price of Wilcox's long term care unit. See Exhibit F. Operation of Wilcox's Long Term Care unit will fund the First Hawaiian Bank loan. See Exhibit E. *Garden Isle anticipates we will hire the majority of the existing staff to continue to work for the long term care unit. Any additional positions will be hired from the community. Garden Isle expects to have adequate staff to provide quality long term care to the residents.*