



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number: #07-30A

Applicant: Kahuku Medical Center
3675 Kilauea Avenue
Honolulu, Hawaii 96816

Phone: 808 733-4151

Project Title: Bed change: Plus 10 SNF/ICF beds and
Minus 12 SNF beds

Project Address: 56-117 Pualalea Street, Kahuku, Hawaii

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

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

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2. PROJECT LOCATION INFORMATION

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

- Statewide: _____
- O`ahu-wide: _____
- Honolulu: _____
- Windward O`ahu: X
- 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) **The applicant, Kahuku Medical Center (KMC) is in the process of acquiring the facility through an asset purchase agreement. This acquisition was approved under CON #07-20A and is further provided for under Act 113, SLH 2007. Site control is expected to transfer before the end of 2007.**
- 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.) **See page 7.**
- C. Your governing body: list by names, titles and address/phone numbers
 - **Thomas Driskill, President, 3675 Kilauea Ave., Honolulu, HI 96816. Ph: 733-8020**
 - **Bill Wood, Vice President, Department. of Sociology, University of Hawaii, 2424 Maile Way, Honolulu, HI 96822. Ph: 956-7693**
 - **Vince Lee, Secretary and Treasurer, 3675 Kilauea Ave., Honolulu, HI 96816. Ph: 733-8000**
- 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 **All Documents previously submitted with CON #07-20A**
 - By-Laws **with CON #07-20A**
 - Partnership Agreements
 - Tax Key Number (project's location) **5-6-006:013**

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 Beds/Service	Change in Ownership
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.

The table below shows the current "SHPDA-approved" bed count for Kahuku Hospital. There will be no change under the new Kahuku Medical Center.

Type of Bed	Current Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
Medical/surgical	3		3
Critical care	2		2
Obstetric*	2		2
Acute/SN "Swing"	6		6
Skilled Nursing (SN)	12	-12	0
SNF/ICF "Swing"	0	+10	10
TOTAL	25	-2	23

*Kahuku Hospital closed its OB unit in 2006, but the bed count remains on the books.

6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:

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.

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TOTAL PROJECT COST: \$0

There is no capital cost involved in this project. The facility, beds and equipment already exist.

B. Source of Funds

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.

KMC will be deleting SNF (only) service and adding SNF/ICF service. This will allow KMC to care for both levels of long term care patients in these beds, and to receive proper reimbursement for these services.

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

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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.

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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.

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

3.B. Listing of other permits or approvals (continued from page 2).

Operating License – Department of Health
Medicare/Medicaid Certification – Department of Health survey, agreement with the Centers for Medicare and Medicaid (CMS).

8. Implementation Schedule (continued from page 5).

Date other approvals received: January 1, 2008
Date of Commencement of Operation – January 1, 2008

9. Executive Summary

Kahuku Medical Center, Inc. (KMC Inc.) is a recently established not-for-profit corporation, the sole member of which is the Hawaii Health Systems Corporation (HHSC). Under CON #07-20A, KMC Inc. received approval to acquire and operate the existing Kahuku Hospital ("Kahuku"). We expect this acquisition to become final before the end of, 2007 at which time we will change the name from Kahuku Hospital to Kahuku Medical Center (KMC).

Kahuku is a twenty-five-bed facility that provides an array of health care services, including emergency care, general acute care, surgery, skilled nursing, ancillary care and health education. It is one of nine hospitals in Hawaii with a federal Medicare designation as a critical access hospital (CAH).

According to the SHPDA-recognized bed count, Kahuku has 12 Skilled Nursing (SNF) beds. However, 2 of these beds were to be the result of converting 2 private rooms to 2 semi-private rooms. This conversion never happened, so that Kahuku is only operating 10 SNF beds, and is only licensed for 10 beds by the Office of Health Care Assurance (OHCA). KMC would like to reduce its SHPDA-recognized SNF bed count from 12 to 10, so that it will be in accord with the licensed count and the actual operating count.

KMC also requests approval to convert the SNF beds to SNF/ICF "swing" beds. Currently, Kahuku has no beds licensed or certified for ICF patients. ICF level patients can be cared for in the SNF beds, but they have to be "waitlisted" until an ICF bed can be found at some other facility, and then transferred. Making the existing SNF beds SNF/ICF will permit them to be used for either level of patient without having to move the patient.

A major benefit to KMC will be reimbursement. KMC will retain the CAH status now granted to Kahuku by the federal Medicare program. The Medicaid program uses a cost-based formula to reimburse ICF patients in CAH facilities with separately licensed SNF/ICF beds. Currently, ICF level patients in Kahuku's

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SNF beds are reimbursed at approximately \$270 per day, which is below the actual cost of approximately \$350 of caring for them. We estimate that we can increase our reimbursement by approximately \$116,800 annually by establishing the SNF/ICF category of bed.

There are no capital expenditures or increased operating expenses with the proposal. The facilities and staff are already in place, and we are merely changing bed designation.

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a. Relationship to the Hawaii Health Performance Plan (H2P2), also known as the State of Hawaii Health Services and Facilities Plan.

Goals and objectives. The H2P2 establishes several goals and objectives for realizing the Hawai'i health care vision which are pertinent to this application. For example:

- Achieve equitable and effective access at reasonable cost for all Hawai'i's residents to health service that are responsive to the holistic needs of community's members.
- Reducing the effects of chronic disease and prolonging health related quality life.
- Establishing regionalized health care delivery systems that include community input, are cost-effective, and that foster improved access to quality health care services.

Establishing a specific ICF service at KMC contributes to equitable and effective access, prolongs quality life and establishes a regionalized system.

Critical elements of a health care delivery system. The plan lists five critical elements, four of which are:

- Access
- Quality management
- Cost-effectiveness
- Continuity of care

This proposal will improve access simply by establishing the service at KMC. Quality is assured by Kahuku's history of quality long-term care service. Cost-effectiveness is assured by improving KMC's financial status, and continuity is improved by providing acute, SNF and ICF service in one setting.

b. Need and Accessibility

Description of the service area. Kahuku Hospital is in the area of the Windward Subarea Health Planning Council. Its primary service area is the Koolauloa District of O'ahu, which constitutes Census tracts 101 and 102.

However, it frequently serves people from outside the service area, going as far west as Waialua.

The Hospital is the only inpatient primary care provider in this area, providing emergency room service, medical/surgical beds, skilled nursing beds, diagnostic radiology and laboratory service. The next nearest hospitals (Wahiawa and Castle) are approximately 50 minutes away, mostly by two lane roads, which are sometimes closed by weather or accidents. As such, the Hospital functions as a safety net facility, and is designated as a critical access hospital by Medicare.

According to the 2000 census, census tracts 101 and 102 totaled 18,899 residents in 2000. However, other estimates using an expanded service area estimate the population served by Kahuku to be 27,000 (Act 113, SLH 2007).

The service population is at increased socio-economic risk compared to the state as a whole. Examples include: 31.5% of the population is below 200% of the federal poverty line (22% is the state average); unemployment rate is 7.2% (5.9% is the state average); and 20% of households receive food stamps. (Source: State of Hawaii, Primary Care Needs Assessment Databook," December 1999, published by the Hawaii Department of Health).

There is one other facility providing ICF service in the service area. That is Crawford's Convalescent Home, a free-standing ICF facility located approximately 5 miles away on Kamehama Highway in the Haleiwa direction. Crawford's is a 55 bed facility which, in 2005, had an annual occupancy rate of 71.68 percent and an average daily census of 39.4

Need. The need which will be met by this proposal is the need for ICF care by residents in the service area – especially for convenient, accessible and quality care, and especially for ICF level patients at KMC who are already occupying a higher level bed in the facility.

As noted earlier, Kahuku already has an SNF (only) unit licensed for 10 beds. Frequently SNF level patients improve to the point where they are categorized as ICF level, at which point they are "waitlisted" in the SNF bed until a suitable ICF bed becomes available at some other facility. Converting the 10 bed SNF unit to an SNF/ICF "swing" unit will facilitate the retention of these patients at KMC. It will also allow ICF patients whose condition worsens to go back to an acute or SNF level without having to be transferred back from another facility.

The table below summarizes actual information from fiscal year 2007 (the first 11 months annualized to 12 months).

**KAHUKU HOSPITAL
UTILIZATION STATISTICS FOR PATIENTS IN 10 BED SNF UNIT
FISCAL YEAR 2007**

	Patient Days	Average daily census
SNF	1,689	4.6
"Waitlisted" ICF	1,327	3.6
Total	3,016	8.3*

*Difference due to rounding

The data above show that ICF patients take up more than 40% of the patient days in the SNF unit. Converting the SNF unit to SNF/ICF will more appropriately meet the needs of these patients.

Accessibility. This proposal improves the accessibility to care for those long-term patients who have reached the ICF level. They will no longer have to be "waitlisted" for removal to another facility. Further, if their condition worsens to a higher level of care, they can access SNF or acute care without having to go to another facility.

The services at KMC will be available to all patients, regardless of income, race or ethnicity, gender, age, or disability.

c. Quality of Service/Care

The current Kahuku Hospital is certified by Medicare and Medicaid, and has a history of providing quality primary care. These certifications and history will be continued when HMC assumes ownership and management. Quality may even be strengthened since the quality assurance and risk management programs of HHSC will be available to KMC.

The quality of care for ICF level patients at KMC will be improved simply by being able to provide the care in-house without the difficulty of transferring an ill patient to another facility somewhere on the island.

d. Cost and Finances

There are no capital costs involved in this project, since it is merely the conversion of an existing long-term care unit from SNF to SNF/ICF.

There are no additional operating expenses, since the staff are already in place and there are no additional supplies, equipment or other requirements.

A major benefit to KMC will be an increase in reimbursement for the ICF patients. Currently, Medicaid reimburses Kahuku a per diem ICF rate of

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about \$270 for those ICF patients occupying an SNF bed. However, Kahuku is a federally designated CAH facility, and if it had certified ICF beds, Medicaid would pay a cost-based reimbursement. We conservatively estimate that this cost-based rate would be about \$350 – an increase of \$80 per day over the current rate.

The table above shows that in FY 2007, Kahuku had an average daily census (ADC) of about 3.6 waitlisted ICF patients. Because this number has been growing, we estimate an ADC of 4.0 in the next year. Based on these assumptions, KMC can increase its annual operating revenue by about \$116,800 simply by converting the SNF beds to SNF/ICF beds. ($\$80 \text{ per day} \times 4.0 \text{ ADC} \times 365 \text{ days} = \$116,800$). This is a prudent and important step, since Kahuku operates at a loss and relies on State appropriations to subsidize the losses.

Exhibit A (attached) provides revenue and expense projections illustrating the results of the SNF to SNF/ICF conversion for the first three years of operation. (The numbers have been rounded to the nearest 100,000.)

Relationship to the Existing Health Care System

The existing health care system will be improved by this proposal.

KMC will improve its financial picture, thus enhancing its ability to continue to provide its many levels of inpatient and outpatient care to the people in the service area.

Other providers in the area, such as physicians, will also benefit by the maintenance of a more viable KMC. They will have more ready and frequent access to their ICF patients if they can be kept at KMC.

Crawford's Convalescent Home, an intermediate care facility, is the only other long-term care facility in the service area. Although there is frequently excess capacity at Crawford's, it is more beneficial for our ICF patients if they are able to remain at KMC. This avoids the disruption of a transfer from one facility to another. Further, the acuity level of our patients is such that patients frequently shift from one level of care to another (ICF to SNF or acute, and then back down again). It is much better for the patient to be able to access all levels of care in one facility.

f. Availability of Resources

There is no need for any additional financial or personnel resources to implement this project. The unit is already in place and the personnel are already employed in the unit.

Kahuku SNF 12-13

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