HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number: #08-19A

Applicant: Kona Community Hospital
79-1019 Haukapila Street
Kealakekua, Hawaii
Phone: 808 322-9311

Project Title: Change of 34 Skilled Nursing/Intermediate Care Facility (SNF/ICF) beds to 34 Acute/Skilled Nursing Facility (Acute/SNF) beds

Project Addresses: same

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

Public	X
Private	
Non-profit	X
For-profit	
Individual	
Corporation	X
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:	X

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. The site is the existing Kona Community Hospital**

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.) **Hospital License from the Department of Health (DOH) -- will have to be amended to reflect bed changes. Medicare/Medicaid Certification – survey by DOH, agreement with the Centers for Medicare and Medicaid (CMS).**

C. Your governing body: list by names, titles and address/phone numbers. **See Attachment A for the list of the West Hawaii Regional Board Members.**

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 **The governing body is the Board of the West Hawaii Regional System of the Hawaii Health Systems Corporation (HHSC). The HHSC is established by law and has no articles of incorporation. See Attachment B for HHSC Bylaws.**
- By-Laws **See Attachment C for Bylaws of the Regional Board**
- Partnership Agreements – N.A
- Tax Key Number (project's location) **7-9-010-081**

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
Medical/surgical	33	0	33
Critical care	9	0	9
Obstetric	7	0	7
Psychiatric	11	0	11
SNF/ICF	34	-34	0
Acute/SNF	0	+34	34
TOTAL	94	0	94

6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:

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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**

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.

Kona Community Hospital will add acute/SNF service and delete SNF/ICF 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. **N.A. The site is the existing site of Kona Community Hospital**
b) Dates by which other government approvals/permits will be applied for and received. **Licensure change and CMS certification will be applied for immediately after the CON is approved.**
c) Dates by which financing is assured for the project. **N.A.**
d) Date construction will commence. **N.A.**
e) Length of construction period. **N.A.**
f) Date of completion of the project. **N.A.**
g) Date of commencement of operation. **Immediately upon approval of the CON (assume November 1, 2008).**

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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

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.

See page 6

10. **Eligibility to file for Administrative Review.** This project is eligible to file for Administrative review because: (Check all applicable)

__X__ 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.

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9. Executive Summary

Kona Community Hospital (KCH) is the only acute inpatient facility in the West Hawaii service area. KCH is a 94-bed full service medical center, currently operating:

- 33 medical/surgical (med/surg) beds
- 9 critical care beds.
- 7 obstetric beds
- 11 psychiatric beds
- 34 SNF/ICF beds.

KCH is requesting approval to change its 34 SNF/ICF beds to 34 Acute/SNF beds, to meet the increasing need of our acute care patients. The advantages of this project are:

- KCH will be able to more efficiently manage the care of the increasing number of acute care patients.
- KCH will still be able to care for long-term (SNF and ICF) patients, and will be able to place them in the most appropriate beds available.
- KCH's financial status will improve. We are currently operating at a deficit, and it is crucial that we reduce the deficit. With the availability of more acute beds, KCH will be able to serve more acute patients. An increase in acute capacity will improve our overall reimbursement. Currently, ICF-level care in KCH's SNF/ICF

beds is reimbursed at approximately $225.10 per day, which is below the actual cost of $475.59 per day.

There are no capital expenditures and only minimal increased operating expenses with this proposal. The facilities are already in place; and we are only changing bed designation. The only additional staff needed will be 1 to 3 RNs.

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

This proposal to convert SNF/ICF beds to acute/SNF beds is consistent with the H2P2. It will allow KCH to meet increasing acute needs while at the same time continue service to long-term care patients. Continuing and strengthening these services is consistent with the vision of the H2P2: "Supported by their community, individuals achieve optimum health."

The proposal is consistent with the goals and objectives of the H2P2, in particular:

- "Reduce health disparities among Hawai`i's residents." Health disparities will be reduced by providing appropriate levels of service to our community within our community,
- "Achieve equitable and effective access at reasonable cost for all of Hawai`i's residents to health services that are responsive to the holistic needs of community's members." There will be increased access to acute care for our community through additional acute bed capacity.
- "Reducing morbidity and pain through timely and appropriate treatment." Increasing our acute bed capacity will make timely and appropriate treatment more available.
- "Establishing regionalized health care delivery systems that include community input, are cost effective, and that foster improved access to quality health care services." KCH is the only acute inpatient facility in our service area. The project is cost effective since it makes more efficient use of our existing facilities and will improve our operating revenue. It will increase access to acute inpatient care.

The proposal is consistent with the H2P2's critical elements of a health care delivery system. In particular:

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

As noted above, this project will improve access to the acute inpatient care needed to meet the increased demand for such services. It is a cost-effective use of existing resources, and will improve KCH's reimbursement/financial status. It will maintain continuity of care by providing a full range of inpatient services at KCH.

The proposal is also consistent with the H2P2's "Hawaii County (Big Island) Subarea Values and Priorities." In particular:

- Accessible/Affordable/Timely
- Quality of Care
- Needs-based
- Cost-effective outcomes
- Competent, safe

The H2P2 does not have a specific capacity threshold for acute/SNF swing beds. However, the acute patients admitted to this unit would be med/surg patients, and there are thresholds for med/surg beds. The H2P2 provides that "all existing medical/surgical beds in the service area average an annual occupancy rate of 80 percent or higher." KCH is the only acute facility in the service area, with a relatively small med/surg capacity of 33 beds which is running an occupancy rate of 71% in 2008 (Table I below). Because the unit is small, there is little "wiggle room," and there are times when we are running 100% occupancy with no beds available for new patients. (See the discussion in the "Need and Accessibility section below).

The H2P2 further establishes a target occupancy for efficient operation of 75% for med/surg beds in rural hospitals with 0-174 beds. KCH, with its 71% occupancy is approaching this annual rate and frequently exceeds it in daily operations.

Finally, the H2P2 provides for an exemption in the case of sub-optimum utilization: "the benefits – in the form of improved access for the service area(s) population combined with significant improvement in quality and/or significant reduction in price to the public – clearly outweigh the costs to the community of duplicating or under-using services, facilities or technology." Again, there are no specific criteria for acute/SNF beds; if the med/surg criteria were applied, this proposal would meet the exemption criteria in this section. KCH is the only facility in the service area, and the improved access to quality care for acute patients would outweigh any negative impacts.

B. Need and Accessibility

The current population of the Big Island is estimated at 180,000. For the West Hawaii Region Service area, the current population is approximately 65,000. It is forecasted that the population for the West Hawaii Region will reach 112,000 by 2030 (Source: County of Hawaii Data Book). The impact of this growing population and need for inpatient beds is significant. The demand for medical-surgical beds will continue to increase.

The hospital is the only inpatient primary care provider in this area, providing emergency room service, medical-surgical beds, critical care beds, obstetric beds, psychiatric beds, SNF/ICF long term care beds, diagnostic imaging services and laboratory service. We serve outpatients as well as inpatients. The next-nearest hospitals, (North Hawaii and Hilo) are approximately 35 miles and 93 miles away, respectively.

KCH currently has 33 medical/surgical ("med/surg") beds. The utilization of these beds has increased in recent years. There are times when all the beds are occupied and there is no bed available for a new med/surg admission. We propose re-licensing our existing 34 SNF/ICF beds to 34 acute/SNF beds. This will allow us the ability to admit med/surg patients to an appropriate level of care. At the same time, we will continue to accommodate long-term care patients in these beds. SNF level patients can be appropriately accommodated in these acute/SNF beds. ICF level patients can continue to be treated in an acute/SNF bed until an ICF bed becomes available in the community.

Table I below shows the average daily census (ADC) and percent occupancy (OCC) in our beds from calendar year 2006 to present. The table shows that the occupancy in the med/surg beds has increased from 57% in 2006 to 71% in 2008 to date. There have been peak times when the med/surg beds were 100% occupied, leading to problems for patients needing admission.

TABLE I
BED UTILIZATION AT KONA COMMUNITY HOSPITAL

	# of beds	CY06		CY07		CY08 Ytd	
		ADC	Occupancy	ADC	Occupancy	ADC	Occupancy
Med/Surg	33	18.9	57%	21.3	65%	23.6	71%
Critical care	9	2.9	32%	3.3	37%	4.2	46%
O.B.	7	3.7	41%	3.4	38%	3.5	39%
Psychiatric	11	5.9	53%	5.6	51%	7.1	65%
SNF/ICF	34	29.2	86%	32.2	95%	30.4	89%

Emergency Department Bottleneck. There have been instances when patients in the emergency room who needed admission to a med/surg bed could not be admitted since all the beds were full. Patients are held in the ER until a bed becomes available.

Inappropriate use of critical care beds. When all med/surg beds are occupied, an ER patient requiring inpatient (med/surg) admission may be placed in an intensive care unit bed instead. This is an inappropriate and expensive use of the ICU. Our data shows: 2005 – 13 cases; 2006 – 15 cases; 2007 – 19 cases; 2008 – 22 cases (annualized year-to-date).

Patients sent off-island. There are instances when we have sent patients being held in our emergency room to off-island facilities. These patients could have been treated at KCH if a med/surg bed were available. Such transfers involve an expensive and unnecessary air-ambulance transfer. It is also a hardship to the patient and the family if he or she is a West Hawaii resident who has to be sent off-island.

Physician recruitment. KCH continues to recruit new physicians to our community and serve the needs of our people. This provision of necessary physician services within West Hawaii is primarily a benefit to our community. However, as new physicians come, the utilization of KCH also increases.

Seventy-five percent is an efficient occupancy level. The H2P2 (page II-9) states that "Target occupancies encourage efficiency operation." For a 0-174 bed rural hospital with less than 4,000 admissions (KCH is in this category), the target occupancy rate is 75%.

A 2001 survey conducted by the Advisory Board Company (a national healthcare research company) reached a similar conclusion. The survey concluded that there is a general agreement that running at 70 to 75 percent average occupancy provides sufficient "buffer" capacity. This optimal level of utilization provides sufficient capacity to accommodate spikes in inpatient demand.

KCH has reached a 71% occupancy level in its med/surg beds in 2008. Our average daily census increased by 13% from 2006 to 2007, and is expected to increase by 11% from 2007 to 2008. Assuming an average increase of 12%, by 2009 the occupancy level would be approximately 80%. Admissions will continue to increase and KCH will soon exceed the 75% efficient utilization standard.

With high occupancy; there is:

- Increased risk of surgery delays and/or cancellations.
- Increased burden on the staff (having patients in the emergency department and ICU, means med/surg nurses are pulled off the unit to monitor patients).
- Increased referrals and transfers to other facilities

With optimal occupancy; there is:

- Improved balance of cost and is access
- Less diversion of patients to other facilities
- Less risk of surgery cancellations and delays
- Improved ability to provide optimal service

Accessibility. The proposed services will be accessible to any person needing acute or SNF care. KCH provides 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

KCH is licensed by the State, certified by Medicare and accredited by the Joint Commission on the Accreditation of Healthcare Organizations (JCAHO). Providing high quality, cost-effective health care is a guiding principle at Kona Community Hospital. KCH is proactive and diligent in the pursuit, maintenance, and improvement of quality of

care and quality of service. We will continue to provide high quality care in the operation of this unit.

Our staff has all necessary licensure and certification requirements. The existing staff of the SNF/ICF unit will continue to receive training and education to prepare for acute patients as well as long term patients.

D. Cost and Finances

There is no capital cost involved in this project, since it is a simple re-licensing of existing SNF/ICF beds to acute/SNF beds.

There are minimal additional operating expenses. We will use the existing staff in the unit, plus 1 to 3 additional RNs, depending on occupancy and acuity levels. We are projecting about an 8% annual increase in supplies and other expenses. See Exhibit I on the next page for a three-year revenue and expense projection.

Exhibit I projects that this 34-bed acute/SNF unit of KCH will improve positive cash flow; i.e., revenues will exceed expenditures. For example, in year one of operations, there will be net revenue of $526,765. The assumptions behind our financial projections are presented in the exhibit. As with other rural hospitals in the state, KCH struggles to overcome operating deficits. We must improve our financial status so that we may continue to serve our community.

E. Relationship to the Existing Health Care System

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

KCH will improve its financial situation, thus enhancing its ability to continue to provide inpatient and outpatient care to the people in the service area. The conversion of beds will enhance the quality and continuity of care to the increasing demand of medical-surgical patients and sub-acute patients in the most cost effective manner. The increases in acute care beds will reduce the unnecessary transfer of patients to other hospitals.

Other providers in the area, such as physicians, will also benefit by the maintenance of a more viable KCH. There is no reason to believe that the conversion of beds will adversely impact any health care services in the community.

EXHIBIT 1

Kona Community Hospital - Acute/Swing Bed Pro Forma

Average Daily Census - New Unit	1st Year	2nd Year	3rd Year
SNF	9	10	11
Non Medicare Acute	4	5	6
Medicare	2	3	4
Waitlist ICF	4	3	2
Total	19	21	23

	1st Year	2nd Year	3rd Year
SNF Net Revenue	1,182,600	1,314,000	1,445,400
Non Medicare Acute Net Revenue	2,482,000	3,102,500	3,723,000
Medicare Acute Net Revenue	929,091	1,393,636	1,858,182
Waitlist ICF Net Revenue	328,500	246,375	164,250
Total Net Revenue	4,922,191	6,056,511	7,190,832
Salaries, Wages and Benefits	2,978,063	3,126,966	3,283,315
Supplies and equipment	155,358	167,786	181,209
All other expenses	6,169	6,663	7,196
Total Operating Expense	3,139,590	3,301,415	3,471,719
Indirect Expense	1,255,836	1,320,566	1,388,688
Net Income	526,765	1,434,530	2,330,425

	1st Year	2nd Year	3rd Year
Patient Days			
SNF	3,285	3,650	4,015
Non Medicare Acute	1,460	1,825	2,190
Waitlist ICF	1,460	1,095	730
Cases			
Medicare	133	199	265
*Based on ALOS of 5.5 days			
Average Payment per Day			
SNF	$360	$360	$360
Non Medicare Acute	$1,700	$1,700	$1,700
Waitlist ICF	$225	$225	$225
Average Payment per discharge			
Medicare	$7,000	$7,000	$7,000

Assumptions:
*SNF ADC will increase over the three year period, but SNF waitlist patients will decrease due to available beds in new unit
*Reimbursement for SNF, Acute and ICF remain constant over three year period
*Salaries, Wages and Benefits will increase 5% each year
*Supplies and equipment will increase 7% the first year, 8% for second and third year
*All other expenses will increase 7% the first year, 8% for second and third year
*Indirect Expense is 40% of Total Operating Expense, which represents Administrative, Energy and Facilities expenses

F. Availability of Resources

The conversion of this 34-bed unit from SNF/ICF to acute/SNF will require only an additional 1 to 3 RNs, which will be added as acute occupancy and acuity levels increase. KCH has successfully recruited RNs in the past, and anticipate we could fill these new positions.

The proposed project requires no capital funds. No new debt will be required for the proposed project. Operating funds for the proposed project will be available through cash reserves for start-up activities and through normal operations.