

STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

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August 9, 2005

CERTIFIED MAIL, RETURN RECEIPT REQUESTED

IN THE MATTER OF)	CERTIFICATE OF NEED
)	APPLICATION
)	NO. 05-13
Hilo Medical Center)	
)	
Applicant)	
)	DECISION ON THE MERITS
)	

DECISION ON THE MERITS

The State Health Planning and Development Agency (hereinafter "Agency"), having taken into consideration all of the records pertaining to Certificate of Need Application No. 05-13 on file with the Agency, including the written and oral testimony and exhibits submitted by the applicant and other affected persons, the recommendations of the Hawaii County Subarea Health Planning Council, the Certificate of Need Review Panel and the Statewide Health Coordinating Council, the Agency hereby makes its Decision on the Merits, including findings of fact, conclusions of law, order, and written notice on Certificate of Need Application No. 05-13.

I

BACKGROUND

1. This is an application for a Certificate of Need ("Cert.") for the establishment of a 95 bed Veterans Home SNF/ICF facility at 1190 Waiuanuenue Avenue, Hilo, Hawaii, at a capital cost of \$32,344,000.
2. The applicant, Hilo Medical Center, is a health facility of the Hawaii health systems corporation, a public body corporate established pursuant to the laws of the State of Hawaii.

3. The Agency administers the State of Hawaii's Certificate Program, pursuant to Chapter 323D, Hawaii Revised Statutes (HRS), and Title 11, Chapter 186, Hawaii Administrative Rules (HAR).

4. On May 26, 2005, the applicant filed with the Agency a Certificate of Need application for the establishment of a 95 bed Veterans Home SNF/ICF facility at 1190 Waianuenu Avenue, Hilo Hawaii, at a capital cost of \$32,344,000 (the "Proposal"). On June 13, 2005, June 14, 2005 and June 16, 2005, the applicant submitted additional information. On June 24, 2005, the application was determined to be complete. For administrative purposes, the Agency designated the application as Cert. #05-13.

5. The period for Agency review of the application commenced on June 30, 2005, the day notice was provided to the public pursuant to 11-186-39 HAR.

6. The Hawaii County Subarea Health Planning Council met at a public meeting on July 6, 2005 and unanimously recommended approval of this application by a vote of 7 in favor and none opposed.

7. The application was reviewed by the Certificate of Need Review Panel at a public meeting on July 21, 2005. The Panel unanimously recommended approval of the application by a vote of 9 in favor and none opposed.

8. The Statewide Health Coordinating Council met at a public meeting on July 28, 2005 and recommended approval of the application by a vote of 10 in favor with one opposed.

9. This application was reviewed in accordance with Section 11-186-15, HAR.

10. Pursuant to Section 323D-43(b), HRS:

"(b) No Certificate shall be issued unless the Agency has determined that:

- (1) There is a public need for the facility or service; and
- (2) The cost of the facility or service will not be unreasonable in light of the benefits it will provide and its impact on health care costs."

11. Burden of proof. Section 11-186-42, HAR, provides:

"The applicant for a certificate of need or for an exemption from certificate of need requirements shall have the burden of proof, including the burden of producing evidence and the burden of persuasion. The degree or quantum of proof shall be a preponderance of the evidence."

II

FINDINGS OF FACT

A. **REGARDING THE RELATION OF THE PROPOSAL TO THE STATE HEALTH SERVICES AND FACILITIES PLAN (HAWAII HEALTH PERFORMANCE PLAN) OR "H2P2"**

12. With respect to the objectives of H2P2, the applicant states that:

"This project addresses at least three of these objectives. By providing quality long term care to the veterans it will reduce the effect of chronic disease and prolong health related quality of life. It will reduce the morbidity and pain of chronic long term conditions. The patients will be able to maintain a dignified and comfortable life while they are in the State Home. Finally, it will establish a regionalized health care delivery system for veterans...Community input has already been gathered through discussions with veterans groups throughout the state. Access will be improved simply by providing a service for veterans which is specifically aimed at veterans, and by establishing more long term beds in a community which already lacks such beds."

13. With respect to the H2P2 critical elements of a health care delivery system, the applicant states that:

"The H2P2 establishes the following five 'key' critical elements that keep health care delivery responsive to community needs and industry standards:

1. Access
2. Quality Management
3. Cost-effectiveness
4. Continuity of Care
5. Constituent Participation

Accessibility is promoted simply by establishing more nursing home beds. Since there is now a bed shortage, prompt and appropriate accessibility is difficult for some patients. A facility dedicated to serving veterans will improve veterans' access. All patients will have improved access at other nursing homes as veterans move to the State Home.

HMC, which will provide the service, has a history of providing quality care. It is accredited by JCAHO and will ensure that quality assurance mechanisms will be followed at the State Home.

The State Home will be cost-effective, with even our overly-conservative projections showing that operating revenues will cover operating costs... With the State Home located on the grounds of an acute medical center, it will allow the patients to move among the services as appropriate. As noted above, constituent participation and community input will be assured formally through a residents' council, and the existing MAC; and informally through involvement of other veterans' organizations in the State."

14. The applicant states that "Chapter II of the H2P2 provides an occupancy rate of 95% as a capacity threshold for LTC beds which must be met before additional beds are added in a service area...the standard is met since the LTC occupancy rate for the Island of Hawai'i in 2003 was 94.6% (including acute/SNF beds) or 95.3% (excluding acute/SNF)."

15. The applicant also states that "The H2P2 provides...'The target average annual occupancy rate for a long-term care facility is at least 90%'... The independent feasibility study for this project projected a 90% occupancy rate by year five of operation, with the first two years being 'ramp up' years."

16. The Agency finds that this criterion has been met.

B. REGARDING NEED AND ACCESSIBILITY CRITERIA

17. The applicant states that that the primary specific target population is veterans living on the Big Island who need long term care services and the secondary target population is veterans throughout the state who need long term care services as well as family members of veterans needing long term care services (to a lesser extent).

18. The applicant states that "State Homes are one way that the VA provides LTC to veterans. Hawai'i is one of only three states (the other two being Alaska and Delaware) without such a home."

19. The applicant states that "The HHSC contracted with Health Dimensions Group (HDG) to do a feasibility study. This extensive study considered: the future of veterans' LTC, and a demand analysis including veterans' demographics, current LTC utilization; the need for State Home beds, the need for domiciliary beds; the need for day services, and financial analyses of various options and assumptions."

20. The applicant states that the results of the feasibility study projected to 2015 are as follows:

**TABLE B-5
VA/FEASIBILITY STUDY PROJECTIONS OF SUMMARY DEMAND FOR
A STATE HOME IN HILO (VETERANS + NON-VETERANS, TOTAL BEDS
IN 2015)***

	Number of beds
Veterans nursing home demand	58
Veterans domiciliary demand	15
Non-veterans nursing home demand (15% of veterans demand)	9
Non-veterans Domiciliary Demand (15% of veterans demand)	3
Total occupied beds (average daily census or ADC)	85
Total beds required at 90% occupancy	95

*2015 was used since that is the year of peak veteran population

21. The applicant states that "The VA's very conservative **demand** projection is that only 11.5% of the Big Island veterans would likely "demand" service at the State Home in Hilo. The HDG feasibility study reduced this number even further to conclude that the Home would only serve 6.9% of all the Big Island veterans needing LTC (60% 'capture' rate X 11.5% demand rate = 6.9%). Likewise, only 3% (30% X 11.5%) of the other islands' veterans would seek service in Hilo."

22. The applicant states that "HMC projects that at least 50% of the Big Island veterans needing nursing home care would seek out the State Home. Applied to the 2005 needs estimates, this would mean anywhere from 76 to 87 Big Island veterans at the State Home, and the number does not even include veterans from other islands or eligible family members. In summary, we concur with the feasibility study's conclusion that the Home will easily achieve 90% occupancy, but we believe that it will be fully occupied with SNF/ICF patients, and there are unlikely to be empty beds available for domiciliary patients."

23. The applicant states that "The feasibility study assumes that 18 of the Home's beds would be occupied by domiciliary level residents. Nevertheless, even these most conservative projections, with lower paying domiciliary residents, show that the facility is needed and financially feasible. HMC assumes that the veterans' need for SNF/ICF service is higher, that our first responsibility is to serve these higher need patients... Therefore, this application is to make the entire 95 bed facility an SNF/ICF facility. If our projections are too optimistic, and the facility does

not fill with nursing home patients, we would propose to change some of the beds to domiciliary."

24. The applicant states that "The State Home' services are intended to care for veterans and veterans' families, and not the general population. The services will be available for all the target group who are in need, without regard to income, racial and ethnic groups, sex, disability and age."

25. The Agency finds that the need and accessibility criteria have been met.

C. REGARDING QUALITY AND LICENSURE CRITERIA

26. The applicant states that "The State Home will require a State license as a SNF/ICF. The facility will be certified by Medicare and Medicaid."

27. The applicant states that "HMC will be responsible for the operation of the State Home. HMC has a long history of providing quality care to a wide range of patients, including LTC patients. HMC is accredited by JCAHO which is an important measure of quality."

28. The applicant states that HMC has written quality assurance policies in place pertaining to the delivery of long term care services currently provided at the hospital including: policies for the extended care facility; hospital-wide policies for infection control, risk management and safety management.

29. The applicant states that "Although the contracted operator of the State Home will have its own policies, they will be required to meet or exceed those of HMC. As a further guarantee of quality, the State Home will be periodically inspected by the VA to be sure it meets VA standards."

30. The Agency finds that quality and licensure criteria have been met.

D. REGARDING THE COST AND FINANCIAL CRITERIA

31. The applicant states that "The capital cost of the project will be \$32,344,000. The Veterans Administration will provide 65% of the funding up to \$30,848,400 or \$20,051,460. The State has appropriated \$9,815,400 through ACT 41, SLH 2004. The remaining \$2,477,140 will be a loan from Academic Capital through our parent corporation, HHSC."

32. The applicant states that "Exhibit D-2, our projections of revenues and expenses, show that by year 3, the revenue will exceed the expenses. Thus, the

resources exist to successfully implement the project."

33. The applicant states that "One advantage of the State Home is the federal participation in construction and operating costs... the federal government will provide 65% of the construction costs, and will provide per diem reimbursements for eligible veterans. Thus, some of the cost burden is shifted from the community of Hawai'i to the federal government."

34. The Agency finds that cost and financial criteria have been met.

E. REGARDING THE RELATIONSHIP OF THE PROPOSAL TO THE EXISTING HEALTH CARE SYSTEM OF THE AREA

35. The applicant states that "...the existing nursing home beds (sic) the Big Island are already crowded (95% occupancy rate), meaning beds are not always available on a prompt and appropriate basis for all patients, veteran and non-veteran alike. Establishing the Home will reduce the demand for beds at the other facilities, thus making their services more available to all patients in need. This need will only grow as the population increases and ages."

36. The applicant states that "...the location on the HMC campus will make acute services and ancillary services (such as lab and pharmacy) easily accessible to the Home's patients, residents or day clients."

37. The applicant states that "The project should have no negative impact on any other health care providers in the community. The existing nursing home facilities are already occupied at or above the 95% occupancy level, and there is a need for additional beds in the community...The impact on Hilo Medical Center should be positive... HMC will provide certain services to the Home, with a positive impact on both facilities."

38. The Agency finds that these criteria have been met.

F. REGARDING THE AVAILABILITY OF RESOURCES

39. The applicant states that "...the capital cost of this project is \$32,344,000. The capital funds are available, with \$9,815,000 already appropriated by the State, \$20,051,460 already appropriated by the Federal government, and \$2,477,140 available through a loan. The financial resources for operating the service are also available. Exhibit D-2 shows that the revenues generated will offset the expenses."

40. The applicant projects that the facility will require the following personnel for Years 1-3 of operation:

STAFF	FTE		
	Yr 1	Yr 2	Yr 3
Administrator	1.0	1.0	1.0
Admin. Asst.	1.0	1.0	1.0
Dir. Of Nursing	1.0	1.0	1.0
RNs	3.8	9.4	10.4
LPNs	4.7	11.5	12.8
CNAs	17.3	42.3	47.0

41. The applicant states that the management company will be responsible for employing and managing Veteran's Home personnel including employee recruitment, retention, recognition and training.

42. The applicant states "Other staff services such as OT, PT, maintenance and housekeeping will be provided through purchase, rather than employees."

43. The Agency finds that the applicant has met this criterion.

III

CONCLUSIONS OF LAW

Having taken into consideration all of the records pertaining to Certificate of Need Application No. 05-13 on file with the Agency, including the written and oral testimony and exhibits submitted by the applicant and other affected persons, the recommendations of the Hawaii County Subarea Health Planning Council, the Certificate of Need Review Panel and the Statewide Health Coordinating Council and based upon the findings of fact contained herein, the Agency concludes as follows:

The applicant has met the requisite burden of proof and has shown by a preponderance of the evidence that the Proposal meets the criteria established in Section 11-186-15, HAR.

Accordingly, the Agency hereby determines that, pursuant to Chapter 323D-43(b):

- (1) There is a public need for this proposal; and

- (2) The cost of the proposal will not be unreasonable in light of the benefits it will provide and its impact on health care costs.

ORDER

Pursuant to the findings of fact and conclusions of law contained herein, IT IS HEREBY DECIDED AND ORDERED THAT:

The State Health Planning and Development Agency hereby APPROVES and ISSUES a certificate of need to Hilo Medical Center for the proposal described in Certificate Application No. 05-13. The maximum capital expenditure allowed under this approval is \$32,344,000.

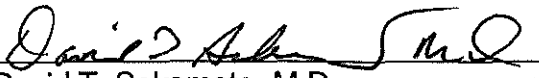
WRITTEN NOTICE

Please read carefully the written notice below. It contains material that may affect the Decision on the Merits. The written notice is required by Section 11-186-70 of the Agency's Certificate of Need Program rules.

The decision on the merits is not a final decision of the Agency when it is filed. Any person may request a public hearing for reconsideration of the decision pursuant to Section 11-186-82 of the Agency's Certificate of Need Program rules. The decision shall become final if no person makes a timely request for a public hearing for reconsideration of the decision. If there is a timely request for a public hearing for reconsideration of the decision and after the Agency's final action on the reconsideration, the decision shall become final.

DATED: August 9, 2005
Honolulu, Hawaii

HAWAII STATE HEALTH PLANNING
AND DEVELOPMENT AGENCY

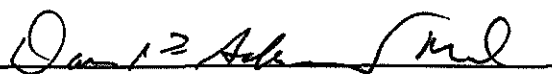

David T. Sakamoto, M.D.
Administrator

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the attached Decision on the Merits, including findings of fact, conclusions of law, order, and written notice, 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 August 9, 2005.

Ronald Schurra
Chief Executive Officer
Hilo Medical Center
1190 Waiianuenu Ave.
Hilo, Hawaii 96720-2020

HAWAII STATE HEALTH PLANNING
AND DEVELOPMENT AGENCY



David T. Sakamoto, M.D.
Administrator