



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

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STANDARD APPLICATION - CERTIFICATE OF NEED PROGRAM

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Application Number: # 18-08 Date of Receipt:
To be assigned by Agency

APPLICANT PROFILE

Project Title: Establishment of 42 bed SNF/ICF

Project Address: 1205 Alexander Street
Honolulu, HI 96826

Applicant Facility/Organization: Islands Skilled Nursing & Rehabilitation, LLC

Name of CEO or equivalent: Steve Nawahine

Title: CEO

Address: 1205 Alexander Street, Honolulu, HI 96826

Phone Number: Fax Number:

Contact Person for this Application: Steve Nawahine

Title: CEO

Address: 1205 Alexander Street, Honolulu, HI 96826

Phone Number: 808-208-5414 Fax Number: 833-204-4893

CERTIFICATION BY APPLICANT

I hereby attest that I reviewed the application and have knowledge of the content and the information contained herein. I declare that the project described and each statement amount and supporting documentation included is true and correct to the best of my knowledge and belief.

Signature: [Handwritten Signature]

Date: 8/14/18

Name (please type or print): Steven Nawahine

Title (please type or print): Chief Executive Officer

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

- Public _____
- Private _____
- Non-profit _____
- For-profit _____
- Individual _____
- Corporation _____
- 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: _____
- 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) - **Attachment 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.) - **Attachment B**
- C. Your governing body: list by names, titles and address/phone numbers - **Attachment C**
- 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 - **Attachment D**
 - By-Laws - *NA*
 - Partnership Agreements - **Attachment E**
 - Tax Key Number (project's location) 2-8-010-23

4. **TYPE OF PROJECT.** This section helps our reviewers determine 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 ownership	Change in service/ establish new service/facility	Change in Beds
Inpatient Facility						
Outpatient Facility						
Private Practice						

5. **TOTAL CAPITAL COST:** \$2,175,000

6. **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	0	42	42
TOTAL		42	42

7. **CHANGE IN 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 consult 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.

Establishment of a 42 bed SNF / ICF Facility

8. PROJECT COSTS AND SOURCES OF FUNDS (For Capital Items Only)

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A. List All Project Costs:

	AMOUNT:
1. Land Acquisition	\$0
2. Construction Contract	\$0
3. Fixed Equipment	\$0
4. Movable Equipment	\$255,000
5. Financing Costs	\$0
6. Fair Market Value of assets acquired by lease, rent, donation, etc.	\$1,920,000
7. Other: _____	_____
TOTAL PROJECT COST:	\$2,175,000

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B. Source and Method of Estimation

Describe how the cost estimates in Item "A" were made, including information and methods used:

Estimated moveable equipment \$5,000 per bed plus \$45,000 for general office furntiure.

FMV of lease based on 5 year lease at \$2/SF

C. Source of Funds

	AMOUNT:
1. Cash	\$255,000
2. State Appropriations	_____
3. Other Grants	_____
4. Fund Drive	_____
5. Debt	_____
6. Other: <u>Fair market value of leased space to be paid by monthly rent payments</u>	\$1,920,000
TOTAL SOURCE OF FUNDS:	\$2,175,000

9. **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,
Lease to start December 2018 upon tenant improvements completion
- b) Dates by which other government approvals/permits will be applied for and received,
Building Permits for minor renovations applied for June 2018 & received October 2018
- c) Dates by which financing is assured for the project,
NA
- d) Date construction will commence,
Minor renovations to commence November 2018
- e) Length of construction period,
1 - 2 Months
- f) Date of completion of the project, and
December 31, 2018
- g) Date of commencement of operation.
Commencement of operations in early 2019

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.

10. **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 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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Executive Summary

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ISLAND NURSING
HEALTH SERVICES & FACILITIES PLAN AGENCY

Islands Skilled Nursing & Rehabilitation, LLC ("Islands Nursing") is a new company formed for the sole purpose of providing skilled nursing services needed to the residents of Oahu. Steve Nawahine will serve as the Administrator of this facility and has a long track record of operating successful nursing homes. Steve was born and raised on Oahu and has operated similar projects on both the mainland and Oahu.

This CON Application proposes to "re-establish" the 42-bed Medicare certified nursing facility that operated at 1205 Alexander Street, Honolulu, Hawaii, from 1962 – 2017. Despite a 52-year history of providing exceptional care to the community of Honolulu, Island Nursing Home discharged its patients and surrendered its CON and nursing home license towards the end of 2017 in order to sell the real estate and distribute the proceeds from the sale to retired employees who owned the facilities through an employee stock option plan.

Prior to surrendering its license in 2017, Island Nursing Home was awarded a 5-star overall rating by the Dept of Health and Human Services. Per the last SHPDA utilization report in 2016, Island Nursing Home also maintained a 94% occupancy rate compared to 86% for Honolulu County and 84% for the State of Hawaii at that time.

The applicant plans to renovate and reopen the facility, providing service levels that exceed what this facility had in place when it attained its 5-star rating and 94% occupancy rate. The location of the facility is easily accessible to several nearby healthcare facilities as well as Interstate H-1.

Islands Nursing believes this project meets each of the Certificate of Need criteria and respectfully submits its Certificate of Need application to the State Health Planning and Development Agency ("HSFP").

A) Relationship to the State of Hawai'i Health Services and Facilities Plan (HSFP)

The reintroduction of Island Nursing's renovated 42-bed nursing facility will be instrumental in addressing both Statewide and Honolulu County priorities set forth in the HSFP. Among the specific priorities include the following:

Statewide Health Coordinating Council (SHCC):

- Promote and support the long-term viability of the health care delivery system
- Expand and retain the health care workforce to enable access to the appropriate level of care in a timely manner
- Ensure all projects are appropriate for the regional and statewide continuum of care
- Ensure capacity and access to a continuum of long-term care services

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Honolulu (HONSAC) Priorities:

- Increase the availability of nursing home, skilled nursing, and assisted living facility services
- Control escalating costs in the senior care industry and other needed services. For example, reduce the need for institutionalized care
- Improve and increase access of services for uninsured and underinsured
- Improve hospital bed availability through timely transfers to sub-acute levels of care
- Identify and address workforce shortages in the health care industry with particular emphasis on senior care services

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With the rising need, expanding access to long-term care will provide a more cost-effective solution to residents that do not require acute care in hospitals. Islands Nursing’s approval will contribute to the HSFP’s above priorities and support the growing target population for skilled nursing services.

B) Need and Accessibility

The target population will *primarily* consist of the 65 and older population (“Senior” or “Seniors”) living in Honolulu County. As indicated in the table below, nearly 90% of all nursing home residents in the State of Hawaii (“Hawaii”) are 65 years of age and older. Compared to the United States as a whole, where 84% of the nursing home residents are 65 years of age or older, Hawaii has an even larger percentage of Seniors residing in nursing facilities.

Nursing Facility Residents by Age: US vs. Hawaii²

Nursing Facility Residents by Age					
Age Group	Ages 0-64	Ages 65-74	Ages 75-84	Ages 85+	Ages 65+
Hawaii	11%	13%	24%	51%	89%
United States	16%	16%	26%	42%	84%

Source: ²CMS 2015 Nursing Home Data Compendium, 2015

Another interesting observation from the data above, is that over 50% of the nursing home residents in Hawaii are 85 years and older.

The State of Hawaii as a whole has experienced dramatic growth in terms of the number of Seniors in the past 26 years. Since 1990, the number of residents in Hawaii ages 65 and older has nearly doubled from about 125,000 in 1990 to almost 244,000 in 2016. The growth rate of Seniors in State of Hawaii over the past 26 years is nearly double the growth rate of Seniors during this same time period. Similar to the State of Hawaii, the Senior population in Honolulu County has also grown dramatically. Increasing by 80% over the past 26 years, it has also far exceeded the United States as a whole.

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Growth in Senior Population: 1990 vs. 2016³

Senior Population: 1990-2016			
Year	United States	Hawaii	Honolulu County
1990	31,241,831	124,876	91,788
2016	49,244,195	243,962	165,117
Growth:	58%	95%	80%

Source:³US Census Bureau, 2016

While the 65 and over population has experienced rapid growth during the past 26 years, the 85 and over population has increased at an even more dramatic growth rate. As previously discussed, over 50% of nursing home residents in the State of Hawaii are 85 years of age and older. While the 65 and older population in Hawaii has nearly doubled since 1990, the 85 and older population has nearly quadrupled for both Hawaii and Honolulu County during this time period. During the past 26 years, the 85 older population in the State of Hawaii and Honolulu County has grown at a rate nearly triple the growth rate of the U.S. 85 and older population.

Growth in 85 + Population: 1990 vs. 2016³

85+ Population: 1990-2016			
Year	United States	Hawaii	Honolulu County
1990	3,080,165	10,223	7,507
2016	6,380,331	38,952	28,808
Growth:	107%	281%	284%

Source:³US Census Bureau, 2016

With Senior population growth in Hawaii far outpacing the national average, it's no surprise that Hawaii has one of the highest concentrations of Seniors in the nation. In 2016, nearly 18% of the residents in the State of Hawaii were 65 years and older compared to just over 15% for the United States overall. As a state, Hawaii ranks 6th highest in the nation in terms of concentration of Seniors among the 50 states and the District of Columbia.

In 2016, Seniors comprised nearly 17% of the overall population in Honolulu County. If Honolulu County were a state, it would rank 13th highest in the nation among all 50 states and the District of Columbia. In the City of Honolulu, where the proposed applicant's facility is located, the concentration of Seniors is 20% of the overall population, even greater than the State of Hawaii and Honolulu County.

Similar to the Senior population, the concentration of 85 and older residents in Hawaii is also much greater than the U.S. as a whole. In Honolulu County, 3% of the population is 85 and older, a rate which is 50% higher than the U.S. as a whole, where only 2% of the population is 85 and

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older. In the City of Honolulu 4.4% of the residents are 85 and older, more than double the national average.

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Over the next several decades, the whole country will experience the retirement age of the largest generation in history, the Baby Boomers, who were born between 1946 and 1964. This wave of Seniors has become known as the "Silver Tsunami" and we are already nearly a decade into it. The Hawaii DBEDT (Department of Business, Economic Development & Tourism) report expects Hawaii to see continued rapid growth in its Senior population. From 2016 to 2030, the growth rate in the number of Seniors is expected to exceed 3x the total population growth rate in the State of Hawaii and over 5x the total population growth rate in Honolulu County ⁴.

In terms of numbers of Seniors, Hawaii's Senior population is expected to expand by 125,000 between 2016 and 2030, from 244,000 Seniors to nearly 370,000 Seniors. Similarly, Honolulu County's Senior population is also expected to experience rapid growth, expanding by nearly 78,000 Seniors between 2016 and 2030, from 165,000 to 243,000. The projected growth in the number of Seniors provided in the DBEDT report is highlighted below ⁴:

Projected Senior Growth for Hawaii and Honolulu County: 2016-2030⁴

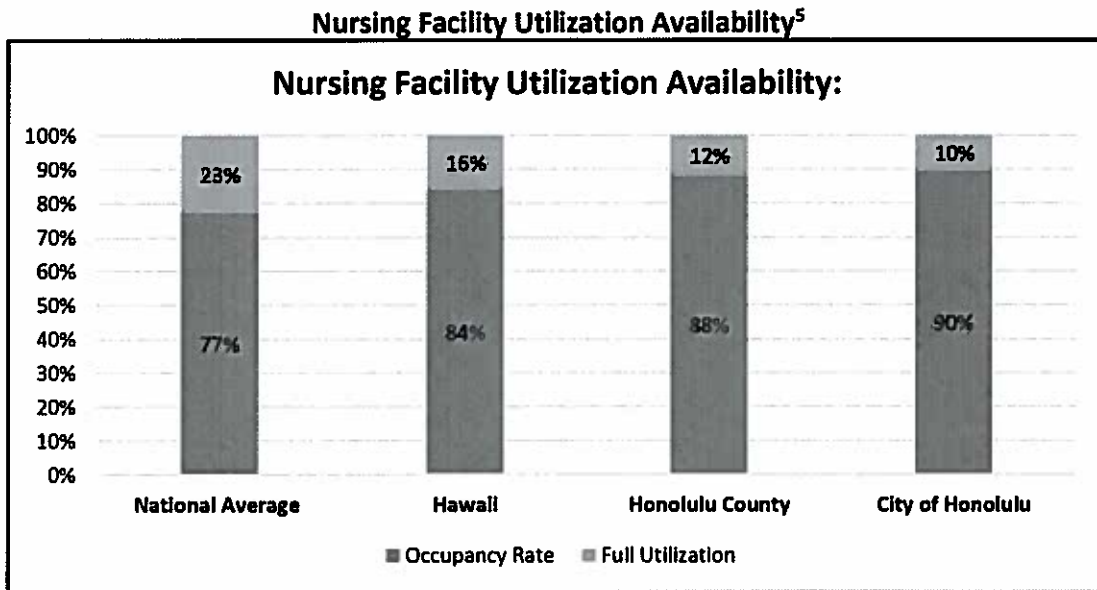
Projected Senior Growth: 2016-2030				
Year	Hawaii	% Growth	Honolulu County	% Growth
2016	243,962	-	165,117	-
2025	332,270	36%	219,313	33%
2030	368,516	51%	242,952	47%

Source: ⁴Hawaii DBEDT 2040 Series Report

As the table on the following page illustrates, the national average occupancy rate (utilization) for Medicare certified nursing facilities is 77%, which leaves an unused capacity of 23% to accommodate the growing need for beds as the population continues to rapidly age. In comparison, the State of Hawaii has an unused capacity of Medicare certified beds of only 16% to serve a Senior population that has grown at nearly twice the rate as the U.S. Senior population.

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The State of Hawaii ranks 13th in lowest in the nation among all 50 states and District of Columbia in terms of unused bed capacity, with only 16% of total beds available to absorb a rapidly aging senior population. Honolulu County has an even lower availability of unused beds, with only 12% of the total beds available to accommodate the growth in the Senior population needing Medicare certified beds. Narrowing the focus even further to the geographic area where the applicant's facility is located (the City of Honolulu), the availability of unused beds is even lower, with an unused capacity of only 10% to accommodate a population growing at 30-50% over the next 10-15 years.⁵



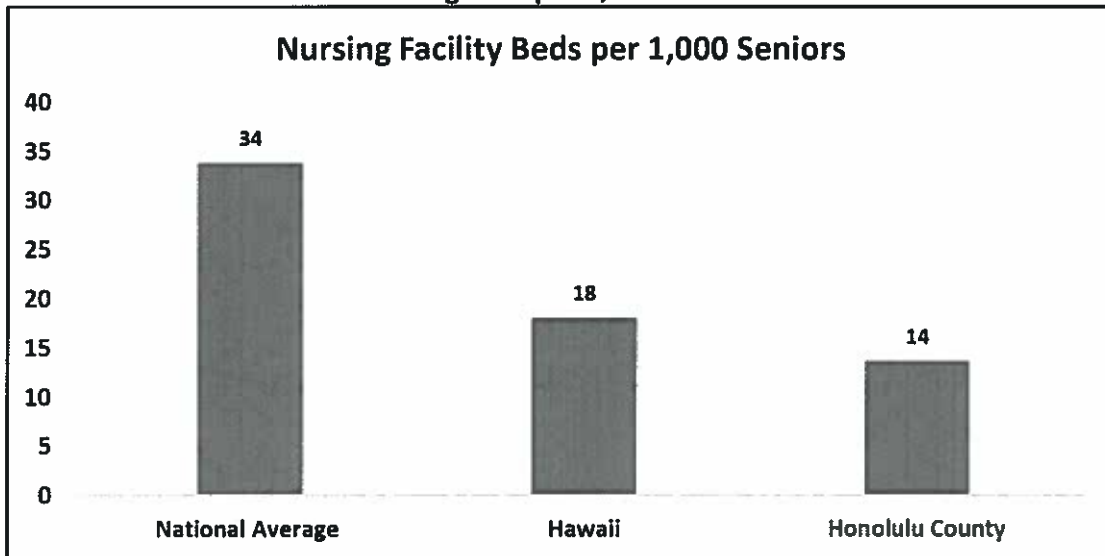
Source: ⁵Medicare: Nursing Home Compare

Source: ⁶2016 SHPDA Utilization Data (Excluding beds no longer licensed, private-pay only beds, and state-owned beds Leahi Hospital & Maluhia Hospital)

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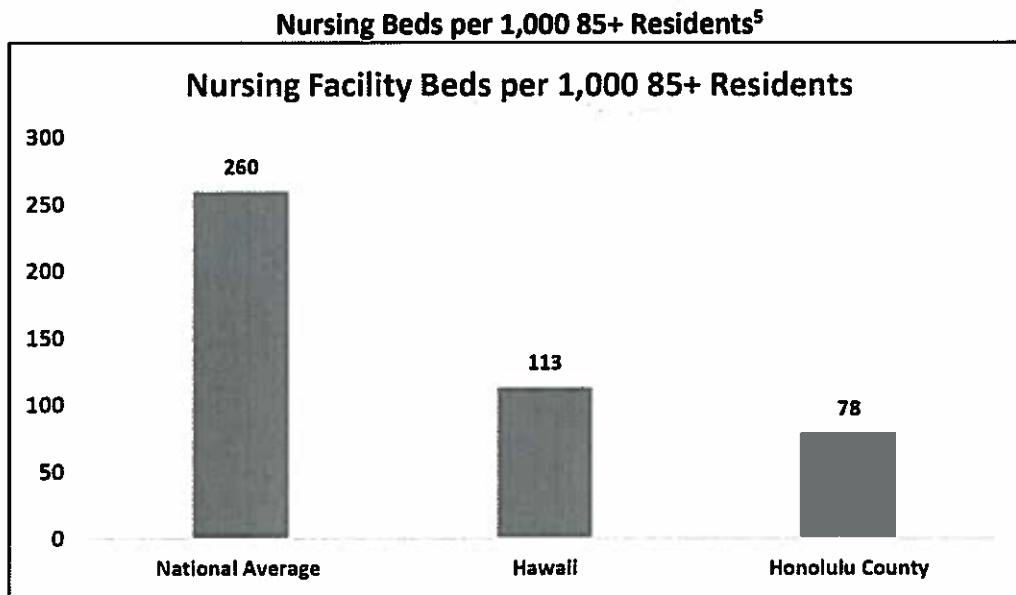
In addition to comparisons of with the national utilization rates and unused bed capacity, another way to compare bed supply nationally vs Hawaii and Honolulu County is by the total number of beds per 1,000 Seniors or number of beds per 1,000 individuals age 65 and older. The State of Hawaii ranks 47th among all 50 states and District of Columbia in nursing home beds per 1,000 Seniors. As the chart below illustrates, with 18 beds per 1,000 Senior, the State of Hawaii has approximately half as few beds per Senior as the nation as a whole. Honolulu County has even fewer beds per capita, with only 14 beds per 1,000 Senior. If Honolulu County were a standalone state, it would rank 49th among all 50 states and District of Columbia in number of nursing home beds per capita.

Nursing Beds per 1,000 Seniors⁵



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The number of beds per capita for our 85 and over population in Hawaii is in even scarcer supply relative to the national average. As the chart below illustrates, the U.S. has approximately 231 beds for every 1,000 residents 85 and over. The State of Hawaii has fewer than half the number of beds per capita to serve its 85 and over population that comprise over 50% of all nursing home residents. Honolulu County has even fewer beds per capita relative to its 85 and over population with only 1/3 the number of beds per capita compared to the U.S. as a whole.



How does Honolulu County adequately care for its rapidly growing senior population when we have far fewer available beds and far fewer per capita than the national average as our population ages far faster than the national average?

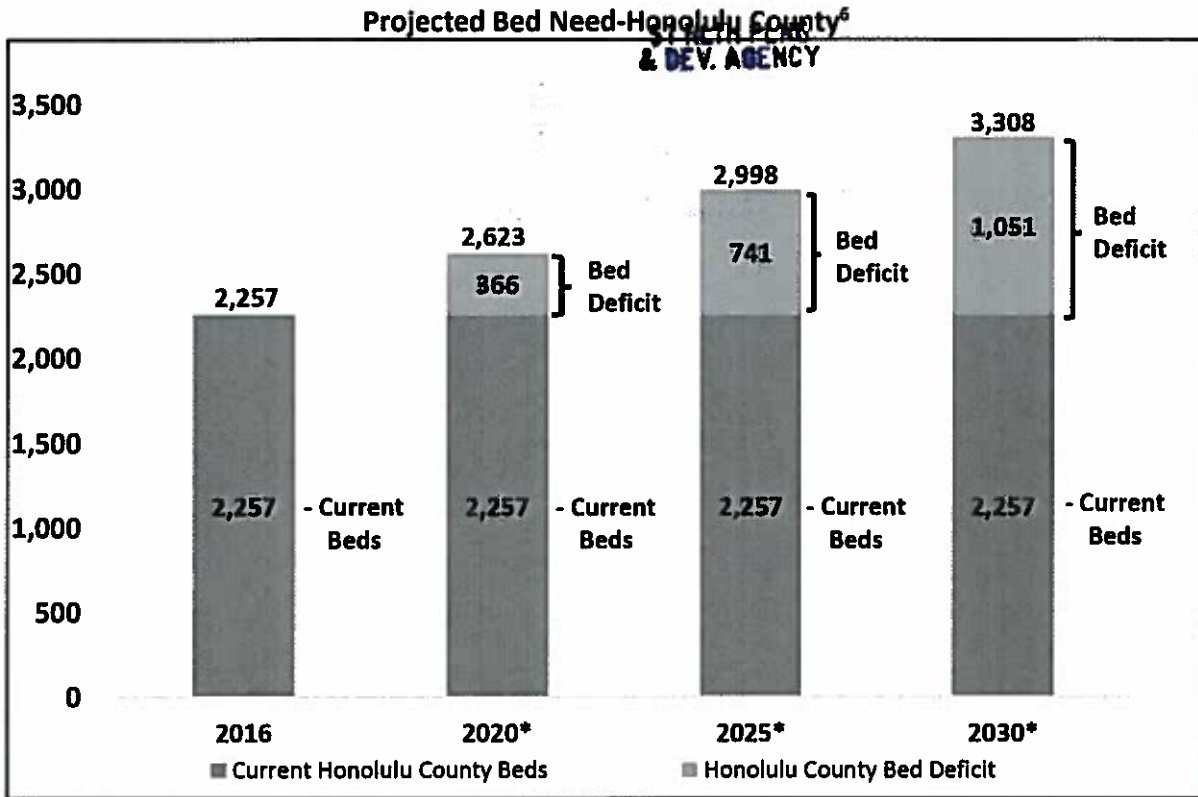
With the significantly lower per capita bed count, significantly lower bed availability, and a faster growing Senior population than the national average, one would expect Honolulu County to have a deficit of nursing home beds using the need methodology set forth in the HSFP.

With an unused bed capacity in Honolulu County 50% lower than the national average (12% vs 23%) and 60% fewer nursing home beds per 1,000 Honolulu County Seniors than the national average (14 per 1,000 vs 34 per 1,000), one could argue the number of nursing home beds in Honolulu County should be doubled using HSFP's methodology.

If doubling the number of beds to achieve a benchmark on par with the national average seems excessive, but maintaining Honolulu County's current utilization and number of beds per capita seems more appropriate, then the number of beds would still need to be increased to keep up with the rapidly growing Senior population growth, which is expected to increase by 30-50% over the next 10-15 years⁶.

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The chart below illustrates the bed deficit / need over the next 12 years if the goal for Honolulu County is to maintain current bed capacity and bed per capita levels where they are today: significantly below the national average: 78 JUL 25 03:12



As the chart above illustrates, 366 additional beds would be needed in Honolulu County in order to support the growing Senior population without suffering a further reduction in beds per capita or unused bed availability. The 42 beds proposed by the applicant are slightly more than 10% of the total 366 bed "unmet need" estimated for 2020. The 42 beds the applicant is proposing had already been in service for over 50 years leading up to 2017 when the beds were taken out of service so the prior ownership could sell the real estate that supported the nursing facility.

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C) Quality of Service

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Islands Skilled Nursing and Rehabilitation meets the criteria for quality of service. Islands Skilled Nursing & Rehabilitation will provide skilled nursing and rehabilitation services to patients who need this level of care suited for their physical condition. The 197-bed facility proposed previously operated as a 5-Star facility before closing its doors in 2017. This project intends to newly renovate the facility and continue to provide this high level of care historically provided in the past.

The Administrator for this proposal has 20+ years of experience and served in administrator roles for over 10 years. During this 10-year span as administrator Steve opened 3 new projects, all of which were larger than is proposal. He was able to achieve a 5-Star rating in each of his managed facilities. Most recently Steve Nawahine served as the General Manager responsible for operations at Kalakaua Gardens, a 230-bed Assisted/Skilled Senior Living Community. Steve successfully opened this building, built a world class team, and delivered the highest quality of care to patients of Honolulu.

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

Islands Skilled Nursing and Rehabilitation meets the criteria for cost and finances. Islands Skilled Nursing and Rehabilitation has provided detailed three-year financial projections for the proposal in Exhibit D-2. The projections demonstrate the financial feasibility of the proposal. Islands Skilled Nursing & Rehabilitation projects this proposal will be financially profitable by Month 7 and will require an investment of approximately \$238,000 for operating losses. The management team projects the proposal will require approximately \$238,000 in operating losses before the project begins to generate monthly profit. The financial projections in Exhibit D-2 illustrate the proposal's financial feasibility and profitability expected in years 2 and 3.

The proposal is projected to generate \$15,000,000 in revenue, and \$1,500,000 of operating income across years 2 and 3. Steve Nawahine's has over 10 years of experience operating financially feasible skilled nursing facilities and Islands Skilled Nursing & Rehabilitation is confident Steve will successfully execute the proposal as projected.

E) Relation to the Existing Health Care System Criterion

Because occupancies remain elevated in the Honolulu service area, we foresee no adverse impact on other facilities. Additionally, Islands Skilled Nursing and Rehabilitation would simply be reestablishing beds that maintained a 94% occupancy rate per the 2016 SHPDA utilization report.

The national average of 34 skilled nursing beds per 1,000 seniors is 147% higher than the 14 skilled nursing beds per 1,000 seniors in the Honolulu County service area. Adding beds will

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improve the availability of skilled nursing beds to service the local residents. With the large and growing senior population relative to current bed availability in Honolulu, this facility will be positioned as a valuable asset to the local health system after improvements and renovations.

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F) Availability of Resources

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Islands Skilled Nursing and Rehabilitation meets the criteria for availability of resources. Steve Nawahine demonstrated through his past success that he has the ability to recruit, train, and attract and train the needed personnel to staff the proposed project.

As mentioned in prior sections, Islands Skilled Nursing and Rehabilitation will create an environment through its Quality efforts to provide local staff with the skill set required. Steve has created many contacts, in several states, through his years of service which this proposal will leverage to attract key staff members.

The proposal will be funded from cash. Years two and three are expected to be profitable so no further investment is expected.