



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

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ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM

Application Number: # 24-10A Date of Receipt: _____
To be assigned by Agency

APPLICANT PROFILE

Project Title: Addition of 140 SNF/ICF Beds and Conversion of 33 SNF beds to 33 SNF/ICF Beds

Project Address: 91-1360 Karayan Street

Ewa Beach, HI 96706

Applicant Facility/Organization: PSH KM LLC

Name of CEO or equivalent: Tyrus Lefler

Title: President

Address: 919 Lehua Avenue, Pearl City, Hawaii 96782

Phone Number: (808) 445-4899

Fax Number: (808) 687-3209

Contact Person for this Application: J. George Hetherington, Esq.

Title: Attorney

Address: 1100 Alakea Street, Suite 3100, Honolulu, HI 96813

Phone Number: (808) 540-4500

Fax Number: (808) 540-4530

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

Date

Tyrus Lefler

President

Name (please type or print)

Title (please type or print)

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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: _____ X _____
- Honolulu: _____
- Windward O`ahu: _____
- West O`ahu: _____ X _____
- 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)

See Attachment 1.

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.)

- State Licensure from the Office of Health Care Assurance
- Medicare Certification
- Building Permit
- Conditional Use Permit Modification (Minor)

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

See Attachment 2.

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 Organization: See Attachment 3.
- Operating Agreement: See Attachment 4.
- Tax Key Number (project's location): (1) 9-1-182: 005

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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	ST HLTH PLNG & DEV. AGENCY	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	33	-33	0
Dual Certified SNF/ICF	0	173	173
TOTAL	33	140	173

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6. PROJECT COSTS AND SOURCES OF FUNDS

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A. List All Project Costs:

AMOUNT:

1.	Land Acquisition	_____
2.	Construction Contract	<u>\$12,000,000.00</u>
3.	Fixed Equipment	<u>\$1,000,000.00</u>
4.	Movable Equipment	<u>\$1,000,000.00</u>
5.	Financing Costs	<u>\$500,000.00</u>
6.	Fair Market Value of assets acquired by lease, rent, donation, etc. (site lease)	_____
7.	Other: _____	_____

TOTAL PROJECT COST: \$14,500,000.00

B. Source of Funds

1.	Cash	<u>\$6,500,000.00</u>
2.	State Appropriations	_____
3.	Other Grants	_____
4.	Fund Drive	_____
5.	Debt	<u>\$8,000,000.00</u>
6.	Other: _____	_____

TOTAL SOURCE OF FUNDS: \$14,500,000.00

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IMPLEMENTATION SCHEDULE
7. **CHANGE OF SERVICE:** If you are proposing a change in services, 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 site categories of services. If you are unable to determine which category best describes your project, please consult with agency staff.

Applicant plans to add 140 long-term care, dual-certified SNF/ICF beds in a new building located on the same premises as Applicant's existing 33-bed facility known as Kulana Malama. In addition, Applicant would like to convert its existing 33 SNF beds to dual-certified SNF/ICF beds. Reference HAR § 11-186-5-2(H).

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: February 1, 2023
- b) Dates by which other government approvals/permits will be applied for and received: January 2026.
- c) Dates by which financing is assured for the project: N/A
- d) Date construction will commence: Within 180 days of CON approval.
- e) Length of construction period: 12 months
- f) Date of completion of the project: December 2025
- g) Date of commencement of operations: January 2026

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.

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- 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

PSH KM LLC ("Applicant") received certificate of need approval on November 16, 2022 (CON #22-13A) to acquire the 33-bed long term care facility located at 91-1360 Karayan Street, Ewa Beach, Hawaii ("Kulana Malama"). Since it first opened in 2007, Kulana Malama's focus has always been to care primarily for pediatric patients with complex medical needs. As it indicated it would do in its 2022 CON application related to its acquisition of Kulana Malama, Applicant has continued to operate Kulana Malama with the same staff and general operational procedures utilized by Kulana Malama's prior owner.

Applicant now seeks approval to (1) add 140 SNF/ICF beds which will be housed in a newly constructed Skilled Nursing Facility/Intermediate Care Facility (the "New Facility"), and (2) convert Kulana Malama's 33 SNF beds to SNF/ICF Beds (collectively, the "Proposal"). The New Facility will be constructed in close proximity to Kulana Malama on the same 7-acre property.

The New Facility will allow Applicant to offer skilled nursing care to residents over age 65 and memory care patients, greatly increasing senior living options for families who reside in West Oahu. The benefit of adding beds to Kulana Malama's inventory is that it will allow the efficient utilization of resources on the property. The New Facility will include new amenity spaces, a full commercial kitchen, a laundry site, and areas for support services that will be shared with Kulana Malama.

- a) Relationship to the State of Hawai'i Health Services and Facilities Plan

Improving access to long-term care services is one of the main priorities set forth in the Health Services and Facility Plan (the "State Plan"). The State Plan expressly identifies "ensuring capacity and access to a continuum of long-term care services" as a specific statewide health area of concern. The Proposal would significantly increase the supply of long-term care services Oahuwide, but particularly in the immediately surrounding neighborhood of West Oahu. Therefore, the Proposal directly addresses the West Oahu SAC priorities of increasing geriatric services, nursing home beds, and services for uninsured and uninsured individuals. Although farther away from Honolulu and Windward Oahu, the Proposal will also have a positive impact on the Honolulu SAC priority of increasing the availability of long-term care services (including nursing homes) and other supportive services. It will also address the Windward SAC priority of improving hospital bed availability by making available more discharge/transfer options for patients leaving acute care facilities.

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The added beds would target a different population than Kulana Malama; however, there will be many opportunities for the use of shared resources amongst all beds on the property. Applicant intends to take advantage of these opportunities to appropriately allocate resources between beds situated at Kulana Malama and the New Facility due to their close proximity, which is a practice encouraged under the State Plan.

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b) Need and Accessibility

Under the State Plan, the capacity (utilization) threshold for long term care beds to determine whether there is a need for services in a particular area should consider: (1) the target population, (2) national utilization rates compared against the target population, and (3) comparison between need estimates and current Hawaii licensed long-term care bed usage.

The service area for the new beds is Oahu residents aged 65 and over, with a focus on those residing in West Oahu due to the New Facility's location being in Ewa Beach. In 2022, Oahu had a population of 955,638 with approximately 195,377 people over age 65 (19.6% of the total population).¹

¹ <https://files.hawaii.gov/dbedt/economic/databook/db2022/section01.pdf>

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Table 1.29-- RESIDENT POPULATION BY AGE GROUP, BY COUNTY: 2022

[As of July 1. Includes military personnel stationed or homeported in Hawaii and residents temporarily absent; excludes visitors present] 24 OCT 21 AIO :29

Age group	State total	Hawaii County	City and County of Honolulu	Kauai County	Maui County 1/
Total	1,440,196	206,315	995,638	73,810	164,433
Under 5 years	79,600	10,877	56,030	3,900	8,793
5 to 9 years	86,582	12,551	59,760	4,510	9,761
10 to 14 years	83,775	12,567	56,426	4,664	10,118
15 to 19 years	77,426	11,426	53,103	3,990	8,907
20 to 24 years	90,645	10,236	68,724	3,511	8,174
25 to 29 years	91,699	10,496	68,568	3,981	8,654
30 to 34 years	98,834	12,454	71,945	4,479	9,956
35 to 39 years	98,240	13,105	69,144	4,763	11,228
40 to 44 years	93,146	13,122	63,695	4,969	11,360
45 to 49 years	82,622	11,805	56,453	4,326	10,038
50 to 54 years	86,291	11,828	59,250	4,515	10,698
55 to 59 years	86,939	12,602	58,771	4,552	11,014
60 to 64 years	90,032	14,846	58,392	5,068	11,726
65 to 69 years	86,039	15,907	54,235	4,968	10,929
70 to 74 years	76,196	14,064	47,998	4,684	9,450
75 to 79 years	55,454	8,819	37,173	3,077	6,385
80 to 84 years	33,280	4,495	23,458	1,755	3,572
85 years and over	43,396	5,115	32,513	2,098	3,670
16 years and over	1,174,144	167,883	812,566	59,881	133,814
18 years and over	1,142,870	163,060	791,639	58,155	130,016
Under 18 years	297,326	43,255	203,999	15,655	34,417
18 to 64 years	848,505	114,660	596,262	41,573	96,010
65 years and over	294,365	48,400	195,377	16,582	34,006
In percent					
Under 18 years	20.6	21.0	20.5	21.2	20.9
18 to 64 years	58.9	55.6	59.9	56.3	58.4
65 years and over	20.4	23.5	19.6	22.5	20.7
Median age	40.7	43.5	39.6	43.1	42.9
Dependency ratio 2/	69.7	79.9	67.0	77.5	71.3

However, the State of Hawaii, Department of Business, Economic Development and Tourism (DBEDT) projects that by 2040, there will be 381,000 residents in the state over age 65 with 24.7% of them over age 85.

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Table 1.24-- RESIDENT POPULATION PROJECTIONS, BY AGE AND SEX: 2010 TO 2045 -- Con.

Age group (in years)	2030			2040			2045		
	Both sexes	Male	Female	Both sexes	Male	Female	Both sexes	Male	Female
Total	1,556,843	783,072	773,771	1,622,480	817,109	805,371	1,648,609	835,493	817,116
Under 5	97,892	49,689	48,203	96,332	48,891	47,441	98,365	49,950	48,415
5 to 9	96,005	49,186	46,819	93,263	47,785	45,479	93,117	47,703	45,414
10 to 14	90,801	47,253	43,548	93,074	48,441	44,632	91,683	47,736	43,947
15 to 19	80,574	43,263	37,311	87,322	46,074	41,248	85,981	45,382	40,599
20 to 24	88,777	49,699	39,078	96,101	53,489	42,612	99,723	55,373	44,350
25 to 29	98,350	52,998	45,353	103,790	56,800	46,991	106,938	57,745	49,193
30 to 34	103,594	54,554	49,040	100,825	53,770	47,055	105,018	56,627	48,391
35 to 39	107,930	56,075	51,855	96,532	50,159	46,374	97,811	51,124	46,686
40 to 44	98,470	49,299	49,171	98,305	49,756	48,549	94,356	48,072	46,284
45 to 49	94,079	46,787	47,292	103,850	53,265	50,585	96,624	49,182	47,442
50 to 54	84,747	42,932	41,815	94,532	47,753	46,779	101,672	52,332	49,340
55 to 59	80,665	40,558	40,107	91,918	45,311	46,608	94,656	47,257	47,399
60 to 64	82,718	40,236	42,482	82,901	40,968	41,933	89,983	43,888	46,094
65 to 69	84,341	40,665	43,675	74,950	37,046	37,903	79,235	38,985	40,250
70 to 74	81,658	38,894	42,764	74,826	35,808	39,018	71,508	35,034	36,474
75 to 79	72,120	33,436	38,683	73,530	34,154	39,377	69,239	32,318	36,921
80 to 84	57,418	25,506	31,912	65,606	29,195	36,411	65,054	29,071	35,983
85 & over	56,704	22,042	34,662	94,823	38,446	56,377	107,648	43,713	63,935

1/ Population estimates for July 1 from the U.S. Census Bureau
 Source: Hawaii State Department of Business, Economic Development & Tourism, *Population and Economic Projections for the State of Hawaii to 2045 - DBEDT 2045 Series*, Tables A-7 to A-9 (June 2018) <<http://dbedt.hawaii.gov/economic/economic-forecast/2045-long-range-forecast/>> accessed June 29, 2018.

This signifies a tremendous jump in the proportion of elderly residents in the state, with the DBEDT concluding that “the level of resources from governments and community support needed would be much higher when the elderly population is composed of a higher proportion of the “oldest old.”² The additional services offered by the Proposal would greatly help to ensure that Oahu has adequate long term bad capacity to accommodate its most senior residents well into the future.

As of 2019, the national average ratio of long-term care beds per 1,000 people aged 65 and over was 34.³ To meet the national average ratio, Oahu would need to have 6,643 long term care beds on island, but it in 2022 had only 2,759 licensed long-term care beds—a ratio of only 14 long-term care beds per 1,000 residents aged 65 and over.

According to the Kaiser Family Foundation, the certified nursing facility occupancy rate nationwide in 2022 was 72% and Hawaii’s average certified nursing facility occupancy rate exceeded that at 76%.⁴ As of 2022, Oahu’s licensed long-term care bed occupancy rate was 72.59%.⁵ However, in late 2022, Oahu suffered a great loss with the closure of the deletion of 135 skilled nursing beds by Wahiawa General Hospital from Oahu’s long term care bed supply

² https://files.hawaii.gov/dbedt/economic/reports/Elderly_Population_in_Hawaii-Housing_Dec2021.pdf
³ National Center for Health Statistics, Vital and Health Statistics, February 2019, Series 3, Number 43.
⁴ <https://www.kff.org/other/state-indicator/nursing-facility-occupancy-rates/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D>
⁵ <https://health.hawaii.gov/shpda/files/2023/09/2022UR-Table-5-Licensed-Long-Term-Care-Bed-Utilization-1.pdf>

(see CON #22-04A and CON #22-05A). The loss of those beds led to displacement of residents, with many having to travel much farther for services. The New Facility would be the closest facility in proximity to what used to be Wahiawa Nursing Home, so the Proposal could help to bring displaced residents closer to an area they are more familiar with. The Proposal's additional beds would help to return long term care bed supply to the status quo, replacing the beds lost from the closure and ensuring that residents in the underserved area of West Oahu continue to have access to nearby long-term care services.

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The Proposal's beds will be accessible to all the residents of the City and County of Honolulu, including low income persons, racial and ethnic minorities, people with disabilities, the elderly, and the medically underserved. The Proposal will serve patients covered by Medicare, Medicaid, commercial health plans, and also private pay patients.

c) Quality of Service/Care

Kulana Malama currently holds the highest (5-star) rating available by the federal government for Overall Scores, Regulatory Compliance, Staffing, and Quality Measures (resident outcomes). Kulana Malama consistently ranks in the top 10% among all skilled nursing facilities in the nation in all areas. Applicant already has in place a robust quality assurance program for Kulana Malama, which it will continue and implement for the New Facility to ensure that all beds under the Proposal are operated under consistent and proper guidance to maintain high quality care for patients. Sharing the policies and procedures designed to monitor and evaluate quality of care will also ensure that the New Facility will provide the same high quality care for which Kulana Malama has become known. In addition, the additional beds will be operated by the same management team that now oversees Kulana Malama, further ensuring that the quality of care provided at the New Facility will be exceptional. One of the key figures on the New Facility's management team will be Spencer Olsen. Mr. Olsen is a veteran skilled nursing facility operator with 23 years of experience in the long-term care/skilled nursing industry. He owns and operates Pacific Skilled Healthcare ("PSH"), leading PSH through a series of successful operational improvements since February 2023 which have turned around 235 long-term care beds on Oahu which PSH oversees. Mr. Olsen will use his strong background in the long-term care industry to operate all beds under the Proposal in compliance with all applicable regulations and in a manner that prioritizes the safety and well-being of residents.

Mr. Olsen currently serves on the Board of Directors for Behavioral Health Solutions. He previously served as CEO and member of the Board of Directors for North American Health Services, which operated 35 skilled nursing facilities in California and Washington State, as well as ancillary companies that support those facilities. Prior to his appointment as CEO, Mr. Olsen served as CFO for North American Health Services, guiding the company through two successful recapitalizations, financing growth, providing technical guidance and overseeing software implementations. Before joining North American Health Services, Mr. Olsen worked with PricewaterhouseCoopers in audit. He is a licensed CPA and owns Orion Accounting PC, an accounting practice. He also serves as Trustee and financial advisor for a large family office. Mr. Olsen holds a Bachelor's Degree in Accounting from Brigham Young University and a Master's Degree in Business Administration from the Wharton School at the University of Pennsylvania.

Applicant is currently a member of the Healthcare Association of Hawaii and contracts with all major insurance companies that operate on Oahu. It will obtain proper licensure from the Department of Health and Medicare certification to operate the additional and converted

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beds under the Proposal, and expects to maintain its affiliation with the Healthcare Association of Hawaii and all insurers throughout the time all beds under the Proposal are in operation.

Applicant will hire duly qualified physicians, health care workers, and support personnel who are appropriately licensed by the state as needed. Applicant will also commit to putting sufficient support staff in place to care for the residents and will maintain staff competency by organizing regular-in-service education opportunities.

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

As documented on page 4 of this Application form, there will be \$14,500,000.00 in project costs required to establish the New Facility, which include \$12,000,000 in construction costs, \$1,000,000 in fixed equipment costs, \$1,000,000 in movable equipment costs, and \$500,000 in financing costs. Pursuant to HRS § 323D-54(8), the \$12,000,000 in construction costs exclude approximately \$3,000,000 (20%) of construction costs expected to be incurred to construct nonpatient areas of the New Facility (i.e., parking, administrative offices, common areas).

The revenue and cost projections for the New Facility's first and third years of operation are summarized in the table below:

	Projected 1st Full Year Operations	Projected 3rd Full Year Operations
Total Operating Revenue	\$13,460,000	\$20,132,000
Operating Expenses		
Salaries, Wages, Benefits	\$ 6,380,000	\$ 9,760,000
Other Expenses (Ancillary Services, Admin & Insurance, Shared Services, Utilities, etc.)	\$ 6,665,000	\$ 9,067,000
Depreciation	\$ 785,000	\$ 785,000
Total Expenses	\$13,830,000	\$20,652,000
Net Income (Loss) from Operations	(\$ 370,000)	\$ 520,000
Add Back: Depreciation	\$ 785,000	\$ 785,000
Excess (Deficit) Fund from Operations	\$ 415,000	\$ 1,305,000

e) Relationship to the existing health care system

The addition of the beds will have a significant positive impact on the health care system on Oahu by helping to improve access to long term care services, particularly in West Oahu. Ewa Beach and its surrounding communities are underserved populations when it comes to health care. Adding 140 SNF/ICF beds to the census and converting 33 SNF beds to SNF/ICF beds would help to fill a need for long term care beds, and would allow many residents requiring skilled nursing services to find long term solutions that are close to their loved ones.

From speaking with stakeholders in Oahu's health care industry, it is clear that there is particularly dire need for skilled nursing/long term care beds among patients being discharged from acute care facilities. The site of the Proposal is less than a mile from The Queen's Medical Center in West Oahu ("Queen's West"), and this close proximity would allow Applicant to assist

with hospital discharges on an expedited timeline. The next closest facility to Queen's West is Pearl City Nursing Home ("PCNH"). Unfortunately, while PCNH is a suitable option on paper, it is difficult to discharge hospital patients to PCNH from a practical standpoint because it frequently runs at occupancy levels over 95%. Coupled with the Wahiawa Nursing Home closure in 2022, there is no question that additional long-term care beds are desperately needed in West/Central Oahu and that the Proposal would help significantly to meet this demand and boost the viability of Oahu's health care system overall.

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f) Availability of Resources

Applicant will utilize Kulana Malama's management and staff to initiate services under the Proposal, and will hire additional managers and staff as needed. Applicant does not plan to be at full capacity or require 100% staffing by the end of the first year. Taking a graduated approach to ramp up will allow Applicant to ensure that it is prepared to meet the needs of every resident it admits. Applicant does not anticipate any strain on Oahu's overall health care workforce as it already has recruitment and retention plans in place which do not rely on recruiting any personnel away from other places of employment. Applicant has a successful track record of expanding its other operations on Oahu without having to raid other facilities, and always makes a concerted effort to not have to pull CNAs, LPNs, and RNs from elsewhere. To supplement its workforce, Applicant also has access to contracted help for certain services, such as physician services and Medical Directorship needs.

However, Applicant is also actively looking to do its part to combat the health care worker shortage and intends to use the New Facility to further enhance the portion of its robust recruitment and retention plan that relates to its on-location Nursing Assistant Education program. This Education Program has graduated over 80 CNAs from Kulana Malama in the past 8 months alone. Kulana Malama also facilitates clinicals for most of the LPN, RN, and RT programs on Oahu and Applicant runs a bridge program for LPNs to gain the necessary experience to become RNs. Applicant also has a process in place to recruit from the Philippines and sponsor nurses to come to work in Hawaii, which it has found to be mutually beneficially for its facilities, patients, and nurses. Not only do these initiatives contribute greatly to remedy Hawaii's health care worker shortage, but they also help with recruitment at Applicant's facilities.

On top of these proven recruitment methods which Applicant expects to continuously expand, Applicant notes that its staffing levels at Kulana Malama are rated 5/5 stars by the Federal government. Kulana Malama's retention levels are also higher than the national and state averages according to Medicare Compare. With plans to replicate all of its staffing practices for the Proposal's additional beds, Applicant believes that it will have no problem fulfilling its future staffing needs.

There are minimal financial obstacles associated with financing the cost of constructing the New Facility. Regarding the funding for the New Facility, \$6.5 million will come from cash reserves which the Applicant has on hand and \$8 million will likely be financed through First Hawaiian Bank as First Hawaiian Bank is Kulana Malama's current lender and has expressed interest in financing Applicant's future construction on the property.

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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.

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