

**REVIEW OF KODIAK ISLAND BOROUGH  
CERTIFICATE OF NEED APPLICATION  
REPLACEMENT NURSING HOME FACILITY**

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**SEAN PARNELL  
GOVERNOR**

**WILLIAM J. STREUR  
COMMISSIONER  
Department of Health and Social Services**

**State of Alaska  
Department of Health & Social Services  
Division of Health Care Services  
Office of Rate Review  
Certificate of Need Program**

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**REVIEW OF THE KODIAK ISLAND BOROUGH CERTIFICATE OF NEED  
APPLICATION FOR A REPLACEMENT NURSING HOME FACILITY**

**Background**

Kodiak Island Borough (KIB) is a 2nd Class Borough with a population of approximately 13,870 residents located on Kodiak Island. Communities located within the borough include: Akhiok, Chiniak, Karluk, Kodiak, Kodiak USCG Station, Larsen Bay, Old Harbor, Ouzinkie, Port Lions, Uganik, and Womens Bay.

Kodiak is accessible by air and sea. Airports and seaplane facilities serve air traffic island-wide and two major airlines provide regular service between the City of Kodiak and Anchorage. The Alaska Marine Highway System operates a ferry service which connects the City of Kodiak with Port Lions and Ouzinkie as well as service to Homer and Whittier on the Kenai Peninsula.

KIB is the owner of Kodiak Island Medical Center (Medical Center) which has 25 acute care beds. The Medical Center also houses the long term care center (LTCC) an 11,322 square foot unit which is licensed for 19 beds and consists of one-single occupancy bed room and nine double occupancy bed rooms. This long term care center has been in operation since 1978.

The last Certificate of Need (CON) application approved for KIB was in 1998. There are no other CON applications for review from KIB.

**Project Description**

KIB proposes to replace its LTCC in a new facility that will be located in close proximity to the Medical Center but not physically housed in the Medical Center as is the current configuration. The new facility will be across the street on a piece of property owned by the Borough. Borough Assembly action has allowed for this construction.

The applicant states that upon completion of the new facility, the former LTCC in the Medical Center will be vacated and not used for clinical purposes in the near future.

The applicant also proposes to increase the number of skilled nursing/long term care beds by 3 beds for a total of 22 licensed beds, all of which will be in single occupancy rooms.

The total cost is estimated at \$16,068,800, \$1,451,010 is for equipment and \$14,617,790 in construction costs for the 18,708 square foot facility.

KIB will issue revenue bonds to finance the project.

The estimated occupancy date is January 2014 with a final completion date of January 2015.

## REVIEW STANDARDS

### GENERAL REVIEW STANDARDS

***General Review Standard #1- Documented Need: The applicant documents need for the project by the population served, or to be served, including, but not limited to, the needs of rural populations in areas having distinct or unique geographic, socioeconomic, cultural, transportation, and other barriers to care.***

The application outlined the needs that would be met upon completion of this project.

The vast majority of residents receiving care at LTCC are from the KIB. Within the last five years only two residents were from outside the Borough: One resident from Dillingham and one from Bethel.

Documentation was provided by the applicant with population estimates, including race, age, and gender, from the Alaska Department of Labor (DOL) from 2010 through 2035 however, for purposes of this review, only population projections to 2020 were used in determining bed need.

The Certificate of Need methodology specific to long term nursing care determined a projected bed need of 27 beds through 2015 and 36 beds through 2020. The proposed facility is for a total of 22 patient beds.

There is a documented need for skilled nursing/long term care beds on Kodiak Island, both now and in the future. The KIB LTCC is the only skilled nursing/ long term care facility on the island and provides services to the residents of the island.

CON standards require that facilities must have had occupancy rates of 90% or more during the preceding three years. LTCC has averaged an occupancy rate of over 98% since 2009 with a 3 year average of 98.53% for calendar years 2009-2011.

As stated earlier, this is the only skilled nursing/long term care facility on Kodiak Island. Other skilled nursing facilities outside of KIB can be found in the Kenai Borough area in Homer which is approximately 130 miles by air or 10 hours by ferry. Anchorage, which has two facilities, is 250 miles by air or over 24 hours by ferry. These distances can cause a burden to residents and family members if they have to leave their community for care.

The applicant demonstrates the continued and increasing need for skilled nursing/long term care beds in the Kodiak Island Borough area based on population projections through 2035.

This standard is met.

***General Review Standard #2 – Relationship to Applicable Plans: The applicant demonstrates that the project, including the applicant’s long-range development plans, augments and integrates with relevant community, regional, state, and federal health planning, and incorporates or reflects evidence-based planning and service delivery. A demonstration under this standard should show that the applicant has checked with the department regarding any relevant state plan, with appropriate federal agencies for relevant federal plans, and with appropriate communities regarding community or regional plans.***

The application referenced a number of planning documents developed by the Department which address the need for health care to an aging population. These plans discuss the need to address a continuum of health care for an aging population in Alaska and the need for access to skilled nursing care in communities.

This project integrates with existing services within the community. The Medical Center provides home health care for the area. There is one assisted living facility and an adult day program.

This standard is met.

***General Review Standard #3 – Stakeholder Participation: The applicant demonstrates evidence of stakeholder participation in planning for the project and in the design and execution of services.***

The application addresses the planning process that was used by KIB in planning this project. The applicant outlines how local organizations and residents were involved in the planning process to design the facility.

The project was approved by the KIB Assembly in a resolution that was attached to the CON application.

The applicant documented that other community organizations were supportive of the applicant’s plan as evidenced with letters of support from Senior Citizens of Kodiak, Inc., Kodiak Area Native Association, the City of Kodiak, Kodiak Island Medical Associates, the Filipino American Association of Kodiak, Natives of Kodiak, Inc. and the Salvation Army.

This standard is met.

***General Review Standard #4 – Alternatives Considered: The applicant demonstrates that they have assessed alternative methods of providing the proposed services and demonstrates that the proposed services are the most suitable approach.***

The application outlines three alternatives which were considered.

The first alternative was to keep the 19 LTCC beds co-located at the Medical Center. This was not an acceptable solution as significant investment would be needed to correct structural, code, and energy deficiencies as identified in a 2005 Hospital Facility Masterplan.

The second alternative was to cease providing skilled nursing/long term care in the Kodiak Island Borough. As the only provider of long term care on the island this alternative was deemed unacceptable.

The third alternative was to construct a replacement LTCC with an increase in the number of beds. It was decided that this alternative would best serve KIB in the near as well as distant future.

This standard is met.

***General Review Standard #5 – Impact on the Existing System: The applicant briefly describes the anticipated impact on existing health care systems within the project's service area that serve the target population in the service area, and the anticipated impact on the statewide health care system.***

The applicant discusses the current and future needs for skilled nursing/long term care home beds in the KIB.

The applicant did not discuss the impact on the nursing home system statewide, however, due to the remoteness of Kodiak Island, it would cause a burden to residents and family members if they would have to leave their community for care.

The applicant outlined other services that are available on the island which would have an impact with this project. These programs have provided support to the applicant.

This standard is met.

***General Review Standard #6 – Access: The applicant demonstrates that the project’s location is accessible to patients and clients, their immediate and extended families and community members, and to ancillary services. This includes the relocation of existing services or facilities.***

The project’s location in Kodiak is readily accessible on the island area by private vehicle. While not physically attached with the Medical Center, the applicant demonstrated proximity to medical services.

The project will operate 24 hours, seven days a week and the design of the facility complies with all the federal and state requirements for disabled residents.

Should residents require a higher level of care, they will be transferred to the Kodiak Island Borough Medical Center which provides a wide range of acute care services.

The applicant, aside from stating that the old LTCC would be closed, did not provide a transition plan for services to residents as they relocate to the new facility. It will be recommended as a condition in the CON award.

This standard is met.

**REVIEW STANDARDS SPECIFIC TO LONG TERM CARE NURSING CARE**

***Specific Review Standard #1: A new freestanding long-term nursing facility will not be approved unless the applicant has demonstrated a need for a minimum of 40 beds.***

This application is for a replacement facility.

This standard is not applicable.

***Specific Review Standard #2: New long-term care nursing units co-located with hospitals will not be approved unless the applicant has demonstrated a need for a minimum of 15 beds. The department may approve a smaller number of beds if the applicant documents use patterns, and submits data and analysis that justify a smaller unit.***

This project will not be physically attached to the Medical Center.

This standard is not applicable.

***Specific Review Standard #3: To be considered for approval to expand licensed capacity, a freestanding long-term nursing care facility must have an average annual occupancy of at least 90%, and co-located long-term nursing care units must have an average annual occupancy rate of at least 80%, during the preceding three years.***

The applicant documents an average occupancy rate of over 98% since 2009.

This standard is met.

***Specific Review Standard #4: In a service area with more than one long-term nursing care facility, all facilities must have had an average annual occupancy of at least 90% during the preceding three years before additional beds are approved***

LTCC is the only skilled nursing/long term care facility on Kodiak Island.

This standard is not applicable.

***Specific Review Standard #5: In the interest of serving individuals in the most cost-effective, least-restrictive setting possible, there must be a combination of at least one assisted living bed or adult day care slot for each existing and proposed new long-term nursing care bed. For a community with a population of 10,000 or less, the department may approve beds on a case-by-case basis.***

In the Kodiak Island Borough there is currently one assisted living facility, Bayview Terrace, which is licensed for 15 beds. Indian Cove Adult Day program has 18 slots available. Additionally, KIB Medical Center provides home health care for the KIB.

This standard is met.

**FINANCIAL FEASIBILITY AND COST TO MEDICAID**

The applicant states that the services offered will be the same as those currently offered, with the exception of additional space (7,386 sq ft) and capacity (3 additional beds).

Review of past financial records and projected financials shows a dramatic increase in operating expenses with this addition of 3 patient beds and 7,386 square feet of space.

Total reported costs for FY 2011 (page 55 of the CON application) were \$3,890,315 and these costs are projected as follows (pg 55-56 of the CON application):

- FY2012: \$4,007,024
- FY 2013: \$4,251,051
- FY 2014: \$7,488,757 – the anticipated operational year
- FY 2015: \$7,678,618 – the anticipated completion year
- FY 2016: \$7,878,176
- FY 2017: \$8,075,601

The applicant's projections of Medicaid coverage, which were 94.68% in FY2011, are anticipated to be 100% beginning FY 2014 and continuing through FY 2017.

While the bed need has been demonstrated through the methodology, the application outlines a financial projection that will dramatically increase the overall costs of the health services for those in need of skilled nursing/long term care.

As the facility is owned by the Kodiak Island Borough, it will ultimately be a community decision to operate this facility with these costs and with the projected shortfalls.

**PUBLIC COMMENT**

The written public comment period was from January 7 to February 6, 2013.

As stated earlier, letters of support from local organizations were submitted with the CON application. Two letters of support from public members were received during the written comment period.

A public meeting was held in Kodiak on January 29, 2013. Three persons representing KIB and KIB Medical Center were present as well as four members of the public. All spoke in favor of the application.

**RECOMMENDATION**

It is recommended that the Kodiak Island Borough be granted a Certificate of Need for construction of an 18,708 square foot replacement long term care center in Kodiak, Alaska with a total of 22 licensed beds.

The total cost of the project is \$16,086,800 for construction, equipment, and furnishings.

The anticipated operation date is January 31, 2014 with a final completion date of January 31, 2015.

As a condition of this Certificate of Need award, the Department must receive and approve a transition plan.

**APPENDIX A  
LONG-TERM NURSING CARE  
REVIEW STANDARDS**

**Long-Term Nursing Care: Review Standards and Methodology**

(Source: Alaska Certificate of Need Review Standards and Methodologies December 9, 2005. Pages 21-22)

***Review Standards***

After determining whether an applicant has met the general review standards in Section I of this document, the department will apply the following service-specific review standards in its evaluation of an application for a certificate of need for long-term nursing care services:

1. A new freestanding long-term nursing facility will not be approved unless the applicant has demonstrated a need for a minimum of 40 beds.
2. New long-term care nursing units co-located with hospitals will not be approved unless the applicant has demonstrated a need for a minimum of 15 beds. The department may approve a smaller number of beds if the applicant documents use patterns, and submits data and analysis that justify a smaller unit.
3. To be considered for approval to expand licensed capacity, a freestanding long-term nursing care facility must have an average annual occupancy of at least 90%, and co-located long-term nursing care units must have an average annual occupancy rate of at least 80% during the preceding three years.
4. In a service area with more than one long-term nursing care facility, all facilities must have had an average annual occupancy of at least 90% during the preceding three years before additional beds are approved.
5. In the interest of serving individuals in the most cost-effective, least-restrictive setting possible, there must be a combination of at least one assisted living bed or adult day care slot for each existing and proposed new long-term nursing care bed. For a community with a population of 10,000 or less, the department may approve beds on a case-by-case basis.

**APPENDIX B  
LONG TERM CARE REVIEW METHODOLOGY AND  
DETAILED ANALYSIS FOR NEED DETERMINATION**

***Review Methodology***

The department will use the following formula to determine need for long-term nursing home beds:

► **STEP ONE:** Determine the projected long-term nursing care caseload using the formula:

$$C = CASU$$

**C** (caseload) = the average daily census of long-term nursing care patients five years from the project implementation date

**Average Daily Census** = patient days per year/365<sup>4</sup>

**CASU** (composite age specific use) = defined as the cumulative average daily census of long-term nursing care patients per 1,000 persons for the age groups: 0 – 64 years, 65 to 74 years, 75 to 84 years, and 85 years and over, five years from implementation of the project, calculated as follows:

$$CASU = (UR<65 \times PP<65) + (UR65\cdot74 \times PP65\cdot74) + (UR75\cdot84 \times PP75\cdot84) + (UR>85 \times PP>85)$$

where:

**UR<65** = the average nursing home bed use rate of the service area population aged 0 to 64 years for the preceding three years

**PP<65** = the projected population aged 0 to 64 years for the fifth year from the project implementation date

**UR65•74** = the average nursing home bed use rate of the population aged 65 to 74 years for the preceding three years

**PP65•74** = the projected population between 65 and 74 years of age for the fifth year from the project implementation date

**UR75•84** = the average nursing home bed use rate of the population aged 75 to 84 years for the preceding three years

**PP75•84** = the projected population between 75 and 84 years of age for the fifth year from the project implementation date

**UR>85** = the average nursing home bed use rate of the population 85 years of age and older for the preceding three years

**PP>85** = the projected population 85 years of age and older for the fifth year from the project implementation date

► **STEP TWO:** Determine the projected number of nursing home beds required to meet projected demand using the formula:

$$\mathbf{PBN = C / NHTO}$$

**PBN** = projected nursing home bed need

**C** (caseload) = the average daily census of long-term nursing care patients five years from the project completion date

**TO** = nursing home target occupancy, defined as 90% (0.90)

► **STEP THREE:** For service area bed need projections, multiply projected bed need by the current service area share of the population to be served aged 65 and over:

$$\mathbf{PBN_{sa} = PBN \times SAS}$$

**SAS** (service area share) = the proposed service area's current share of the population to be served, as of the most recent geographic population estimates. If there is public information about service area population changes expected over the planning horizon, such as a military base closing, or a major economic project such as a new mine, the service area share estimate may be modified with explanation to reflect the expected change. Determine unmet nursing home bed need, if any, by subtracting the number of existing licensed and CON-approved beds from the number of beds projected to be needed in the proposed service area.



**APPENDIX C**  
**ESTIMATED COST TO MEDICAID – OFFICE OF RATE REVIEW**  
**See Memorandum**



**MEMORANDUM**

**Date:** February 22, 2013  
**To:** Karen Lawfer, CON Coordinator  
**From:** Jared C. Kosin, Executive Director   
**Subject:** Certificate of Need Review for Replacement Long Term Care Center in Kodiak

**Background**

Kodiak Island Borough (KIB) is the owner of Kodiak Island Medical Center (Medical Center) and hospital-based Long Term Care Center (LTCC). Providence Health and Services (PH&S) has operated the Medical Center and LTCC for a number of years under a single long-term lease agreement with KIB. KIB is requesting a Certificate of Need (CON) to construct an 18,708 square foot replacement for the existing LTCC.

PH&S operates the Medical Center and the hospital-based LTCC as Providence Kodiak Island Medical Center (PKIMC). PKIMC is currently licensed for 19 skilled nursing beds. The replacement LTCC would have PKIMC licensed for 22 skilled nursing beds. The replacement LTCC is to be co-located on the same campus as the Medical Center and is anticipated to share administrative and support services with the Medical Center.

KIB plans to finance the approximately \$16,086,800 project by issuing revenue bonds in the amount of \$15,375,000 and applying for a grant from the Alaska Department of Commerce, Community, and Economic Development in the amount of \$711,800. KIB would have an estimated \$1,295,000 annual debt service requirement resulting from the bond issue. The CON application (pg. 7) states PH&S will enter into an operating lease agreement with KIB upon the approval of the CON, with lease payments estimated at \$1,160,000 per year beginning on the date of occupancy.

Alaska Medicaid prospective rates and CON rates are only paid to the provider of services. Since PH&S will be the provider of services and operator of PKIMC, and not KIB, in order to complete an analysis of the impact to Medicaid, it was necessary for the Office of Rate Review (ORR) to evaluate information provided in the application concerning operating projections.

### Provider Estimated Costs and Medicaid Rates

The total impact to Medicaid cannot be fully understood at this time because it is ORR's understanding that KIB currently has an existing [one single] lease agreement which covers the Medical Center and existing LTCC together.

It is ORR's presumption that since a new and separate lease agreement will be entered into for the replacement LTCC, the current lease agreement will be altered in some capacity. This alteration will likely have an impact on the Medicaid prospective payment calculation for both the Medical Center capital rate and the LTCC capital rate. It was noted in the application that KIB anticipates lease payments to be \$1,160,000 annually for PH&S's use of the replacement LTCC, yet principle and interest payments for the repayment of the bonds are stated to be \$1,250,000. In addition, Major Moveable Equipment lease costs were not addressed as part of the LTCC anticipated lease agreement. Consequently, without additional information, ORR cannot fully estimate the impact to Medicaid.

According to the information provided in the CON application, PKIMC Average Patient Costs Per Day just for the replacement LTCC are projected as follows (application pg 56):

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$1,025.86	\$956.24	\$980.59	\$1,005.68

According to the information provided in the CON application, PKIMC estimates an Average Annual Medicaid per diem rate as follows (application pg 56):

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$709.21	\$721.12	\$1,064.01	\$1,083.69

### Calculation of Impact to Medicaid

The CON application also identified specific operating and capital costs for PKIMC services. Based on that information, ORR's calculated impact to the Medicaid per diem rate for the new LTCC is as follows:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Operating	\$482.77	\$495.33	\$980.59	\$1,005.68
New Construction Capital	\$150.33	\$150.33	\$144.46	\$144.46
Est. Annual Per-Diem Rate	\$633.10	\$645.66	\$1,125.05	\$1,150.14

Please note, all calculations in this memorandum are estimates only and are based on the assumptions set forth in the CON application. The Department is not bound by these estimates or assumptions. Also, please note 7 AAC 07.070(i):

*Approval of a certificate of need does not imply any guarantee of federal, state, or private money, including Medicaid payments or grant awards, and does not imply any guarantee of profitability.*

ORR's estimates (based on the assumptions set forth in the CON application) and PH&S estimates for at least 2 years show a *material* shortfall between projected costs and estimated Medicaid per day rates. The CON application calculates an estimated \$150 per patient day for new capital costs, which means that a majority of the projected costs are operational. ORR does not understand the cost estimates and is concerned about this disparity. Additionally, the 2017 projections by PH&S show that the estimated costs to provide services by PKIMC is expected to increase to \$367,073.00 ( $\$1,005.68 \times 365$ ) annually per patient.

Should you have any questions concerning this analysis, please contact Joyce Seekatz at 344-2466 or me at 334-2447.