

**REVIEW OF CENTRAL PENINSULA HOSPITAL  
CERTIFICATE OF NEED APPLICATION  
NEW CONSTRUCTION FOR IMAGING EXPANSION/  
REPLACEMENT CT**

**November 8, 2013**



**SEAN PARNELL  
GOVERNOR**

**WILLIAM J. STREUR  
COMMISSIONER**

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

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## BACKGROUND

The applicant for this Certificate of Need (CON) is Central Peninsula Hospital (CPH). CPH is a 49-bed acute care hospital that was opened in 1971. See *CON Application* at 13. It is owned by the Kenai Peninsula Borough and operated by Central Peninsula General Hospital, Inc. a 501 (c)(3) non-profit. *Id.*

CPH's primary service area consists of 9,126 square miles of the 25,600 square-mile Kenai Peninsula Borough. *Id.* at 20. As of 2012, the primary service area had an estimated population of approximately 37,000 residents. *Id.* at 14. CPH is the only hospital in the primary service area and is the largest hospital on the Kenai Peninsula. *Id.* at 29. CPH's services include "a 60-bed skilled nursing facility and numerous other key service lines . . . (e.g., primary care, emergency, obstetrics, pediatrics, psychiatry, ENT, urology, surgical pediatric dentistry, residential substance abuse treatment, medical/surgical unit, intensive care unit, wound care, cardiac rehabilitation, and many community wellness programs)." *Id.*

CPH submitted an application for a CON in July 2013 for the replacement of an existing Computed Tomography (CT) scanner and for an accompanying build-out construction/addition in Soldotna in the Kenai Borough of Alaska. No other entity has submitted a letter of intent or CON application for concurrent review.

## PROJECT DESCRIPTION

The proposed project consists of the purchase of a replacement CT scanner to be located in the newly constructed 5,227 square foot build-out addition that includes shelled-in space for future replacement of Magnetic Resonance Imaging and Nuclear Medicine. See *CON Application* at 5.

The requirement to replace the CT coincides with the need to modernize and expand the CPH Imaging Department and to address fire code deficiencies that are explained in the application. CPH proposes that the project will be 5,227 square feet (SF) of new construction. *Id.* This construction will connect to the existing imaging department and the hospital. 1,710 SF of construction will be for the replacement CT scanner, control room, equipment room and vestibule, while 3,210 SF of construction will be for the addition that will contain shelled-in space for future imaging modality replacements of Magnetic Resonance Imaging and Nuclear Medicine. *Id.* The shelled space will reconfigure the imaging department and expand the footprint of imaging to accommodate the larger technology and the growth of the department and staff space. *Id.* at 8. This plan affects the following services:

<b>CT Replacement</b>	routine replacement
<b>Building Expansion for Imaging Dept.</b>	build-out addition with shelled-in space

It appears that no services are being reduced or expanded through this project. The estimated project cost is \$3,843,796:

\$1,717,556	general construction
\$1,710,460	equipment
\$415,780	other costs (i.e. administrative fees, contingency, permitting, design, development, architect and engineering fees)

If granted a CON, CPH plans for construction to be complete by November 2014 with an operational date of December 2014. *Id.* at 51.

## REVIEW

The estimated project cost is \$3,843,796 and CPH is a licensed health care facility under AS 18.07.111(8). The project estimates include costs associated with replacement of equipment. See *CON Application* at 8 (“replacement of the current 16 slice CT scanner with a 128 slice scanner.”). Per AS 18.07.031(e), “expenditure” for purposes of CON does not include replacement of equipment at an existing health care facility. Accordingly, the total project cost should not include costs associated with the replacement of the CT scanner.

Despite the fact that, for purposes of CON, the total project cost does not include costs associated with replacing the CT scanner, the department presumes that the remaining costs for the proposed project still amount to an “expenditure” that is over the \$1.45 million threshold for “construction” of a health care facility.<sup>1</sup> Since the project as a whole is presumed to be an “expenditure” that exceeds \$1.45 million, and since CPH is applying for a CON for the project as a whole, the project will be evaluated under the General Review Standards.

Moreover, since the CT scanner portion of the project is limited to replacement activities, the department does not need to analyze the project according to the service-specific review standards that would normally apply to a project with a new CT scanner. Accordingly, the service-specific review standards for Computed Tomography should be waived under 7 AAC 07.025(b), and the general review is the only evaluation that will be conducted in this analysis.

### *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 proposed imaging expansion is specifically designed to provide space for immediate replacement of a failing CT scanner and shelled-in space for replacement of existing modalities that will have exceeded or nearly exceeded their useful life during completion of the proposed project.” *CON Application* at 17. CPH states that the “current space in Imaging is inadequate to accommodate the growth that CPH . . . [has] experienced over the last 30 years.” *Id.* Per the application, this has placed constraints on the facility that have led to an “inability to provide

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<sup>1</sup> Per AS 18.07.111(6), “construction” includes the extension or modification of a health care facility.

services to patients and address their needs due to lack of space and aging diagnostic equipment.” *Id.* at 18. CPH concludes that if these issues are not addressed, there could be a significant decrease in access and quality of care. See *CON Application* at 46.

Given the space and equipment constraints and the effect they have on access to care, CPH has adequately documented the need for this project by the population served.

Recommendation: The proposed project does meet General Review Standard #1.

**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.*

Per its CON application, CPH has demonstrated that it performed due diligence on and considered planning at the local, state, and federal levels. “The process included community health needs assessments, strategic planning, an open community process, and master site planning.” *CON Application* at 47. CPH reviewed relevant state plans and is active at the federal level. *Id.* “The proposed project is not at variance with any known state, regional or local plans or guidelines[.]” *Id.* at 13.

Recommendation: The proposed project does meet General Review Standard #2.

**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.*

Per its CON application, CPH has demonstrated evidence of stakeholder participation in planning for the project and in the design and execution of services. There appears to have been extensive stakeholder participation for the proposed project. Examples of such participation include involvement from the Hospital Nonprofit Operating Board, members of the medical staff, the elected Hospital Service Area Board, and the Kenai Peninsula Borough Mayor. See *CON Application* at 47. The proposed project received “unanimous approval by the Kenai Peninsula Borough Assembly following public hearings.” *Id.*

Recommendation: The proposed project does meet General Review Standard #3.

**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.*

Per its CON application, CPH adequately demonstrated that it assessed alternatives and that the proposed project is the most suitable approach. CPH first evaluated doing nothing. CPH has continued its operations as is for several years, and this is no longer an option. See *CON Application* at 27. “Because the existing CT scanner is failing and a replacement scanner will

not fit in the existing space – doing nothing is no longer an option.” *Id.* Outside of the failing CT scanner, there are also significant building code compliance issues that need to be addressed: “the proposed project is the only option to bring the Imaging and Emergency Department up to current code[.]” *Id.* at 27-28.

CPH also evaluated the potential of contracting services to another provider. This was quickly dismissed because “CPH provides twenty-four hour emergency services that are heavily dependent on CT procedures for trauma and stroke patients.” *Id.* at 28.

Recommendation: The proposed project does meet General Review Standard #4.

**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 proposed project consists of replacing an existing CT scanner, adding space to accommodate the replacement, and building shelled-in space to replace existing modalities (i.e. existing MRI and existing Nuclear Medicine camera) that will exceed or nearly exceed their useful lives during the completion of the project. See *CON Application* at 17. Given the replacement nature of the project, there are “no proposed expansions or additions of new services which will impact any existing health care systems.” *Id.* at 48.

Recommendation: The proposed project does meet General Review Standard #5.

**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.*

Per its CON application, CPH has demonstrated that the project’s location is accessible. For example, all facilities at CPH are compliant with the American’s with Disabilities Act. See *CON Application* at 48. Moreover, “CPH is open twenty-four hours a day every day of the year. Immediate and extended family have twenty-four hour visiting access to their loved ones who are patients at CPH.” *Id.*

Recommendation: The proposed project does meet General Review Standard #6.

**FINANCIAL FEASABILITY**

Per its application, CPH indicates that the proposed project will be funded from the “CPH Plant Replacement and Expansion Fund.” *CON Application* at 5. The total project cost is \$3,843,796. *Id.*

***Construction Costs***

a. Site acquisition (Section VIII.A.2 .f)	\$0
b. Estimated general construction**	\$1,803,434
c. Fixed equipment, not included in a**	\$81,200
d. Total construction costs (sum of items a, b, and c)**	\$1,884,634
e. Major movable equipment**	\$1,629,260
f. Other cost**	
(1) Administration expense	\$136,387
(2) Site survey, soils investigation , and material s testing	\$0
(3) Architects and engineering fees	\$168,265
(4) Other consultation fees (preparation of application included)	\$8,000
(5) Legal fees	\$0
(6) Land development and landscaping	\$0
(7) Building permits and utility assessments (including water, sewer, electrical, phones, etc.)	\$16,000
(8) Additional inspection fees (clerk of the works)	\$1,250
(9) Insurance (required during construction period)	\$0
g. Total project cost (sum of items d, e, t)	\$3,843,796
h. Amount to be financed	\$0
i. Difference between 2.g and 2.h (list, as Schedule 1, available resources to be used, e.g., available cash, investments, grants funds, community contributions, etc.)	\$3,843,796
j. Anticipated long-term interest rate      %	\$0
k. Anticipated interim (construction) interest rate    %	\$0
l. Anticipated long-term interest amount	\$0
m. Anticipated interim interest amount	\$0
n. Total items g, l, and m	\$3,843,796
o. Estimated annual debt service requirement	Cash Transaction
p. Construction cost per sq. ft.	\$360
q. Construction cost per bed	N/A
r. Project cost per sq. ft.	\$735
s. Project cost per bed (if applicable)	N/A

\*Site acquisition should be stated as "book" value, i.e., actual purchase price (or estimate of value if donated) plus costs of development. If desired, the applicant may elect to state as "fair market value" (in which case, so indicate). A form for use in calculating fair market value is included on page 31 of this packet. Include your calculations as part of this section of your application.

\*\* Items must be certified estimates from an architect or other professional. Major medical equipment may be documented by bid quotes from suppliers.

*Projections Following Completion*

	FY15	FY16	FY17
Gross Patient Revenue:			
Inpatient Routine	21,112,968	21,842,422	23,165,694
Inpatient Ancillary	10,754,822	11,126,401	11,794,865
Outpatient	143,230,900	148,179,527	153,890,453
Long-Term Care	12,739,164	13,179,302	13,971,102
Swing Beds	831,345	860,068	911,740
Other	52,597,864	54,415,120	57,684,330
Total Patient Revenue	241,267,063	249,602,840	261,407,185
Less Deductions			
Charity Care	8,926,881	8,850,833	8,939,341
Contractual Allowances	89,751,348	94,365,120	100,215,757
Bad Debts	10,615,751	12,534,161	12,972,857
Total Deductions	109,293,980	115,750,113	122,127,955
Net Operating Revenues	131,973,083	133,852,727	139,279,230
All Other Revenues	4,425,211	5,101,249	5,407,324
EXPENSES:			
Salaries	53,110,048	55,494,000	58,002,952
Benefits	19,013,397	20,187,228	21,099,918
Supplies	21,593,402	24,681,117	24,376,792
Utilities	2,895,205	3,068,917	3,222,363
Property Tax	-	-	-
Rent	-	-	-
Lease	723,801	730,645	729,364
Other Expenses	12,747,603	13,257,508	13,920,383
Depreciation	8,462,678	8,711,071	8,972,403
Interest	1,287,725	1,185,050	1,077,125
Total Expenses	119,833,859	125,523,425	131,401,299
Excess (Shortage) of Revenue			
Over Expenditures	17,064,435	13,430,550	13,285,255

Note:

- FY is the Fiscal Year from July 1-June 30
- FY15 is the Fiscal Year from July 1, 2014-June 30, 2015
- Revenue and Expenses are total organizational revenues and expenses including the proposed project



### **PUBLIC COMMENT SUMMARY**

A public meeting was held in Soldotna September 16, 2013. Approximately eight individuals attended the meeting with one providing a comment that was in support of the Imaging Expansion Project.

The written public comment period was open from July 31, 2013 to September 18, 2013.

No letters were received in support of the CON application. One letter was received in opposition to the CON application.

The letter in opposition was individually prepared and addressed to the CON program. It outlined opposition for several reasons, which include: no need for additional capacity, and a concern over the possibility of continuing to use old equipment once it has been replaced.

## **RECOMMENDATIONS**

### **Overall Recommendation**

The CON Program recommends that the Commissioner approve CPH's application for a CON for the proposed project.

*Rationale:* The project satisfies all six General Review Standards.

### **Recommended Conditions**

None

## **APPENDIX A**

### **I. General Review Standards Applicable to all Certificate of Need Applications**

#### ***Review Standards***

The department will apply the following general review standards, the applicable service-specific review standards set out in this document, the standards set out in AS 18.07.043, and the requirements of 7 AAC 07 in its evaluation of each certificate of need application:

1. 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.
2. 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.<sup>1</sup>
3. The applicant demonstrates evidence of stakeholder participation in planning for the project and in the design and execution of services.
4. 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.
5. 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.
6. 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.

**APPENDIX B**  
**Estimated Impact to Medicaid**



THE STATE  
of ALASKA  
GOVERNOR SEAN PARNELL


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**MEMORANDUM**

**To:** Kevin Perron, CON Coordinator

**From:** Jared Kosin, Executive Director  
Office of Rate Review 

**Date:** November 4, 2013

**Subject:** Certificate of Need Review for Central Peninsula Hospital Imaging  
Expansion/Replacement CT

Central Peninsula Hospital's (CPH) proposed project consists of the purchase of a replacement CT scanner to be located in a proposed build-out addition. The proposed addition will also contain shelved in space for future imaging modality replacements (MRI and Nuclear Medicine). The building will be 5,277 gross square feet of new construction and will be added onto the existing hospital imaging department. The requirement to replace the CT coincides with the need to modernize and expand the CPH Imaging Department as well as addressing fire code deficiencies. There are no services that are being replaced with a different service (i.e. eliminated) or reduced. The estimated total cost of the project is \$3,843,796 with an anticipated completion date of November 1, 2014 and an estimated opening date of December 2014 for proposed services.

Per 7 AAC 150.160(f), the project will not impact the current Medicaid rate as the cost is below the \$5M threshold necessary for a rate adjustment. The increased cost to the facility will impact the Medicaid rate beginning in rate year 2017 when the facility will be rebased using FY2015 as the base year. No increase in services is projected as a result of this project.

Over the life of the project, the total capital cost to Medicaid is estimated to be \$538,131. According to the CON application, the only additional expenses will be in depreciation and a slight increase in operating expense associated with minor equipment. No new staff will be necessary. CT Scanner revenue will increase as the old scanner is experiencing downtime causing patients to be sent to other facilities. The FY2015 estimated impact below is being prorated due to the opening date of December 1, 2014 and the facility having a June 30<sup>th</sup> fiscal year-end.

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Estimated Depreciation Cost for 3 years after completion (using information available in CON)

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Estimated Depreciation Expense	\$289,792	\$496,787	\$496,787
Medicaid Utilization (calculated from FY 2012 Cost Report data)	14%	14%	14%
<b>New Additional Total Cost to Medicaid</b>	<u>\$40,571</u>	<u>\$69,550</u>	<u>\$69,550</u>

**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.*

Should you have any questions please contact Christine Goetz at 334-2476 or me at 334-2447.