REVIEW OF THE CERTIFICATE OF NEED APPLICATION FOR REPLACEMENT OF THE SEWARD/PROVIDENCE WESLEY CARE CENTER LONG-TERM CARE FACILITY

January 8, 2006

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EXECUTIVE SUMMARY

The City of Seward is applying for a Certificate of Need to build a 45,100 sq ft, 40-bed replacement of the existing 43-bed City of Seward/Providence Wesley Care Center long-term care facility. The $28,100,000 cost of the facility is expected to be financed by a $26 million bond, a $1.6 million grant, and $500,000 in cash. If approved, the facility is planned to be operational by the first quarter of 2008. The facility would continue to serve both the Seward area population and a specialized statewide population with cognitive disabilities.

The campus plan and facility design are based on the "Green House Project" which promotes the principal of developing a "home-like" environment. The facility design consists of four residences, each with 10 beds, and a commons building that has general storage, delivery, housekeeping, laundry services, maintenance, administration, chapel, conference/training and therapy services. Part of the project includes relocation of the physical therapy department from the hospital to the new building.

The facility being replaced is aging, has many deficiencies, and has an obsolete, inefficient, institutional design that does not lend itself to creation of a home-like atmosphere. The current five year management contract between Providence and the City of Seward requires that the City of Seward/ Providence Wesley Care Center facility be replaced. The CS/PWCC is a co-located facility with the Providence Seward Medical Center, an acute care hospital.[1] It is essential that the long-term care component continue in order for the hospital to continue to be financially viable. The long term care nursing home beds are also a key element in the continuum of care both locally and statewide.

Alaska Office of Rate Review staff pointed out that capital portion of the estimated per diem rate is 50% higher than the current highest capital cost in a long-term care daily rate in Alaska ($211.67 vs. $141.21). Since 95% of the residents are covered by Medicaid (2005), the capital costs are of concern to the State and will result in an increase of about $2.1 million annually to Medicaid. However, the estimated new per diem rate ranks only fifth highest in the state. This is a statewide program that serves about 6% of the Medicaid nursing home days, which ranks sixth in number of resident days by facility out of a total of 15 facilities offering this service statewide.

The applicant looked at a variety of options for this project including: remodeling the current facility, building a smaller facility that would serve only the Seward area with 14 beds, building adjacent to the current hospital and relocating away from the current hospital site. The option chosen was a remote site, since building on the existing campus was limited. Limitations included

[1] Note: Shelby Larsen of DHSS Section of Health Facilities Certification and Licensing and Jack Nielson of the Office of Rate Review both confirm that this facility is co-located and they expect it to continue to be co-located at the new site .

constraints such as potential flood area, small footprint that would require construction of a more institutional type of facility, high costs of relocating the hospital helipad, difficulty of future expansion, and the fact that the current City of Seward/Providence Wesley Care Center building and land are not owned by the city, would have to be demolished, and would require expensive asbestos abatement. Relocating the new facility away from the existing medical campus will mean that they cannot fully benefit from the physical co-location of the facilities in terms of cost sharing for staffing (one shared night nurse, staff and doctors traveling between facilities, less convenient shared laundry and dietary facilities), the benefit of a cohesive medical campus is lost, and access to the hospital and ancillary services is reduced for long-term care residents. However they will still be able to share costs for administration, dietary, maintenance, social services, rehabilitation, and central supply.

The applicant eventually plans to sell the existing hospital and rebuild adjacent to the relocated long-term care facility, but not until after the hospital bonds are paid off in 2013. The existing hospital was opened in 1998, and according to the Estimated Useful Lives of Depreciable Hospital Assets (AHA 2004) the useful life of the building is at least 25 years if the facility depreciation is componentized. This means the existing hospital should have a useful life that lasts until at least 2023.

Recommendation: It is recommended that a Certificate of Need be issued to the City of Seward which allows them to spend $28.1 million to build a 45,100 sq ft, 40-bed facility, with a construction completion date of December 31, 2009.

CERTIFICATE OF NEED REVIEW STANDARDS MATRIX A

Replacement of the City of Seward/Providence Wesley Care Center January 8, 2007		
GENERAL CON REVIEW STANDARDS	**Standard Met?**	**COMMENTS**
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. In applying this standard, the department will also consider, when appropriate, whether the service is in an area of the state that is unserved or under-served in the type of proposed service.*	**Yes**	The CS/PWCC is the only long term care facility in the Seward service area and serves a special statewide population. The need for replacement of the physical plant and retention of the service is well documented. The applicant proposes to reduce the number of beds from 43 to 40 which is consistent with their recent occupancy rates and would maximize bed utilization.
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.*	**Yes**	Providence Health System's strategic plan for 2006-2008 includes this project. State planning documents encourage development of assisted living. There are 12 assisted living beds in Seward. The review method assisted living to nursing home bed ratio should not be applied to all beds since most residents of the nursing home come from other parts of the state and population of the service area is under 10,000.
General Review Standard #3 – Stakeholder Participation: *The applicant demonstrates effective formal mechanisms for stakeholder participation in planning for the project and in the design and execution of service.*	**Yes**	Local stakeholders participated in the planning and in addition, the fact that a "home-like" facility is planned takes into account much statewide stakeholder participation in the planning and development of facilities from prior planning initiatives.

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.*	**Yes**	Four options were explored: "do nothing" (rejected because of the condition of the physical plant); downsizing to a 14-bed facility to serve Seward only (rejected due to loss of economies of scale and statewide need for special services); building on the existing campus (rejected due to small footprint, land ownership and asbestos problems); and building at a remote site, which was chosen.
General Review Standard #5 – Impact on the Existing System: *The applicant demonstrates the impact on existing health care systems within the project's service area that serve the target population in the service area, and health care systems that serve the target population in other regions of the state.*	**Yes.**	Impact: The existing system would be strengthened by replacing a deteriorating facility with one that is new, up to date, and designed for a homelike setting.
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.*	**Yes.**	CS/PWCC has an open door philosophy consistent with values of Sisters of Providence. The new facility will be accessible to residents, their families, the community, and individuals with special needs from other parts of the state. The facility will comply with all applicable state and federal codes and with the ADA. Relocation of physical therapy is not expected to create an access problem since it is mostly used for nursing home residents and outpatient services. There will be some inconveniences related to the location away from the hospital.

CERTIFICATE OF NEED REVIEW STANDARDS MATRIX B

Replacement of the City of Seward/Providence Wesley Care Center January 8, 2007		
SPECIFIC LTC REVIEW STANDARDS	**Standard Met?**	**COMMENTS**
LTC 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.*	**N/A**	This standard does not apply because the Office of Rate Review and Section of Health Facilities Certification and Licensing consider the facility to be co-located, and not "free-standing".
LTC 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.*	**Yes**	This standard has been met. The data shows there is a need for 40 beds.
LTC 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.*	**N/A**	This standard does not apply because the number of beds is being reduced from 43 to 40. This is not an expansion of licensed capacity.
LTC 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.*	**N/A**	This facility is the only long-term nursing care facility in the Seward census sub-area, which is the primary service area, therefore this standard does not apply.
LTC 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.*	**Yes.**	The existing assisted living beds meet the need for the local population and satisfy the standard. The assisted living bed requirement should not apply to facility residents who come from out of the area, which artificially inflates the need for assisted living beds.

REVIEW OF THE CITY OF SEWARD/PROVIDENCE WESLEY CARE CENTER CERTIFICATE OF NEED APPLICATION FOR A REPLACEMENT LONG-TERM CARE FACILITY

BACKGROUND

The City of Seward submitted a Certificate of Need application to build a 45,100 sq ft, 40-bed replacement of the existing 43-bed Seward/Providence Wesley Care Center (CS/PWCC) facility at a cost of $28,100,000. It is expected that the project will be financed by a $26 million bond, a $1.6 million grant, and $500,000 in cash. If approved, the facility expects to be operational by the first quarter of 2008. The facility proposes to continue to serve both the local Seward area population and a specialized statewide population with cognitive disabilities.

The existing facility is old and was built in several phases. Part of the current CS/PWCC was originally built in 1942 as a tuberculosis sanatorium, and was converted to 24-bed nursing home in 1967. In 1972, a 42 bed addition was built for a total bed capacity of 66 beds. In 1985, Wesley replaced the oldest part of the facility with a 24-bed addition and remodeled part of the building. Over the years, the facility faced financial difficulties related its inability to fill all 66 beds. Other difficulties faced include the aging of the facility and lack of support to build a new facility from the United Methodist Church/Global Health Ministries, which founded the facility. Recent activities to solve these issues include the City of Seward taking over ownership of the facility, Providence/Seward Hospital assuming the management of the facility, co-location with the hospital, and reduction of beds from 66 to 43.

This project is primarily driven by a need to upgrade the physical plant, make it safer, of higher quality, more esthetically pleasing, and more home-like in design. In 2002 an architectural assessment pronounced the CS/PWCC facility and its systems to be "antiquated, ineffective, and held together primarily by a dedicated maintenance staff".[2] An engineering analysis found the structure/site had extensive hazardous materials including asbestos, lead, and mercury. Structural, environmental, and safety concerns have caused the local Fire Marshal to close the top story of the building. The applicant states that the roof is caving in on one corner, and cracks in the walls that open to the outdoors have appeared due to the ground settling under the building. The facility has had several major utility failures including a broken sewer line under the building, electrical panels that are so outdated that parts are no longer available, and both boilers failed during a cold snap in 2003, which left the facility without heat.

The current facility is built on an institutional model and the configuration impedes the ability of staff to provide adequate visual monitoring of resident activity. The new design of the campus and facility is based on the "Green House Project" which promotes the principal of developing a "home-like" environment. The proposed facility will be more "home-like" with four residences, each with

[2] City of Seward/Providence Wesley Care Center. Certificate of Need Application. September 2006. Page 14.

10 beds, and a commons building that has general stores, delivery, housekeeping, laundry services, maintenance, administration, chapel, conference/training and therapy services. Part of the project includes relocation of the physical therapy department from the hospital to the new building.

If this project is approved, the long-range plan for the facility is to sell the existing hospital and rebuild a new facility that is physically connected to the new nursing home sometime after 2013.

REVIEW STANDARDS

General Review Standards Applicable to All CON Applications

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 applicant bases the projected need for a new 40-bed facility on current utilization patterns at the CS/PWCC. The facility serves a significant number of individuals with special needs that are admitted from other locations statewide. Over the last three years, only 14% - 25% of the Wesley residents were from the Seward service area and 75% - 86% were from other communities including Anchorage, the Kenai Peninsula, Fairbanks, Bethel, and the Yukon-Kuskokwim Delta. At times, half of all CS/PWCC residents were from Anchorage.

Most of the CS/PWCC residents who originate from outside the Seward service area have cognitive disabilities including a diagnosed psychiatric or behavioral health problem, diagnosed organic brain disorder, or a variety of types of organic or traumatic brain damage (some due to the effects of substance abuse) including serious mental illness. Many of the individuals require a stimulation-controlled environment to facilitate management of their behavioral issues. Typically 90% of a nursing home's residents are over the age of 65, but because of the cognitive disabilities, CS/PWCC patients are younger, ranging in age from 32 to 98, with a median age of only 65. Although the occupancy rate has declined from 85% to 71% from 2001-2005 using a capacity of 43 beds, the applicant has reduced the number of beds requested to 40, and projects that occupancy rate in three years can be brought up to 87%. A newer, more acceptable facility should help them meet this goal.

Another issue that is well documented in the application is the poor condition of the facility. If there is a need for this number of beds, it is well documented that the facility needs to be replaced in order to provide quality services. It is important to note that the local hospital is dependent upon the nursing home facility to maintain its financial viability. The applicant states:

> *" Wesley is an integral part of the health delivery system that serves the Seward Service Area... None of the components of Seward health delivery system is financially viable without the entire system being intact. Economies of scale made possible through this sharing of services and a common management make possible*

> *the provision of long-term care services, acute hospital services, and primary and home health care services. The health and well being of the residents of the Seward Service Area will be in jeopardy without this Application being approved."*[3]

Without the nursing home it may be difficult for the City of Seward to maintain the hospital and other health care services used by the local population and many tourists. It is equally true that without the hospital it may be difficult to maintain a quality nursing home.

Finding #1: The standard has been met. The applicant has demonstrated that the program serves many individuals from out of the service area and offers services to a specialized population. It is reasonable to believe that these referrals will continue and 40 beds will be used adequately.

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 applicant states that the Certificate of Need Application constitutes the facilities long-range plan and that this replacement project is part of the Providence Alaska Health System three-year Strategic Plan. Although there currently are no regional or statewide nursing home plans, this type of care is a part of the continuum of care that includes all the levels of care lower than acute care that serve seniors and others with similar needs. Department of Health and Social Services, Division of Senior and Disability Services planning documents over the years have stressed that seniors should have the choice of staying in their homes as long as possible and that long-term care nursing home services should be as home-like as possible.

Since 1995, the State of Alaska has initiated efforts to redesign the long-term care system to ensure that seniors and others needing care could be served by community based care such as assisted living beds and adult day care where possible. The Certificate of Need long-term care review method reflects this policy by requiring a one to one ratio of adult day slots and/or assisted living beds per each nursing home bed for communities of 10,000 population or greater. Since the Seward population is lower than 10,000 (5,453 in 2004) this rule would not apply.[4] There are currently three licensed assisted living homes with a total of 12 beds in the Seward.[5] These beds would meet the Certificate of Need review standard of one assisted living bed to one nursing home bed for local residents, since the applicant has projected a need of 9 to 14 nursing

[3] Certificate of Need Application. City of Seward/Providence Wesley Care Center. Page 22.
[4] Alaska Population Overview 2003-2004 Estimates. Alaska Dept. of Labor. October 2006. Page 131.
[5] Jane Urbanovsky, Administrator, DHSS Certification and Licensing. Phone message. January 4, 2007.

home beds for local residents by 2014.[6] The standard of a one to one ratio of assisted living beds to nursing home beds is not applicable for the majority of the CS/PWCC residents who come from communities outside of the Seward service area. These individuals are admitted for special services and would not be expected to use assisted living services in Seward. Any attempt to include them would artificially inflate the need for assisted living beds.

Finding #2: The standard has been met. The applicant has documented the extensive local planning that has taken place and the fact that a more "home-like" environment is planned shows it is meeting statewide planning goals. The requirement for assisted living beds is met for residents living in Seward and is not applicable to residents who come from other communities.

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.***

Project "stakeholders" include: CS/PWCC residents and their families; CS/PWCC employees, City of Seward employees, and community members; Seward healthcare providers; Providence Health System employees; and statewide referring facilities providers. Each of these groups participated in the planning process either through studies referenced in Section IVA of the proposal, or through work that is referenced in Appendix 8. The applicant also provided a timetable of the public process for this project. The design of a "home-like" facility also connects the applicants to prior statewide stakeholder participation in planning.

Finding #3**:** The standard has been met. Many Seward residents participated in the planning and the facility design that is a "home-like" facility takes into account much statewide stakeholder participation in the planning and development of facilities from prior planning initiatives.

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 applicant appeared to look at all options including:
1) "Doing nothing" (which was rejected because of the condition of the physical plant);
2) Building a 14-bed facility to serve local Seward residents only (rejected due to loss of economies of scale and continuing need for this statewide program);
3) Building at the current site or closer to the hospital (which was rejected because
   a) The site adjacent to the hospital only allowed construction of a multi-story building that is not "home-like" or efficient, and is located in a potential flood plain, and
   b) The heli-pad for transporting hospital patients is located in that area and would have to be eliminated, which is not acceptable, and

[6] Ibid. CON application. Sept. 2006. Page 33.

c) Demolition the old nursing home facility and rebuilding next door was not deemed feasible because the property would have to be purchased, the building would have to be demolished, asbestos abatement would be very expensive, and the there would be no place to house residents during demolition and construction.

It appears the proposal to relocate to a new off-campus site is the "most suitable approach" to providing the proposed services.

According to the applicant, the long-term care services, the hospital, and local primary care services are inextricably linked and none is financially viable by itself. Only through the economies of scale generated by consolidating infrastructure and support services are the individual components of the local health care system viable, and hence available and accessible to the community. Although this is true, relocating the new facility away from the existing medical campus will mean that they cannot fully benefit from the physical co-location of the facilities in terms of cost sharing and convenience. For example, they cannot have one shared night nurse, staff and doctors must travel a lot between facilities, shared laundry and dietary facilities will be less convenient, the benefit of a cohesive medical campus is lost, and access to the hospital and ancillary services is reduced for long-term care residents. The two facilities will still be able to share costs for administration, dietary, maintenance, social services, rehab, and central supply.

The applicant eventually plans to sell the existing hospital and rebuild adjacent to the relocated long-term care facility, but not until after the hospital bonds are paid off in 2013. The existing hospital was opened in 1998, and according to the Estimated Useful Lives of Depreciable Hospital Assets (AHA 2004) the useful life of the building is at least 25 years if the facility depreciation is componentized. This means the existing hospital should have a useful life until at least 2023.

Finding #4: This standard was met. The applicant appears to have chosen the most viable option.

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 describes the project's impact within the Seward service area as positive due to the close interdependence of the CS/PWCC facility and the hospital. Each facility needs the other to be viable and to maintain the strength and integrity of the local health care system. Also, the CS/PWCC facility makes an important contribution to the economy of Seward. Replacement of the physical plant will ensure its continued viability. The project will have positive impact the statewide health care system by allowing the facility to continue to admit patients from out of the area to a higher quality facility. The facility serves a number of individuals from out of the area who have cognitive disabilities. Location of the facility away from the hospital campus will create the

inconvenience of transport for nursing home residents to receive hospital care and ancillary services and for hospital patients to receive physical therapy. It will reduce some of the economies of scale and be more expensive because each facility will require a night nurse and other staff that cannot be shared. Also, doctors and staff will have to travel between facilities, and shared laundry and dietary facilities will be less convenient and the benefit of a cohesive medical campus is lost. However the facilities will still share costs for administration, dietary, maintenance, social services, rehab, and central supply.

Finding #5: The existing system will be strengthened by replacing a deteriorating facility with one that is new, up to date, and designed for a home-like setting. There will be certain inconveniences and some loss of economies of scale with the division of the medical campus.

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 applicant states that replacement of the facility will not result in any change in the historical accessibility of its services to the core service area or to the outlying communities that utilize the facility. Architecturally, the new facility would be in code conformance with all state and federal regulations and Joint Commission on Accreditation of Healthcare Organizations (JCAHO) recommendations. It does not appear that the movement of physical therapy out of the hospital to this facility will have a negative impact. Outpatients can easily access the new facility since it is only a few miles from the hospital. Seward is a small town and the travel distance is short. Also, most of the physical therapy patients are likely to be outpatients or residents of the nursing home, since there are few inpatients at the hospital.

Finding #6: The new facility will be accessible to residents, their families, the community, and residents with special needs from other parts of the state. It will comply with all applicable state and federal codes and the Americans with Disabilities Act (ADA). Physical therapy is used mostly for nursing home residents and outpatients, for whom it will be easily accessible. There will be some inconveniences due to the division of the medical campus into two sites.

Review Standards Specific to Skilled Nursing Services

LTC 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.***

Although not physically attached to a hospital, this nursing home facility is considered co-located since the management and ownership of both entities are the same and they are considered co-located by the State of Alaska, Department of Health and Social Services (DHSS), Office of Rate Review and Section of Certification and Licensing.

Finding #1: This standard does not apply because both the DHSS Office of Rate Review and Section of Certification and Licensing consider the facility to be co-located.

LTC 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.

The need for 40 beds was documented in the review and confirmed via analysis by Dr. Alice Rarig, Data Manager for the Health Planning and Systems Development Unit. Her analysis shows there will be a need for at least 40 beds by 2013, based on Seward's estimated share of the state total nursing home beds in 2013 of 4%.

Finding #2: This standard has been met. The data shows there is a need for 40 beds, which is more than the minimum number of 15 beds required of co-located facilities.

LTC 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 City of Seward/Providence Wesley Care Center is co-located with the Providence Seward Medical Center and therefore, an average occupancy rate of 80% would have been required in the previous three years to increase the number of beds. Since this proposal is not an expansion, but a reduction in the number of beds 43 to 40, the required annual occupancy rate does not apply. The occupancy rates for CS/PWCC during the prior three years ranged from 70% to 77%.[7] It is projected that the applicant will have an 87% occupancy rate within three years of implementation of this project, which is an acceptable occupancy rate for this facility.[8]

Finding #3: This standard does not apply because the number of beds is being reduced from 43 to 40. This is not an expansion of services, but replacement of a facility that already exists.

LTC 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.

Finding #4: The status of the City of Seward/Providence Wesley Care Center as the only long-term nursing care provider in the Seward census sub-area will not change, therefore this standard does not apply.

[7] Ibid. Seward/Providence Wesley Care Center. Certificate of Need application. Sept. 2006. Page 41.
[8] Ibid. Sept. 2006. Page 21.

LTC 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.***

The Seward service area population is less than 10,000 (5,453 in 2004),[9] therefore the Department of Health and Social Services may approve beds on a case by case basis without requiring the one to one ratio of assisted living beds to nursing home beds. In this case, approximately 75% of the nursing home residents were from outside of the service area.[10] These nursing home residents are transferred from other facilities, truly need nursing home care, and would not be served in alternative facilities in the Seward service area. Basing assisted living need on the nursing home population that originates primarily from outside of the service area would create an artificial requirement for assisted living beds that could not be filled by individuals from the local community. Therefore this formula does not apply to these individuals and nursing home beds for this population should be approved without the requirement for additional assisted living beds.

According to the Section of Certification and Licensing staff, there are currently three licensed assisted living homes with a total of 12 beds in the primary service area.[11] This number of assisted living beds meets the minimum standard of one to one ratio of adult day slots and/or assisted living beds per each nursing home bed that will serve the local population, since the applicant has projected a need of 9 to 14 nursing home beds for local residents by 2014.[12]

Finding #5 The department staff consider the existing assisted living beds in Seward are sufficient to meet the need for the local population and to satisfy the standard. The requirement for assisted living beds should not be applied to the residents of this facility who come from out of the area, which would artificially inflate the need for assisted living beds.

DETERMINATION OF NEED SUMMARY

The Alaska Certificate of Need Review Standards and Methodologies applicable to nursing home beds support the construction of 40 long term-care/nursing home beds serving the Seward census sub-area of Kenai Peninsula Borough as a primary service area and serving a secondary statewide special population of cognitively disabled individuals. As a proposed replacement facility for 43 existing beds, the 40 proposed beds will diminish the state's bed supply by three beds, which will not have a significant impact on statewide supply (although quality of the

[9] Alaska Population Overview 2003-2004 Estimates. Alaska Dept. of Labor. October 2006. Page 131.
[10] Ibid. CON application. Sept. 2006. Page 17.
[11] Jane Urbanovsky, Administrator, DHSS Section of Certification and Licensing. Phone message. January 4, 2007.
[12] Ibid. CON application. Sept. 2006. Page 33.

available beds is expected to be considerably improved). The 40-bed level is asserted in the standards to be the minimum size for having strong economies of scale. Although the population of the primary service area (Seward) would not support a 40-bed facility, the applicant has aptly demonstrated that they serve and are expected to continue to serve a statewide cadre of individuals with cognitive disabilities.

The need for long-term nursing care capacity in Alaska is projected to increase over the five-year planning horizon from the expected time of completion. The five years from anticipated project completion date (2013) has been used for this review. (See Appendix A for the Long Term Care Review Methodology.) The growth in demand is related to aging of the population, and the assumption of age-specific migration rates staying at levels similar to those of recent years. The frail elderly (85 and over) will begin to increase in number at a considerably higher rate only when the "baby boom" generation reaches age 85 – thus in about 20 years. The cognitively disabled clientele is of all ages, so statewide population growth may also contribute to the continuing need for beds to serve these patients, despite injury and substance abuse prevention efforts.

Year	Alaska Population Projections Ages 65+	Average beds days per 1000 population, past three years	STATE Bed Need (at 90% occupancy)	Beds Allocated if Seward/Providence Wesley Care Center accounts for 5% of state total "need" forecast
2006	45082	14.82	742	37
2007	47243	14.82	778	39
2008	49835	14.82	816	41
2009	52347	14.82	857	43
2010	54931	14.82	900	45
2011	57732	14.82	946	47
2012	62176	14.82	1024	51
2013	66080	14.82	1088	54

As discussed in detail by the applicant, the population current nursing home population served is not expected to change and will not likely include many candidates for assisted living or other community-based alternative kinds of care. It would seem logical that any candidates for these types of services would receive them outside of Seward at their community of origin. According to Section of Certification and Licensing staff, there are currently three licensed assisted living homes in the primary service area with 12 beds.

In summary, the points that support construction of a new facility as a way to meet part of the state's need include:

- The facility is a "replacement" facility that will substantially improve the quality of the service compared with current levels of care;
- The 40-bed level contributes to maintaining the state's total capacity and maintaining the regional capacity for handling traumatic brain injury and other difficult cases;
- The 40-bed facility is expected to serve about 4% of the state's overall Medicaid bed need for five years to the planning horizon (4% of the state's total resident days); and
- Population growth of the population 65 and over is expected to continue to grow about 4% per year over the five year planning horizon after time of construction.

PUBLIC COMMENT

A written public comment period was held from October 29, 2006 to November 26, 2006. A public comment meeting was held in the Seward City Hall Council Chambers on November 16, 2006. Thirty-eight people attended and 16 people provided oral testimony. A total of 32 written comments were received, which were submitted via mail, email and letters submitted with the application. All comments and testimony at the public meeting were in support of the project. One letter of support had 23 signatures from employees of the facility.

FINANCIAL FEASIBILITY AND COST TO MEDICAID

There were three main issues that were manifest in the review of this project related to its long-term financial viability and its cost to Medicaid. They were: the ongoing financial strength of the facility, the cost of the project, and efficiency and co-location issues.

Facility Financial Strength Over the years, the Seward/Providence Wesley Care Center has not been a fiscally strong entity. For example, from FY2001 to FY2003, the facility lost more than a million dollars. Their financial situation improved after special legislation was passed that allowed the facility to receive a special small facility per diem rate. In the last 3 years, the facility has had an excess of revenues over expenses of over $2.4 million. According to the Office of Rate Review, this special rate is scheduled to end next year.[13] The rate will be reduced by approximately $46.41 per day, or a total reduction of $543,786, based on the number of resident days in 2006 (11,717). This reduction could mean that the facility may break even in 2007 rather than a profit, could show a loss in 2008 and 2009, but should show a profit by 2010. Three years of profits do not make a facility financially strong and any major long-term change in reimbursement could have a profoundly negative effect on the financial viability of the facility.

Finding: Although the facility financial status has improved in the last three years and should be able to remain financially viable with the construction of a new facility, any major change in reimbursement or occupancy would have negative consequences.

[13] Neal Kutchins. Phone conversation. December 29, 2006.

The Importance of this Project Out of 15 facilities in Alaska, the City of Seward/Providence Wesley Care Center was the sixth most active nursing home facility in terms of number of Medicaid resident days. Only Providence Extended Care, Mary Conrad Center, Fairbanks Memorial Hospital, Heritage Place (Soldotna), and Wildflower Court (Juneau) had more resident days in 2005 than CS/PWCC. The fact that they accounted for 6% of total Alaska nursing home resident days demonstrates that they are a statewide program. CS/PWCC accepts and cares for people in need of long term care who may be suffering from a variety of organic or traumatic brain damage, or other cognitive disabilities.

In addition to being a statewide program, the applicant states that it is important to keep this program and upgrade it because it is an integral part of the continuum of care in Seward, and if it were to fail, or close, there would be adverse effects on the entire healthcare infrastructure in Seward. Seward City Manager, Philip Shealy stated that,

> *"Long term care, the hospital, and local primary care services are inextricably linked. None is financially viable by itself; only through the economies generated by consolidating infrastructure and support services are the individual components of the local health care system viable, and hence available and accessible to the community."*[14]

The current facility is aging and in a condition that makes it difficult to continue to attract local residents or others who need nursing home care. The physical condition of the plant will likely lead to its eventual closing if not replaced. Financial Consultants of Alaska have projected the eventual shortfall of $800,000 annually if a new facility is not built.

Finding: This is a facility that serves a statewide population, many with special conditions who were not being served in other facilities. The existing facility is aging and needs replacement. Continuation of this facility is critical to the fiscal health of the hospital and is crucial to the local health care system in Seward.

The Cost of the Project Construction costs for this project are very expensive compared to other similar projects. Neal Kutchins of the Office of Rate Review expressed concern about the high cost per bed of this project and suggested that the rate be analyzed closely during the CON approval process. Also, Doug Ault, a DHSS Finance and Management Services, Facilities Section, Facilities Manager, states, "*The proposal you're looking at comes in at $600 per foot (not including the land purchase) and should not necessarily be considered unreasonable, however, due diligence would require quantitative justification on the cost."* [15] Doug estimated construction costs to be $500 per

[14] Certificate of Need Application. City of Seward/Providence Wesley Care Center. Sept. 2006. Page 12

[15] Doug Ault, Facilities Manager. DHSS. Email. December 28, 2006.

square foot and recommended that the bid documents be reviewed and estimated by an un-biased third party firm that specializes in construction estimates.

Neal Kutchins estimated there will be a total capital cost of $211.67 per patient day and that the capital cost to Medicaid would be approximately $2,085,873 per year.[16] This is an increase of $185.71 per day over the current Medicaid capital cost. In comparison, the two highest capital components for long-term care are Wildflower Court's capital component of $103.82 per patient day and Valdez's long-term care capital component of $141.21 per patient day. It should be noted, however, that the current facility per diem capital cost of $25.96 is very low and represents upkeep and maintenance due to aging and poor condition of the existing facility.

The Office of Rate Review estimates that the Medicaid per diem rate for this facility will be $611.60 per day for the first year of operation (2008) and will increase to $638.43 by 2010. As can be seen in the chart below, a per diem rate of $611.60 per day is not the highest in the state. There are four facilities in Alaska that will still have higher rates. All of those facilities are co-located with a hospital (which makes their rates higher) and three of the facilities are small facilities with 15 beds or less.

Top Four Alaska Nursing Home Per Diem Rates In 2006 & 2008 Seward Estimate		
1	QUYAANA CARE CENTER (Nome)	$ 772.50
2	CORDOVA COMM MED CTR LTC	$ 760.09
3	KETCHIKAN GENERAL HOSPITAL LTC	$ 637.96
4	SITKA COMMUNITY HOSPITAL LTC	$ 618.69
5	SEWARD/PROV WESLEY CARE RATE 2008	$ 611.60

Source: Neal Kutchins. DHSS Office of Rate Review. Medicaid Payment Memo Aug. 3, 2006.

The project cost per bed at $702,500 ($623.06 per sq ft). This is much higher than Wildflower Court's cost per bed of $310,439 ($343.59 per sq ft), Valdez's cost per long-term care bed of $304,965, and the new long-term acute care hospital's cost of $311,667 per bed ($326.15 per sq ft). In 1998, Heritage place added 12 additional beds at a cost of $52,500 per bed ($173.51 per sq. ft). Although the construction costs are high they may not be unreasonable. The Valdez and Wildflower Court facilities opened in 2001 and 1998 respectively. According to Mr. Ault, construction costs have increased 26% in just the last three years, so a comparison with Wildflower Court and Valdez facilities does not include inflation for two to five years prior. Other factors that add to the cost are: 1) the facility is located in Seward, which will require extra shipping costs, and 2) the design of the facility includes four buildings, which adds additional cost. The building design was developed in response to state planning initiatives that encourage the development of more home-like, less institutional facilities, so the cost alone should not negate construction of a "home-like" facility. The $971,000 cost of purchasing the five and a half acre site for the facility also adds to the cost.

[16] Memorandum. Neal Kutchins, Office of Rate Review. November 28, 2006.

Finding: Although the cost of construction of this facility is high, the estimated per diem rate in 2008 will still be lower than at least four other facilities in state. The facility design may be more expensive than other designs, but is less institutional, and more home-like.

Relocation of the Facility The long term plans of the City of Seward are to eventually build a new hospital physically connected to the new nursing home facility at the new site.[17] Construction of a new hospital will not occur until after 2013, when the bonds that supported the construction of the existing Providence Seward Medical Center mature and are paid off. At that time, the City of Seward will seek to sell the hospital building and relocate the hospital to the new site. The new site consists of five and a half acres of land so there would be plenty of room for the hospital.

The applicant discusses the benefits of the recent 'co-location' of the CS/PWCC and Providence Seward Medical Center numerous times. Following are some of the statements:

- "when operated together, [the co-location] produces significant efficiencies leading to net revenue on operations."
- The new location "...affords the opportunity to physically adjoin the two facilities, maximizing their designs to achieve even further operational efficiencies…"
- "This 'co-location' (joint-operating) arrangement allows Providence Seward Medical Center to manage costs and billing - …nursing, administration, laundry, and food services - more efficiently for the two facilities than if they were to continue operating separately. As a result, for the first time in years, the 'co-located' hospital/nursing home facility is now realizing net revenue on operations."
- The recent 'co-location' of the CS/PWCC and Providence Seward Medical Center has proven that the two facilities, when operated together, produces significant efficiencies leading to net revenue on operations.
- The total obsolescence of the current CS/PWCC, however, will drag down the rest of Seward's health care system unless CS/PWCC is replaced immediately. Doing so, in turn, affords the opportunity to physically adjoin the two facilities, maximizing their designs to achieve even further operational efficiencies." [18]

Although some of the efficiencies will be lost since the new facility will be located several miles from the existing hospital and other services, the facility will continue to be co-located from the standpoint of the state DHSS Section of Health Facilities Certification and Licensing and Office of Rate Review. The long-range strategic plan is eventually to sell the hospital and build a new facility adjacent to the nursing home. The existing hospital and primary care clinic were opened in 1998 and are now about nine years old. The facility was built with steel frame and decking and a concrete slab floor. This means that according to the Estimated Useful Lives of

[17] Kathy Kloster, Administrator. Comments during the site review. November 16, 2006; and Kristin Erchinger, Finance Manager, City of Seward. Phone Conversation January 5, 2007.
[18] CON application. Page 25, 26, 45, 47.

Depreciable Hospital Assets (AHA 2004) the useful life of the building would be at least 25 years if the facility depreciation is componentized along with the furnishings, utilities and other interior components. This means the hospital should have a useful life until at least 2023. The applicant does not plan to replace the hospital until after bonds paying for the existing facility are paid off sometime in 2013. They would look to sell the hospital and build adjacent to the long-term care facility if possible at that time.

Finding: The Providence Seward Medical Center is a fairly new facility (opened 1998) and would not normally be replaced before 2023. The applicant has documented that the new site is the best location for the facility and that consideration was given to building closer to the hospital but that option was found not to be feasible.

APPENDIX A

7 AAC 07 CERTIFICATE OF NEED REGULATIONS LONG-TERM CARE REVIEW METHODOLOGY

(SOURCE: DECEMBER 9, 2005 ALASKA CERTIFICATE OF NEED REVIEW STANDARDS AND METHODOLOGIES, P. 30-31 available at http://www.hss.state.ak.us/publicnotice/PDF/133.pdf)

VI. Long-Term Nursing Care: Review Standards and Methodology

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.

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[1]
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 x **PP<65**) + (**UR65•74** x **PP65•74**) + (**UR75•84** x **PP75•84**) + (**UR>85** x **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:

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

[1] *Until data set is available to calculate age specific use rates, daily census on July 1 of each year, or an average of the daily census counts on the first day of every month, will be used to estimate age-specific average daily census counts.*

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 B
Detailed Analysis for Need Determination

STEP ONE: Forecast Caseload (average daily census for the 5 year planning horizon) Without age-specific use rates available, we forecast caseload (average daily census) based on use rates calculated by dividing total resident days.

STEP TWO: Determine the projected number of nursing home beds required to meet projected demand using the formula: **Projected Bed Need = Caseload / Target Occupancy (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: **Projected Bed Need x Service Area Share.**

Year	Alaska Popula-tion[19] 65+	Annual Percentage Growth	Bed Days[20]	Bed Days Per 1000	Average Caseload (Step 1)	Estimated Bed "Need" (90% occupancy) (Step 2)	Seward LTC at 5% Service Area Share (Step 3)	40 beds as % of Estimated State Need
2001	37111		224,771	16.59				
2002	38616	104%	232,463	16.49				
2003	40171	104%	219,382	14.96	601	668	33	6%
2004	41656	104%	226,721	14.91	621	690	35	6%
2005	43378	104%	231,000	14.59	633	703	35	6%
Forecasts: Using three year average bed days/1000 rate (2003-2005) although this rate could continue its historic decline								
2006	*45082*	*104%*		*14.82*	*668*	*742*	*37*	*5%*
2007	*47243*	*105%*		*14.82*	*700*	*778*	*39*	*5%*
2008	*49835*	*105%*		*14.82*	*739*	*821*	*41*	*5%*
2009	*52347*	*105%*		*14.82*	*776*	*862*	*43*	*5%*
2010	*54931*	*105%*		*14.82*	*814*	*905*	*45*	*4%*
2011	*57732*	*105%*		*14.82*	*856*	*951*	*48*	*4%*
2012	*62176*	*108%*		*14.82*	*922*	*1024*	*51*	*4%*
2013	*66080*	*106%*		*14.82*	*979*	*1088*	*54*	*4%*

[19] Source: AK Department of Labor, Research and Analysis Unit. Projected Population of Alaska 2005-2029, Middle Series.

[20] Source: Bed day summary of AKDHSS Office of Rate Review reports, based on facility fiscal year reports. 2005 total is estimated based on partial reporting adjusted based on prior years' experience. Update will be provided as an addendum.