

**CERTIFICATE OF NEED REVIEW OF CON MODIFICATIONS FOR
PHASES TWO AND THREE OF THE SOUTH PENINSULA
HOSPITAL UPGRADE PROJECT**

March 28, 2008



**Sarah Palin
Governor**

**Karleen K. Jackson, Ph.D.
Commissioner**

**Jay C. Butler, M.D
Chief Medical Officer**

**State of Alaska/DHSS
Division of Public Health
Health Planning & Systems Development Unit
Certificate of Need Program**

TABLE OF CONTENTS

BACKGROUND AND PROJECT DESCRIPTION2

REVIEW STANDARDS

 General Review Standards Applicable to All CON Applications

 #1 Documented Need6

 #2 Relationship to Plans9

 #3 Stakeholder Participation9

 #4 Alternatives Considered9

 #5 Impact on Existing System10

 #6 Accessibility10

 Specific Review Standards for Emergency Department & Laboratory

 Emergency Department Standards11

 Laboratory Standards12

 Acute Care Beds.....13

 Radiology Expansion.....13

 Surgery Expansion..... 13

APPENDIX A – Office of Rate Review.....15

CERTIFICATE OF NEED APPLICATION FOR EXPANSION AND RENOVATION OF SOUTH PENINSULA HOSPITAL

BACKGROUND

In 1999, a Certificate of Need was approved for South Peninsula Hospital (SPH) to spend \$9,238,756 for a two-phase project including the addition of five beds and an activity area to their long-term care unit and the remodeling and expansion of the following acute care areas:

- Emergency Services;
- Diagnostic Imaging;
- Nursing Station;
- Medical Records;
- Pharmacy;
- Surgery;
- Laundry;
- Laboratory;
- Physical Therapy;
- Central Sterile Processing;
- Materials Management; and
- Health Information Management.

The Certificate of Need completion date was January 31, 2003.

In 2002, SPH informed the Department that project plans were being re-evaluated, that a more comprehensive master plan was being developed for the acute care portion of the hospital, and that SPH would request modification of the 1998-1999 Certificate of Need.¹ In January 2003, SPH requested a modification of the CON based on the new master plan that included an additional \$16,000,000 of improvements². The Department responded that a change in scope and cost of this magnitude would require submission of a new CON application rather than modification of the 1998-99 CON.

A new CON application was not received by this office until July 5, 2007, including a new two-story acute care wing not previously discussed, for a total of \$32,600,000.³

A new Certificate of Need was granted on 11/27/2007 for a total of \$17,330,358 for a number of acute care elements listed in the original 1999 CON but not completed before 2003.⁴

In January 2008, a request was made by SPH and the Kenai Peninsula Borough to the State Attorney General's Office requesting a pre-appeal meeting to address construction/remodeling areas that were denied as a part of the 11/27/2007 CON award by the Commissioner.⁵ This review is a result of the SPH request to modify their 11/27/07 CON under 7 AAC 07.095.

For purposes of this review there are 3 phases described:

¹ Periodic Progress Report. South Peninsula Hospital. May 12, 2002.

² Appendix 1 shows a list of the different services that are being remodeled and/or expanded in the 2007 project, the estimated cost, square footage, and whether the construction/renovation has been completed. .

³ SPH CON application dated July 3, 2007

⁴ Appendix 2 State of Alaska Department of Health and Social Services Certificate of Need dated 11/27/07

⁵ E-mail Stacie Kraly (LAW) requesting a pre-appeal meeting to discuss the SPH application and 11/27/07 CON

Phase I consists of the Long Term Care and Rehabilitation project that is located at the west end of the hospital on the first and second floor. Construction began in 1998 and was completed in 2000 for a total cost of \$6,247,632⁶. As stated earlier, this expansion was approved in a Certificate of Need but the acute care areas listed above were not completed due to planning changes by the hospital. This Phase has been completed and is not part of the Phase II CON granted on 11/27/07, nor the request to modify that CON.

Phase II began in June 2006, 13 months prior to the receipt of the 7/2007 application, without an approved CON. On 9/26/07 the Commissioner sent a Cease and Desist Order to SPH but according to SPH the majority of the work had been completed as of the date of the order.⁷ Phase II included a new Emergency Department, increased warehouse space (both dietary and materials management), and expanded Imaging Department.⁸ This construction was completed in September 2007 for a total cost of \$16,300,000.

Phase III, which has not begun construction, plans for a new wing of the hospital that would have a 9,683 sq. ft. "shelled in" area on the first floor with no plans to use the space for patient care, an 18 single occupancy acute care wing on the second floor, and finally, a helipad on the roof of the new wing. With the acute care beds vacating their current space, surgical suites would be reconfigured to create an endoscopy room with no increase in the number of surgical suites. SPH and Borough staff state that the building designers felt the best way to address the 9,683 sq ft space on the first floor of the Phase III wing was to "shell" it in to avoid the additional cost of weatherizing the bottom of the second floor.⁹ Laboratory and pharmacy would be relocated to the second floor (the patient care floor) from the first floor in space vacated by the emergency department, the imaging department, and the acute nursing beds. Finally, with the reconfiguration of the patient care floor, respiratory therapy would be able to expand (the current space allows for one person at a time) to allow for care through the emergency department as well as the acute care and the long-term care units.

The hospital, currently, does not have a helipad and the currently building does not meet the architectural standards necessary for a roof top helipad and the surrounding grounds are not conducive to helicopter landing or take-off.

The estimated cost for Phase III is \$15,092,930 with a completion date of December 2009.¹⁰

The CON application submitted in July 2007 requested approval to spend a total of \$32,600,000 on construction and renovation including the \$16.3 million that has already been spent on Phase

⁶ Charlie Franz, SPH Administrator, Email. September 13, 2007.

⁷ Letter from Mayor John Williams to Commissioner Jackson dated 10/2/2007

⁸ SPH CON application supplement dated February 12, 2008

⁹ SPH CON application supplement dated February 12, 2008

¹⁰ SPH CON application supplement dated February 12, 2008

II, \$14.7 million for construction and renovation of a Phase 3 that had not yet been started, and approval to spend approximately \$1.9 million for which the facility currently does not have a plan.¹¹ The major components of Phase III, included the new three-floor wing described above but did not outline the staging necessary to build for the new single occupancy bed acute care unit as well as the relocation of the pharmacy, laboratory, and surgical suites.¹²

As noted in the 11/27/07 review, this project has been complicated by the fact that approximately half of the project was completed prior to the award of the aforementioned CON dated 11/27/07. This is an egregious violation of the certificate of need program statute and regulations. However, it is worth noting that upon discovery of these violations, the Kenai Peninsula Borough, which is ultimately responsible for this facility, moved quickly and aggressively to reassert control and authority over this project.

During the pre-appeal meeting with CON staff, the Department of Law, SPH, and Kenai Peninsula Borough staff it became apparent that areas approved in the 11/27/07 CON could not be completed without the approval of the new wing. The staging and completion of Phase II and Phase III of the hospital's master plan are contingent on approval of both phases.

RECOMMENDATION

Based upon the Staff review of the CON supplement submitted by SPH on February 19, 2008 and applying the review standards and methodologies (as applicable) the staff recommends the following modification to the CON awarded 11/27/07.

A modification of the 11/27/07 CON should be approved which authorizes SPH to spend a total of \$31,392,930 for expansion and remodeling of the South Peninsula Hospital. This includes \$16.3 million for Phase II and \$15,092,930 under this modification.

This would include approval for the following:

- a new three-floor South Wing, consisting of:
 1. A 9,683 square feet of shelled-in space on the first floor
 2. The second floor 18-bed acute care unit with private (single occupancy) rooms
 3. A third floor (roof) mechanical penthouse and heli-pad;
- relocation of the pre- and post operative area including an endoscopy room;
- relocation and expansion of respiratory therapy;
- laboratory;
- the emergency department including a cast room called an exam room in the original application;
- imaging;
- admitting;

¹¹ Homer News. www.homernews.com/stories/08092007/news_1_005.shtml.

¹² SPH CON application dated July 3, 2007

- registration;
- waiting area;
- drop-off, and parking;
- central sterile processing;
- pharmacy;
- dietary;
- housekeeping;
- laundry;
- materials management;
- medical records/health information management;
- minor equipment purchases; and
- upgrade utilities including new boilers and an oxygen generator.

Staff had initially recommended the fifth emergency room not be approved. However, upon review of additional information submitted by SPH, and utilizing the recently published population projections for 2013 (a five year horizon from the current review date) (<http://www.labor.state.ak.us/research/pop/projections/AkSubStatePopProj.xls>), it has been demonstrated that the fifth emergency room is justified. The SPH pointed out that its "peak period" is a prolonged summer seasonal increase in population with increased demands on the emergency department. The SPH also indicated its interest in being able to provide surge capacity in case of a major disaster, and to allow for specialized treatment in the Emergency Department (i.e. pediatrics). The fifth treatment room in the emergency department will provide for a degree of flexibility to meet such demands.

The completion date remains the same: December 31, 2009.

In addition to the conditions set forth in the 11/2707 CON, the Commissioner should include in this modification the following:

- the 9,683 sq ft "shelled in" area on the first floor of the new South Wing must have CON review prior to any use.

The original review using department standards and methodology are attached to this review as they show what areas needed to be addressed by SPH in their request for a CON modification (see pages 10-12).¹³

¹³ Kenai Peninsula Borough letter to Stacie Kraly dated February 12, 2008

REVIEW STANDARDS

Please note: The original review is presented below in **Time New Roman 12pt font**. The subsequent review based on the application to modify is presented in **Arial Italic, 12pt font**.

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.*

Need can be documented by lack of sufficient capacity for a service, an increase in utilization due to population growth and aging, changes in the way services are offered, facility aging, to gain efficiencies, to improve quality of care, or to improve access to care. The department has adopted quantifiable utilization standards for laboratory services, the number of acute beds, and the emergency department. All other components of this project must be judged on how well they improve access, quality of care, or otherwise improve service.

This review incorporates and adopts by reference the Staff Review dated 10/12/2007. As such, there has been no change to the recommendation from the Phase II approval dated 11/27/07 for the following components based upon the request to modify.

- Emergency Department (ED)
- Diagnostic Imaging
- Admitting/Registration/Waiting/Drop-Off/Parking
- Surgery/ Pre-Operative and Recovery Services/Central Sterile Processing
- Pharmacy
- Laboratory
- Dietary
- Housekeeping
- Laundry
- Materials Management
- Medical Records/Health Information Management
- Respiratory Therapy
- New Equipment and Upgrade of Utilities

Despite failing to demonstrate need under the 11/12/07 staff review and CON awarded on 11/27/07, information supplied in the application to modify the 11/27/07 CON has demonstrated need for the following:

- 1) **Addition of a South Wing:** The applicant proposes to build a three floor wing to the south east of the hospital that consists of a large two-story atrium, 9,683 square feet of shelled in

space on the first floor, a 9,683 square foot acute care bed unit that would have 21 private (single occupancy) rooms on the second floor, and a third floor penthouse and heli-pad.

- a. **Courtyard/Atrium** - The courtyard/atrium was not mentioned in the CON application but is clearly visible on the architectural drawings as a two-story area between the shelled space and second floor nursing unit on one side and support services and dietary and second floor pharmacy and lab on the other side. No cost information and no documentation of need were provided. Conversations with Jack Cushing, Kenai Peninsula Borough Public Works, provided information that this open area would not be enclosed and was necessary to vent the boilers, air handling system, and the generators if they were started in case of a power outage. He stated that the cost would be minimal since it would just be some minor landscaping. The atrium should not be approved since it is a part of the wing that is not recommended for approval.

According to the 2/2008 application to modify the 11/27/07 CON, the courtyard (which is an open area between the building) allows for access to the building power plant with little disruption to the parking area, material management receiving or patient flow. This component should be approved as the cost is minimal to allow for landscaping.

- b. **Shelled-In Space** - This component consists of 9,683 square feet of shelled space for future expansion. The applicant states this will give an opportunity to “expand bed space if needed” but no other discussion of the use of or need for this space is provided.¹⁴ This space is located underneath the area that the new private rooms for acute care would be located. It is likely that this area would be built-out for either new long-term care beds or acute care beds in the future, since those are the only “bed spaces” that this facility currently provides. Any new beds should go through the CON process and a determination made as to whether they are needed.

In the 2/2008 application to modify the 11/27/07 CON, SPH states the shelled-in space on the first floor was designed to avoid the need to weatherize the bottom of the second (patient care) floor. The cost of leaving this area open versus closing it are approximately equal. SPH agree that any future build-out or use of this area will require review by CON staff.

- c. **New Acute Bed Unit** - One of the acute beds will be used as an inpatient substance abuse “safe” room and the number of general acute beds would be reduced from 24 to 22 by eliminating two ICU beds. The applicant states that elimination of ICU beds is justified because the change to private rooms will address cross contamination or infection concerns. Currently, only two of the 24 existing acute care beds at SPH are private rooms and they are located in the ICU. There is one 3-bed step-down room. The remaining rooms are currently double-occupancy. The applicant states that

¹⁴ SPH CON Application. July 3, 2007. Page 14.

double-occupancy rooms limit patient privacy and space for family visitation, are not conducive to infection control, and require special scheduling based on gender. Although the applicant states there is a current need for only 15 beds, they expect a 20% increase in bed days in the future that would require 18 beds. The new unit would replace the existing acute care beds. There is no plan for use of the vacated space with the exception of a small amount of space that would be used to expand surgery support areas. The shelved space previously discussed and the acute care space that would be vacated by this activity results in approximately 15% or 18,000 square feet of the hospital that would be empty with no plans for its use. As a result this part of the project should not be approved.

The 2/2008 application to modify the 11/27/07 CON addresses this unit as 18 single occupancy (private) rooms which allow for greater flexibility for patients and patient care. These 18 beds do meet the current documented need. Secondly, the supplement demonstrates the relocation of pharmacy and laboratory and the reconfiguration of the surgical department that will occupy the "old" acute care unit. Based on the 2/2008 supplement this part of the project should be approved.

- d. **Third Floor** - The third-floor would consist of a penthouse, heli-pad, and include elevator access. There is currently no heli-pad and SPH patients are transported to and from the airport by ambulance. This component of the project should not be approved; however a small sum should be allowed to re-establish a heli-pad in the parking lot adjacent to the hospital contingent upon the submission of additional cost information that is found satisfactory to the department.

The 2/2008 application to modify the 11/27/07 CON not only describes the fact that there is currently no helipad at the hospital but also describes how the helipad cannot be located on any of the existing building due to the fact that it does not meet construction standards for a helipad. The application to modify the 11/27/07 CON also states that to place the helipad on a ground surface could create problems with the Federal Aviation Administration (FAA) and their requirements for take-off and landing. This penthouse and the helipad should be approved.

2) Procedure Room for Surgery: Although the need for a procedure room is discussed in the CON application, it is not included on the architectural drawings. When asked about it, both the SPH Administrator and the SPH architect (RIM) confirmed that a procedure room will not be built under the current plans for this project. Therefore, the procedure room should not be approved.

The 2/2008 application to modify the 11/27/07 CON architectural drawings contains the procedure room in the reconfiguration of surgical department. This room should be approved.

3) Approval to Spend Available Funds that are Unplanned: The \$1.9 million for which a purpose or plan has not been documented should not be approved.

The 2/2008 application to modify the 11/27/07 CON documents how all funds raised for Phase II and Phase III are accounted for and planned in the construction. There are no unplanned funds.

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.*

This project is considered to have met this standard since it is included in SPH's strategic plan and no state, regional or local plans exist for these services.

No changes with the 2/2008 application to modify the 11/27/07 CON.

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.*

Stakeholder participation in the planning of the project included a joint committee of the elected South Peninsula Hospital Service Area Board and the appointed Board of Directors of South Peninsula Hospital, Inc. augmented with members of the hospital staff and medical staff. The Kenai Peninsula Borough Public Works Department provided project management and oversight as the building owner. Both phases of the project were approved by the voters of the South Peninsula Hospital Service Area. The voters approved the construction of the project and also approved the issuance of General Obligation Bonds to provide the majority of the funding for the project. Although this review standard has been met, it does not appear that the officials at the Kenai Peninsula Borough were informed of the need to have an approved certificate of need before spending more than the current threshold to build this project.

No changes with the 2/2008 application to modify the 11/27/07 CON.

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 did not discuss any other alternatives for the various components of the project nor did they discuss the process they went through in choosing the components. For example, there was no discussion of remodeling the existing acute care beds rather than building a new South Wing. The applicant merely states that doing nothing would lead to inpatient services slowly declining until the only persons served were those who lack resources to choose a better location for care. The applicant also asserts that they examined several design alternatives and settled on the design submitted as the most functional, patient friendly, and cost effective. This review standard has not been met but should be waived insofar as the element of the project for which a discussion of alternatives is most critical, the South Wing, is not recommended for approval.

The 2/2008 application to modify the 11/27/07 CON discussed the alternatives to Phase II and Phase III. Remodeling of existing acute care beds was ruled out to allow for expansion of ancillary services. The addition of an acute care unit with a helipad on top was considered the least costly of all the alternatives. This standard has been 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 did not discuss the impact that this project will have on the system. Instead the letters "N/A" for not applicable were typed in the space provided for an answer. Since the closest hospital is nearly 100 miles away in Soldotna, there should not be any negative impact on other local services. The applicant could have described the positive impact that this might have on local services. This review standard has not been met, but should be waived.

No changes with the 2/2008 application to modify the 11/27/07 CON.

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.

All activities in this application are occurring at the same location the facility has occupied for the last 30 years. Access is enhanced by moving the mobile MRI to a new location adjacent to other imaging services and by the construction of a new entry/drop off/registration area that is covered. This standard has been met.

No changes with the 2/2008 application to modify the 11/27/07 CON.

Specific Review Standards:

In addition to the general review standards, the department has applied the service-specific review standards to the emergency department and laboratory in the evaluation of this CON application. Although there are specific review standards for acute care beds, surgery, and radiology, specific standards for these components do not apply because they relate to the addition of equipment or beds and this project does not add beds or equipment. All of the other components of this project do not have any specific review standards.

Hospital Emergency Department Specific Review Standards

ED Specific Review Standard #1 – Maintenance of a Stable & Efficient ED: The applicant demonstrates that the project promotes, or otherwise helps ensure, the maintenance of a stable and efficient emergency medical system.

This project will increase the efficiency of the SPH emergency services and will help maintain a stable emergency medical system by providing better access to the ED. This standard is met.

No changes with the 2/2008 application to modify the 11/27/07 CON.

ED Specific Review Standard #2 - Need: For the addition or expansion of general emergency services, a proposal will not be approved unless each emergency department treatment room will provide a minimum of 1,500 visits annually. The total number of emergency department treatment rooms (excluding specialized rooms such as cast/x-ray rooms, observation rooms, secure rooms and space for visiting physician clinics) approved will not exceed one room per 1,500 visits annually, based on utilization projections in the fifth year of operation. The department may approve additional space if the applicant documents use patterns, and submits data and analysis that show seasonal high peak use rates warranting additional treatment rooms.

The CON standard requires that ER rooms should each be used for a minimum of 1500 visits per year, and that new rooms reach that level of use within five years. Projected need for emergency room capacity for southern Kenai Peninsula is four rooms. ER visits are expected to increase from an annual average of 5,826 to 6,201 by 2012 as population grows. Based on Kenai Peninsula Borough projections increasing by about 6%, the service area is expected to increase from about 13,853 to 14,745, with 113.7 ER visits per year per 1000 people. This standard has not been met and one additional proposed ER exam room should not be approved.

The 2/2008 application to modify the 11/27/07 CON demonstrated seasonal variations in population which shows a need for capacity that will be provided by a fifth ER room. The application to modify the CON also stated that one ER room would be designed for specialized treatment in the department. A pediatric ER treatment room was noted

as a need within the department. Based on the seasonal variation in population and the need for a specialized treatment room, a fifth ER room should be approved. Note: New population projections show that a five-year planning horizon on 2013 also justifies the fifth ER room.

ED Specific Review Standard #3 – Fast Track Services:

There are no fast track rooms proposed in this application, therefore this standard does not apply.

No changes with the 2/2008 application to modify the 11/27/07 CON.

ED Specific Review Standard #4 – Additional space in the Department: *For a proposal for additional space in the hospital emergency department, the applicant must perform a size-by-functional-need survey and analysis for additional space that demonstrates efficient use of the space.*

Four additional rooms are requested: a cast room, a GYN/Sexual Assault/Airborne Isolation room, and two exam rooms for visiting specialists. The applicant did not perform a size-by-functional-need survey and analysis. However, the cast room and GYN/sexual assault/airborne isolation room are fairly standard for mid-size and larger emergency departments. During a site inspection of an old building housing visiting physicians' exam rooms in 1999, staff was told that it was going to be torn down. The building was fully depreciated and staff confirms it needed to be demolished.¹⁵ Although the standard was not met these activities are reasonable and should be approved.

No changes with the 2/2008 application to modify the 11/27/07 CON.

Specific Review Standards for Laboratory Expansion:

Laboratory Specific Review Methodology

The laboratory review methodology is as follows: Laboratory size may not exceed 50 net square feet per patient bed based on the projected number of beds that would be served by the laboratory or are requested in the application and recommended for approval in the review document. The hospital and nursing home will have 25 long-term care beds. If the South Wing recommendation for this project is accepted, the facility will also have 25 acute care beds (3 delivery and postpartum beds, and 22 medical/Surgical beds) for a total of 50 licensed beds. Based on the review methodology of 50 net square feet per bed, the laboratory could be approved for a maximum of 2,500 net square feet. The current laboratory has 1,992 gross square feet. The remodeled and relocated laboratory will have a total of 2,520 gross square feet. Since the laboratory net square footage is below the review criteria requirement of 50 net square feet per bed, this activity should be approved because the standard is met.

¹⁵ David Pierce, CON Coordinator.

No changes with the 2/2008 application to modify the 11/27/07 CON.

Laboratory Specific Review Standards (Lab SRS):

Lab Specific Review Standard #1 - The population served by a laboratory to be moved will continue to have reasonable access to the service at the new site, or will have reasonable access to comparable laboratory services in the community.

Since the laboratory is not moving to another site, this review standard does not apply.

No changes with the 2/2008 application to modify the 11/27/07 CON.

Lab Specific Review Standard #2 - For an offsite laboratory replacement project, implementation will result in a substantial cost savings, cost avoidance, consolidation of underutilized facilities, or in other ways improves operational efficiency.

This standard does not apply because the location is not offsite.

No changes with the 2/2008 application to modify the 11/27/07 CON.

Lab Specific Review Standard #3 - Redundant equipment is justified based on demand analysis or limited access to other laboratory equipment and services within the community.

This standard does not apply because no redundant equipment is requested.

No changes with the 2/2008 application to modify the 11/27/07 CON.

Lab Specific Review Standard #4 - Accreditation reports and a visual inspection of the laboratory show a defined need to add space, redesign the laboratory to make it more efficient and safe, ensure higher quality services, and correct functional problems that affect quality and efficiency.

A visual inspection of the laboratory confirmed there is a definite need for additional space and a redesign of the laboratory to make it more efficient, safe, and of higher quality. There is a considerable amount of crowding and poor functionality in the existing space. This standard has been met.

No changes with the 2/2008 application to modify the 11/27/07 CON.

Specific Review Standards for Acute Care Beds:

These Standards do not apply because the number of beds is not being increased.

No changes with the 2/2008 application to modify the 11/27/07 CON.

Specific Review Standards for Radiology Expansion:

These Standards do not apply because no new major equipment is being purchased.

No changes with the 2/2008 application to modify the 11/27/07 CON.

Specific Review Standards for Surgery Expansion:

Specific review standards for surgery do not apply because no new surgery suites are proposed.

No changes with the 2/2008 application to modify the 11/27/07 CON.

Appendix A – Office of Rate Review

STATE OF ALASKA

SARAH PALIN, GOVERNOR

3601 C Street, Suite 978
Anchorage, AK 99503
Phone: (907) 334-2464
FAX: (907) 334-2220

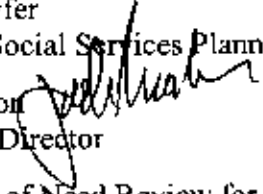
DEPT. OF HEALTH AND SOCIAL SERVICES

OFFICE OF RATE REVIEW

MEMORANDUM

Date: March 27, 2008

To: Karen Lawler
Health & Social Services Planner-CON

From: Jack Nielson 
Executive Director

Subject: Certificate of Need Review for South Peninsula Hospital Renovation and Expansion-Supplemental Information

South Peninsula Hospital has submitted a Supplement to its Certificate of Need (CON) application of October 12, 2007, which adds a total of 55,641 square feet of space and remodel 13,716 square feet of the facility. The additional area includes 9,683 square feet that will be shelled in space for future use. The project consists of the final two phases of an overall three phase project started in 1998. Phase I was begun in 1998 and completed in 2000 and is not part of this current CON application. Phase II was started in June, 2006 and was completed in the Fall of 2007. Cost for Phase II is estimated to be \$15,100,000 plus approximately \$5,000,000 in interest. Phase III is estimated to cost \$15,600,000 plus approximately \$6,500,000 in interest. Funding for the project is coming from \$25,200,000 in General Obligation Bonds sold by the Kenai Peninsula Borough, \$4,000,000 from retained property tax earnings, \$1,573,000 from the hospital, and \$927,000 in the form of a grant from the Denali Commission.

A Certificate of Need was granted by the Commissioner for Phase II on November 27, 2007. Phase III was not granted a Certificate of Need at that time. The supplemental application is being submitted by the facility in order to receive approval and a Certificate of Need for Phase III of the project. Estimated costs presented in the supplement for Phases II & III are approximately the same as those submitted with the facility's October 12th CON application.

Phase II entailed a new imaging department featuring a Women's Center, a new emergency room, a new main entrance and registration area, a specialty clinic and an expanded supply and warehouse area. Phase III would entail a new patient wing with 18 single occupancy rooms, a new nursing station, a rooftop helicopter landing pad, an expanded surgery and outpatient area, a new safe room, an upgraded and relocated laboratory and pharmacy, expanded parking, and would include the shelled in space. Total beds for acute care services would be reduced from 21 to 18. No additional long-term care beds are proposed.

South Peninsula Hospital CON Analysis

Page 2

Estimated cost to the Medicaid program from FY2009 until FY2014 is as follows:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Phase II	\$292,522	\$287,808	\$281,282	\$275,372	\$264,111	\$255,618
Phase III	-	178,901	351,620	345,180	338,470	331,480
Total	\$531,057	\$466,709	\$632,902	\$620,552	\$602,581	\$587,098

The total cost over the useful life of the project for Phase II and III to the Medicaid program is estimated to be approximately \$11,350,000. Phase II was completed in October of 2007. Overall costs for Phase III have not been reduced for the shelled in space for purposes of this estimate only as costs associated with this area cannot be determined at this time. Medicare cost finding principals and Medicaid rate setting generally don't consider the cost of unused space as allowable costs for cost reporting purposes. Phase III costs could be somewhat lower if the new construction is not used for patient care.

If you have any questions please contact Neal Kutchins at 334-2467 or me at 334-2447.