

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

**October 12, 2007**



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## **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.

Phase 1, the long-term care unit and physical therapy, was completed and a total of \$6,247,632 was spent on the project.<sup>1</sup> Phase 2, acute care, was not started by the approved project completion date of January 31, 2003.<sup>2</sup>

In 2002, SPH informed the Department that project plans were being re-evaluated, that a more comprehensive master plan needed to be developed, and that SPH would request modification of the 1998-1999 Certificate of Need.<sup>3</sup> In January 2003, SPH requested a modification of the CON based on the new master plan that included an additional \$16,000,000 of improvements. 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.

The 1998-99 Certificate of Need expired with the passing of the approved project completion date of January 31, 2003. A new CON application was not received until July 5, 2007 and included a new two-story acute care wing not previously discussed.

In June 2006, 13 months prior to the receipt of the new application, SPH began construction of Phase 2 of the master plan without an approved CON. From June 2006 until the receipt of the CON application in July 2007, SPH spent an estimated \$16,000,000 on construction related to Phase 2.

The CON application submitted in July 2007 requests approval to spend a total of \$32,600,000 on construction and renovation including the \$16 million that has already been spent on Phase 2, \$14.7 million for construction and renovation of Phase 3 that has not yet been started, and approval to spend approximately \$1.9 million for which the facility currently does not have a

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<sup>1</sup> Charlie Franz, SPH Administrator, Email. September 13, 2007.

<sup>2</sup> 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. .

<sup>3</sup> Periodic Progress Report. South Peninsula Hospital. May 12, 2002.

plan.<sup>4</sup> The major components of Phase 3 include the three-floor South Wing, consisting of 9,683 square feet of shelled-in space on the first floor; a 21-bed acute care unit with private (single occupancy) rooms on the second floor; and a third floor penthouse and heli-pad.

SPH currently is approximately 83,000 square feet with plans to add 49,066 square feet of new space, an increase of 59%. The resulting facility would total 132,066 square feet. The proposed expansion includes a 9,683 square foot shelled-in area for future expansion and remodeling 13,716 square feet of existing space.

Construction of Phase 2 began in June 2006 and is complete, but furnishings are not in place and the new space has not been occupied. If approved, Phase 3 of the project is expected to be completed by December 2008.

Review of this application was complicated by the fact that approximately half of the project was completed prior to its submission. 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.

### **RECOMMENDATION**

Based upon the Staff review of the CON submitted by SPH, the application of the review standards and methodologies (as applicable) the staff recommends the following for approval

- the laboratory;
- the emergency department including a cast room called an exam room in the application; but with the exception of one exam room noted below;
- imaging;
- admitting;
- registration;
- waiting area;
- drop-off, and parking;
- central sterile processing;
- pharmacy;
- dietary;
- housekeeping;
- laundry;
- materials management;
- medical records/health information management;
- relocation of the mobile MRI equipment, respiratory therapy, surgery pre-and post-operative space, and the heli-pad conditioned upon the submission of

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<sup>4</sup> Homer News. [www.homernews.com/stories/08092007/news\\_1\\_005.shtml](http://www.homernews.com/stories/08092007/news_1_005.shtml).

additional cost information that is found satisfactory to the department and provided that the respiratory space, surgery space, and heli-pad are located in currently existing space;

- minor equipment purchases; and
- upgrade utilities including new boilers and an oxygen generator.

The Staff recommends the following NOT be approved

- one exam room in the emergency department;
- the three-floor South Wing, consisting of:
  - 9,683 square feet of shelled-in space on the first floor;
  - the second floor 21-bed acute care unit with private (single occupancy) rooms; and
  - a third floor penthouse and heli-pad;
- the endoscopy suite discussed in the CON application, but not included on the architect's drawings; and
- \$1.9 million not identified for expenditure on any specific purpose, project, or plan.

The total cost of all elements recommended for approval is \$17,320,358, although an additional amount, subject to approval by the department, should be requested by the applicant for: moving the mobile MRI scanner, respiratory therapy, laundry equipment, surgery pre-and post-operative space, and a heli-pad. The completion date for the project should be December 31, 2009.

Additionally, the Commissioner should incorporate one or more conditions on the certificate need in light of the overt violation of the certificate of need statutes and regulations in this instance. Those conditions could include the following:

- Disallowing all or some portion of the capital costs expended without an approved certificate of need in the Medicaid rate for a period of time (limited or unlimited); or
- Precluding the inclusion of those portions of the facility constructed without an approved certificate of need as part of any calculation of need or capacity for current or future CON applications.

These are only suggestions and are illustrative of the options available to the Commissioner.

## **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.*

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.

The applicant has shown there is a need for the following components of the project:

**Emergency Department (ED)** – The ED was completed prior to the submission of the certificate of need application, but has not been occupied. Previously, the ED had four treatment spaces – two in a multi-bay open treatment room and two individual exam rooms. The number of treatment spaces in the new ED has been increased to nine, including a two-bed trauma room, three individual exam rooms, a cast/orthopedics room, a GYN/sexual assault/ airborne isolation room, and two exam rooms for visiting specialists. The applicant contends that a new and distinct ED was needed because it:

- eliminates a significant problem with the old ED which was bisected by a public corridor;
- provides more treatment space for a growing population;
- adds a needed public waiting area;
- provides exam rooms for visiting specialists (the old building they were previously housed in has been demolished) and allows specialists to use clinic exam rooms during ED off-hours;
- increases supports staff efficiency;
- increases patient privacy and safety in the new GYN/sexual assault/ airborne isolation room; and
- allows for potential use in case of disaster or unexpected increases in ED workload.

The applicant has documented the need for a majority of this component including the GYN/sexual assault/ airborne isolation room, cast room, and exam rooms for visiting specialists; but the methodology used to support expansion from four trauma bays/exam rooms to five only shows a need for the four existing trauma bays/exam rooms.

**Diagnostic Imaging** - Relocation of MRI services is justified since the mobile MRI is currently located at the opposite end of the building and on a different floor from the rest of the imaging department. The new location would be more convenient and provide better access for patients. The need for additional imaging space is documented by the lack of records storage and the fact

that the CT room and one radiographic room are significantly under-sized. Records were stored in a covered truck on campus. Doubling radiology square footage will alleviate these problems. No new major imaging equipment will be purchased or leased. Imaging services were previously split by the main public/staff circulation corridor on the second floor which created patient privacy issues. The expansion and remodeling of the imaging department should be approved contingent upon the submission of additional cost information that is found satisfactory to the department relating to relocation of the MRI.

**Admitting/Registration/Waiting/Drop-Off/Parking:** The new admitting and registration area has been built along with a new waiting area, drop-off zone, and parking. Admitting and registration were redesigned to assure patient confidentiality and to comply with federal HIPAA regulations. Admitting and registration were formerly located on the first floor at the main (west) entrance to the hospital. That entry is still being used until they move into the new space, but it is not easily accessible to outpatient services. Outpatient services are a significant and growing component of care and are now located on the east end of the hospital. Creation of a new main entrance closer to the laboratory, ED, and radiology services will allow patients and visitors to access the building in close proximity to all outpatient services, will assist with way-finding, and make admitting and registration a focal point upon entering the building. This part of the CON should be approved since it improves access and helps meet confidentiality requirements.

**Surgery/ Pre-Operative and Recovery Services/Central Sterile Processing:** The existing surgery department includes two operating rooms, pre-operation, recovery, central sterile supply, and staff support areas. The CON application states that a new endoscopy suite will be built for outpatient procedures that do not require a regular operating room. After further research, it was learned that the endoscopy suite is not going to be built. Therefore, the endoscopy suite should not be approved.

This component addresses deficiencies in the surgery department including limited outpatient preparation and recovery areas, and central sterile processing. The surgery department was designed and built in the mid-70s when most surgery was done on an inpatient basis. Now almost 70% of the surgical procedures are done as outpatient procedures and the waiting area, pre-operation, consultation, sterile processing, and equipment storage space all need expansion and renovation.

**Pre-Op/Recovery:** Patients are currently held in an open-bay combined surgery pre-operation preparation and recovery space. Equipment and supply storage space is too small. A tour of the facility showed equipment stored in the hallway outside the operating room suites. A new corridor was built on the north side of the hospital that allows for transport of inpatients to surgery. The applicant has documented the need for this service and the need was verified during the site visit of the facility. The location of the new space for pre-op and storage depends upon the relocation of acute care rooms and the nursing station. The pre-op and storage component is recommended for approval, conditioned on a requirement that any expansion must be made within the existing space.

**Central Sterile Processing:** Central sterile processing includes equipment cleaning, instrument sterilization, and sterile disposable supply functions. This component is located on the second floor adjacent and connected to the surgery department. Deficiencies include cramped workspace for staff that limits space for proper preparation of sterile packs and limited area for storage of sterile supplies and cleaned surgical equipment. Projections of space needs for this service are based on the assumption that reprocessed sterile surgical instruments and disposable sterile supplies will continue to be staged in this area. Central sterile processing will be expanded into the space vacated when the emergency department moves to its new location. A new corridor was built on the north side of the hospital that allows for transport of inpatients to imaging services and will also provide for better handling of contaminated instruments and equipment. This component should be approved without conditions since it is expected to expand into the vacated emergency department area.

**Pharmacy:** Pharmacy space, like the ED and imaging, is bisected by the main corridor. The IV admixture is located in remote space away from the main pharmacy area. Pharmacy does not have separate office space and the dispensing area is inadequate for filling unit dose carts. There is also no bulk storage. The pharmacy has not been built yet but is planned to move into renovated space vacated by the emergency and imaging departments. Visual evidence gathered during the site visit confirmed a lack of space for storage and operations. This project component should be approved.

**Laboratory:** The current laboratory has 1,655 gross square feet of space that consists of several narrow inter-connected rooms rather than one open room that is the best-practices standard. The lack of waiting area space compromises patient privacy, since patients and visitors sit in the main public corridor. The “walk-through” blood drawing room is very small and subject to interruption of blood draws because it connects to other parts of the lab. The blood bank needs a separate space as does drug testing.

The applicant proposes to relocate the laboratory from the first to the second floor to occupy remodeled space vacated by the emergency and imaging departments. The new laboratory will include a dedicated drug testing lavatory, a private waiting space, and more adequate work space. The CON methodology shows a need for 2,500 net square feet of space. The applicant has requested 2,520 gross square feet of space. Deducting space for storage and equipment would bring the planned area within the standard since the laboratory requires a lot of storage space which is deducted out when figuring net space. This component of the CON application should be approved.

**Dietary:** The hospital provides meals for acute inpatients, some long-term care (LTC) residents, staff, and visitors with some catering for special events and meetings. This project provides additional storage space for both dry and refrigerated/frozen goods to maintain adequate supplies. This area has been built and was in operation during the site visit. The applicant



contends that expansion of storage will enhance operations. Expansion of dietary storage appears reasonable and should be approved.

**Housekeeping:** Housekeeping is responsible for maintaining and cleaning the main facility and out-buildings. Housekeeping currently lacks storage for bulk supplies or carts but has a staff support area, lounge, and one shared office. Additional space is needed to clean equipment, trash cans, and carts. The applicant plans to provide space for housekeeping by remodeling space previously occupied by materials management that will be vacated when they move to their new space. The need for this component is documented and should be approved.

**Laundry:** The laundry processes 300,000 pounds of linen annually and needs additional washer and dryer capacity and additional space for sorting, folding, and storage of clean laundry as well as space for holding and sorting soiled laundry. The area is not well ventilated and lacks cooling which results in an uncomfortable work environment. The department will expand into vacated materials management space. Although the space has been built, laundry had not moved as of the site review on August 16, 2007. A list of expenditures provided by the Kenai Peninsula Borough does not show the purchase of any new laundry equipment.<sup>5</sup> This component should be approved since the need is documented.

**Materials Management:** Materials management includes purchasing, receiving, storage, distribution and print shop functions. The main loading dock for materials management is located next to public parking and the entry area, and presents an undesirable image due to the additional noise associated with delivery trucks and other service vehicles. The ability to control the temperature in the receiving area is limited, resulting in very cold conditions in winter. Shelving heights are too high and aisle widths are too narrow. The new materials management space will provide a new loading dock with the ability to minimize cold air flow into the building and additional space for inpatient and outpatient activity and expanded floor space to allow storage of supplies on lower height shelving. This component should be approved as requested.

**Medical Records/Health Information Management:** The department is split into three rooms and is extremely crowded. Seven years of records are stored in the records room which is tightly packed. There is no chart management workstation and no space for physicians to provide dictation for incomplete records. There is no privacy for those seeking medical records or a release of confidential information. These problems will be addressed by relocating the department into space on the first floor currently occupied by the laboratory. This component should be approved.

**Respiratory Therapy:** This component of the CON application has not been built yet and space was allocated in the new South Wing. Plans for this component include an administrative work area, space for outpatient testing, and limited supply storage. The existing respiratory therapy

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<sup>5</sup> Jack Cushing. Kenai Peninsula Borough Public Works Dept., Email. Sept 25, 2007.

area can only house one person at a time and is totally inadequate for the service's needs. Pulmonary function testing is limited by the current space shortage. This component should be approved, but only on the condition that it expands into existing space.

**New Equipment and Upgrade of Utilities:** No major equipment is being purchased or replaced. Minor pieces of equipment such as furnishings and artwork, a nurse call system, power columns, exam lights, a warming cabinet, computer system, and miscellaneous patient equipment such as blood pressure cuffs and otoscopes will be purchased and are justified.

A number of upgrades to utilities including new fuel-efficient boilers, a back-up power generator, and a new oxygen generator are requested and have already been installed in new space. Both the old oxygen manifold system (oxygen generator) and the old boiler were purchased in 1983 and were in need of replacement. Utilities upgrades not yet completed include a new main power transformer and feeder lines, an energy efficient air handler and air conditioner, and medical gas delivery system. All the new equipment and utility upgrade components should be approved insofar as all are necessary to support the expanded facility.

**Need Not Sufficiently Documented:** The applicant did not sufficiently document the need for the following four components of the project which should not be approved:

- 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.
  - 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.<sup>6</sup> This space is located underneath the area that the new private rooms for

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<sup>6</sup> SPH CON Application. July 3, 2007. Page 14.

- 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.
- 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 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 shelled 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.
- 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 need for a new acute care inpatient unit and shelled in space and the future use of the old acute care inpatient unit is not sufficiently documented and therefore the entire proposed South Wing cannot be justified and should not 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.

**3) One New Emergency Department Exam Room:** As discussed previously, the department’s methodology does not show a need for the additional exam room requested and therefore one exam room should not be approved.

**4) 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.

***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.

***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.

***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.

**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.

**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.

**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.

**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.

***ED Specific Review Standard #3 – Fast Track Services:***

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

***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.<sup>7</sup> Although the standard was not met these activities are reasonable and should be approved.

**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

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<sup>7</sup> David Pierce, CON Coordinator.

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.

***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.

***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.

***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.

***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.

***Specific Review Standards for Acute Care Beds:***

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

***Specific Review Standards for Radiology Expansion:***

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

***Specific Review Standards for Surgery Expansion:***

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

**PUBLIC COMMENT**

The written public comment period for this project was held from August 1, 2007, to September 3, 2007, and a public meeting was held in Homer on August 16, 2007. Twenty-one individuals

signed letters of support for the project and 31 individuals attended the public meeting. A majority of those providing public comment were associated with the hospital in some way and all comments were in support of the project. Written comments focused on the need for the new private patient rooms and public meeting comments seemed to focus more on the need for the emergency department upgrades.

### **FINANCIAL FEASIBILITY AND COST TO MEDICAID**

**Facility Financial Strength** - SPH is not a strong financial institution. The facility income statement indicates that the facility lost money five out of the last six years (FY01 to FY06). The total loss from operations during that time was \$4,785,202, or an average loss of nearly \$800,000 annually. In spite of these losses, the facility has had positive cash flows in 5 of the last 6 years, primarily due to funds received from the Kenai Peninsula Borough.

The applicant states they currently have \$32,600,000 in funding available for this project. Funding sources are listed as follows:

• Kenai Peninsula Borough general obligation bonds	\$25,200,000
• Service Area property tax contribution	\$ 4,000,000
• South Peninsula Hospital, Inc. operational revenues	\$ 1,879,000
• Denali Commission grant for the Oxygen Generator	\$ 150,000
• Denali Commission grant for the Emergency Department	\$ 921,000
• <u>Unknown Source</u>	\$ 450,000
Total:	\$32,600,000

The applicant makes two statements on page 16 of the application that need to be addressed in this section. The statements and a discussion of their accuracy are as follows:

*1) "The project will continue to operate as it has in past years with a loss from operations, but a positive EBDITA or cash flow that will provide adequate operating revenues."*<sup>8</sup>

The average net cash provided by operations was \$528,853. Medicaid staff states, "According to the CON application, the borough will increase property tax revenue about \$1.5M starting in 2008 (an 80% increase). Together, these should cover the approximately \$2M annual debt service requirements. The cash flows can vary from year to year depending on the hospital's patient utilization."<sup>9</sup>

*2) "Since there are no new services being provided at this time, there should be no impact on the overall cost of health services to the target population."*<sup>10</sup>

Although services are not increasing, the debt load is increasing and therefore, it is likely that prices will have to be increased to cover the expanded debt service requirements. The Medicaid

<sup>8</sup> SPH CON Application. July 3, 2007. Page 16.

<sup>9</sup> Jack Nielson, Office of Rate Review Executive Director, email. September 24, 2007.

<sup>10</sup> Ibid.



per diem rate will undoubtedly rise beginning in 2009, when Medicaid will be increasing reimbursement by approximately \$500,000 (this includes depreciation and interest) per year depending on utilization by Medicaid recipients.<sup>11</sup>

Sometimes efficiencies do result from the construction of a new physical plant; for example maintenance costs are less, or staffing levels can be better controlled because of a more efficient layout in the new physical plant, but the most important factor is that the borough is increasing its property tax contribution to the hospital to help defray the cost of the project.

**Impact on Medicaid**

The Office of Rate Review estimates that the increased cost to Medicaid for this project will grow from \$140,913 in 2007 to \$238,000 in 2012, when all expenses related to this project to be included in the facility's Medicaid rate calculation. The total cost to Medicaid for this project over its useful life, including the shelled in space, is estimated to be \$11,350,000.<sup>12</sup>

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<sup>11</sup> Jack Nielson, Office of Rate Review Executive Director, email. September 24, 2007.

<sup>12</sup> Memorandum. Jack Nielson, Executive Director, Office of Rate Review. August 17, 2007.

**APPENDIX A – PROJECT COST, SIZE, PHASE, AND COMPONENT COMPLETION AND RECOMMENDATION MATRIX**

<b>2006-07 Project Components:</b>				
<b>Phase 2 – Remodel &amp; Expansion</b>	<b>Location</b>	<b>Sq. Ft.</b>	<b>Cost Est.</b>	<b>Phase 2 Status</b>
Emergency Dept.	New E Wing 2 <sup>nd</sup> Fl	6,164	\$3,023,091	Not Occupied
Imaging Expansion & Remodel	New E Wing 2 <sup>nd</sup> Fl	6,164	\$2,576,934	Completed
Reception (Lobby/Adm/Regst/Wait)	New E Wing 2 <sup>nd</sup> Fl	3,122	\$1,555,674	Not Occupied
Materials Management	New E Wing 1st Fl	6,267	\$2,832,043	Not Occupied
Boilers/Oxygen Generator	New E Wing 1st Fl	3,378	\$2,366,395	Completed
Parking/Drop off	New E Wing Area		\$3,000,000	Completed
Housekeeping	New E Wing 1st Fl	480	\$95,790	Not Occupied
Dietary	New E Wing 1st Fl	1,524	\$700,401	Completed
Records	New E Wing 1st Fl	270	\$53,882	Completed
Laundry	New E Wing 1st Fl	480	\$95,790	Unfinished
Total Phase 2 Components		27,369	\$16,300,000	
<b>Phase 3 – Remodel &amp; Expansion</b>	<b>Location</b>	<b>Sq. Ft.</b>	<b>Cost Est.</b>	<b>Phase 3 status</b>
Acute Care Inpatient Wing	New SE Wing 2 <sup>nd</sup>	13,656	\$6,932,064	Not Started
Respiratory Therapy	New SE Wing 2 <sup>nd</sup>	168	\$85,280	Not Started
Pharmacy Remodel/Expand	Adjacent to Existing	2,520	\$454,517	Not Started
Lab Remodel/Expand	Adjacent to Existing	1,992	\$359,285	Not Started
Surgery Staff Support	Adjacent to Existing	1,512	\$100,664	Not Started
Pre-Post Op	Adjacent to Existing	1,320	\$87,882	Not Started
New Surgery Procedure Room	Not in Current Plans	0	\$0	Not in this CON
Café	Not in Application	0	\$0	Not in this CON
MRI Move	No Current Funding	0	\$0	Not in this CON
Courtyard	Not in Application	0	\$0	Minimal Expense
Shelled Space	New SE Wing	9,682	\$4,914,781	Not Started
Utility	New SE Wing	1,614	\$819,299	Not Started
Penthouse (3 <sup>rd</sup> Floor)	New East Wing	756	\$200,212	Not Started
Heli-Pad (3 <sup>rd</sup> Floor)	New East Wing	540	\$280,297	Not Started
Total Phase 3 Components		30,850	\$14,234,281	
Grand Total Phases 2 & 3			\$30,534,281	

<b>Recommendation for Approval:</b>				
Phase 2 Rec. for Approval			\$16,232,730	
Phase 3 Rec. for Approval			\$1,087,628	
Total Rec. for Approval			\$17,320,358	
<b>Recommended for Denial:</b>				
3 Floors SE Wing (acute)			\$13,146,653	
1 Emergency Dept Exam Room			\$67,270	
1 Surgery Procedure Room			\$0	
Funding With No Plans			\$1,900,000	
Total Phase 2 & 3 Denied			\$15,113,923	

**APPENDIX B - OFFICE OF RATE REVIEW  
COST TO MEDICAID ESTIMATE**