

## TESTIMONY ON BEHALF OF HB1567

Faye Lincoln, Vice-President  
Policy & Government Relations  
Avalon Health Care, Inc.

Hearing Date: February 5, 2009

Hearing Time: 10:30 am

Measure #: HB 1567 Enterprise Zone Benefits

**LATE**  
**Testimony**

Honorable Committee Members:

I am writing on behalf of Avalon Health Care, Inc., a large provider of skilled nursing home services in Hawaii. Avalon operates and manages three facilities with 490 beds. Two facilities operate in Honolulu and one facility is managed in Hilo, Hawaii.

We are writing in **support of HB 1567 Skilled Nursing Facilities; Enterprise Zone Benefits** which proposes to create an enterprise zone for skilled nursing facilities operating in Hawaii.

This bill creates an enterprise zone for a skilled nursing facility which begins operations as a new facility or an existing facility which expands its operations. Such operations would benefit by being exempted from paying Hawaii General Excise Tax.

This bill would provide an appropriate tax incentive to develop new skilled nursing facility beds through the Certificate of Need process. Presently, the majority of facilities in the islands run an occupancy capacity between 95% to 97%. This is generally indicative of an under-bedded situation for residents who require this level of service.

Many hospitals have a back-log or waiting list of residents with general or specialty skilled nursing facility needs. They are unable to admit to such facilities when the beds are already filled to capacity. There is also a need for providing services to behavioral health residents requiring long term care – either from community-based psychiatric hospitals, the state hospital or acute hospitals holding patients with medical needs co-existing with a psychiatric diagnosis. There are not enough available beds to provide incentives for the development of specialty services.

Skilled nursing facility (SNF) operators are interested in building new facilities or renovating old facilities into new SNF operations, but the availability of land and the cost of new construction or renovation restricts the ability to establish financially sound programs. New construction in the islands currently runs between \$400 - \$450 per sq. ft.

A smaller 150 bed facility may be approximately 130,000 – 140,000 sq. ft. This brings the cost of a new facility between \$50 - \$60 million and greater for a facility with more spacious rooms and greater square footage to the building.

Given the limited Medicare and state MedQuest reimbursement rates, SNFs will have extreme difficulty developing a financially viable program unless some tax incentives are available for newly created programs. Start-up SNFs also must carry a large amount of losses in the early years of operation as they build up their census to full occupancy levels.

This bill helps to provide a needed incentive to create new beds by exempting such facilities from the excise tax. While this incentive alone will not guarantee financial success of a new facility, it will be a good start towards this goal.

Ultimately, the demand for building new beds is controlled by the State Health Development Agency (SHPDA) through their Certificate of Need program. This Division under the Department of Human Services ensures that the total number of new or expanded beds which are built is based on the current and future need of SNF capacity in the state.

Thank you for the opportunity to provide this testimony. If you have any further questions, please do not hesitate to contact me at (801) – 518-6565.

Sincerely,

Faye Lincoln, Vice-President