



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM

Application Number: # 12-16A Date of Receipt:
To be assigned by Agency

APPLICANT PROFILE

Project Title: Acquisition and Renovation of the Hospital located at 91-2141 Fort Weaver Road

Project Address: 91-2141 Fort Weaver Road, Ewa Beach, HI 96707

Applicant Facility/Organization: The Queen's Medical Center

Name of CEO or equivalent: Arthur A. Ushijima

Title: President, The Queen's Medical Center / President & CEO, The Queen's Health Systems

Address: 1301 Punchbowl Street, Honolulu, HI 96813

Phone Number: 691-4688 Fax Number: 691-5038

Contact Person for this Application: John Nitao

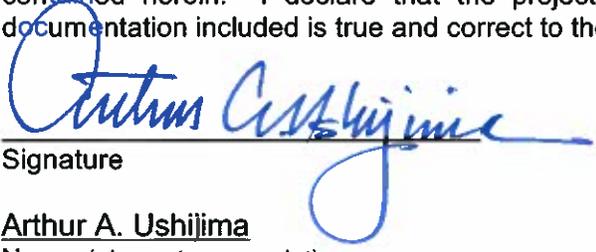
Title: Vice President and General Counsel, The Queen's Health Systems

Address: 1301 Punchbowl Street, Honolulu, HI 96813

Phone Number: 691-5276 Fax Number: 691-5038

CERTIFICATION BY APPLICANT

I hereby attest that I reviewed the application and have knowledge of the content and the information contained herein. I declare that the project described and each statement amount and supporting documentation included is true and correct to the best of my knowledge and belief.


Signature

Arthur A. Ushijima
Name (please type or print)

July 20, 2012
Date

President, QMC / President & CEO, QHS
Title (please type or print)

4. **TYPE OF PROJECT.** This section helps our reviewers understand what type of project you are proposing. Please place an "x" in the appropriate box.

	Used Medical Equipment (over \$400,000)	New/Upgraded Medical Equip. (over \$1 million)	Other Capital Project (over \$4 million)	Change in Ownership	Change in Beds
Inpatient Facility				X	
Outpatient Facility					
Private Practice					

5. **BED CHANGES.** Please complete this chart only if your project deals with a change in your bed count and/or licensed types. Again, this chart is intended to help our reviewers understand at a glance what your project would like to accomplish. Under the heading "Type of Bed," please use only the categories listed in the certificate of need rules.

This project proposes to maintain the same number of bed types as previously approved in May 2012 for CON #11-18E for St. Francis Healthcare Systems of Hawaii.

Type of Bed	Current Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
Medical/Surgical	113		113
Critical Care	14		14
Obstetrics	7		7
TOTAL	134		134

6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:

	AMOUNT:
1. Land/Building Acquisition Price	<u>\$ 21,200,000</u>
2. Construction Contract	<u>25,000,000</u>
3. Fixed Equipment	<u>18,000,000</u>
4. Movable Equipment	<u>9,000,000</u>
5. Financing Costs	n/a
6. Fair Market Value of assets acquired by lease, rent, donation, etc.	n/a
7. Other:	n/a
TOTAL PROJECT COST:	<u>\$ 73,200,000</u>

B. Source of Funds

1. Cash	<u>\$ 25,200,000</u>
2. State Appropriations	n/a
3. Other Grants	n/a
4. Fund Drive	n/a
5. Debt	<u>48,000,000</u>
6. Other:	n/a
TOTAL SOURCE OF FUNDS:	<u>\$ 73,200,000</u>

7. **CHANGE OF SERVICE:** If you are proposing a change in service, then please briefly list what services will be added/modified. Be sure to include the establishment of a new service or the addition of a new location of an existing service. Please reference the Certificate of Need Rules Section 11-186-5 for the categories of services. If you are unable to determine which category best describes your project, please consult with agency staff.

This project proposes to maintain the same beds and services that were approved in May 2012 for CON #11-18E for St. Francis Healthcare Systems of Hawaii. As an additional location of The Queen's Medical Center (QMC), the proposed hospital will be a division of QMC in West Oahu. The bed counts are described in section 5 (above) and the services are listed in Exhibit 1-4.

8. **IMPLEMENTATION SCHEDULE:** Please present a projected time schedule for the completion of this project from start to finish. Include all of the following items that are applicable to your project:
- a) Date of site control for the proposed project,
 - b) Dates by which other government approvals/permits will be applied for and received,
 - c) Dates by which financing is assured for the project,
 - d) Date construction will commence,
 - e) Length of construction period,
 - f) Date of completion of the project,
 - g) Date of commencement of operation

**** See Exhibit 1-5 ****

Please remember that the Agency does monitor the implementation of Certificates approved. Non-implementation of a project as described in your application may result in a fine and/or withdrawal of the certificate of need.

9. **EXECUTIVE SUMMARY:** Please present a brief summary of your project. In addition, provide a description of how your project meets each of the certificate of need criteria listed below. If a new location is proposed, please attach an easy to read map that shows your project site.

This project proposes to acquire and renovate the hospital at 91-2141 Fort Weaver Road at a total capital cost of \$73,200,000. As an additional location of The Queen's Medical Center (QMC), the hospital will be a division of QMC in West Oahu. It will serve the mission of The Queen's Health Systems "To fulfill the intent of Queen Emma and King Kamehameha IV to provide in perpetuity quality health care services to improve the well being of Native Hawaiians and all of the people of Hawaii". This project proposes to maintain the same beds and services that were approved in May 2012 for CON #11-18E for St. Francis Healthcare Systems of Hawaii.

After failing to emerge from a second bankruptcy in 3 years, both HMC hospitals were shut down in December 2011 and the assets were transferred back to St. Francis Healthcare Systems of Hawaii by order of the U.S. Bankruptcy Court. Subsequently, St. Francis and The Queen's Health Systems executed an agreement for Queen's to acquire certain land and building assets at the West Oahu campus. With similar missions of service to Hawaii's people, St. Francis and Queen's are pursuing this agreement with the shared objective of re-establishing the emergency room and hospital-based services that had been accessible in West Oahu since 1990.

In addition to acquiring the land and building assets, Queen's is proposing to invest \$52,000,000 in facilities renovation and equipment prior to opening the hospital. For more than a decade, financial difficulties plagued the previous hospital owners. Because of continual financial losses, capital was not available to properly maintain or upgrade the facilities and equipment. Now that the hospital is closed, the deferred maintenance issues must be addressed along with the need for upgrades and modernization. While there is an urgency to open the emergency room and hospital as soon as possible, Queen's must ensure that the facilities meet current building codes, life-safety standards, and licensing & accreditation requirements. It is also prudent to anticipate the community's future needs, such as the projected growth in emergency room visits, and to improve operational efficiency, such as moving the imaging department closer to the emergency room. The upfront capital investment in facilities and equipment demonstrates Queen's long-term commitment to the community. Queen's will become an integral partner with the West Oahu community, dedicated to improving the health and well being of the rapidly growing region.

At the same time that the facility undergoes renovation, everything that a hospital needs to function must be created, acquired and implemented. None of the previous hospital's operations remained intact after its closure in December 2011. Everything has to be implemented anew ... policies, procedures, clinical equipment, IT systems, medications & supplies, recruiting of medical staff and hospital personnel, orientation and training. All state and federal licensure and certification requirements will need to be satisfied before the hospital can open.

An aggressive implementation schedule calls for the facilities renovation, operational set-up, and procurement of regulatory approvals to be completed within 12-14 months. The hospital is projected to open in August 2013.

A. Relationship to the State of Hawai'i Health Services and Facilities Plan.

This project supports the following statewide general principles and areas of concern:

- *"Promote and support the long-term viability of the health care delivery system"* – Queen's acquisition and renovation of the hospital at 91-2141 Fort Weaver Road will strengthen Hawaii's health care delivery system. As a division of The Queen's Medical Center, the proposed hospital will benefit from Queen's clinical, operational and financial strengths and resources. The closure of HMC-West in December 2011 has strained the capacity limits of Oahu's emergency rooms, EMS services, and inpatient beds. Neighbor island patients have also been affected with longer wait times for admissions and transfers to Oahu hospitals. This project proposes to restore lost patient care capacity that the health care delivery system urgently needs and it will support the long-term viability of the health care delivery system statewide.
- *"Expand and retain the health care workforce to enable access to the appropriate level of care in a timely manner"* – When the HMC hospitals closed in December 2011 approximately 1,000 employees lost their jobs. Many are being forced to seek employment on the mainland because Hawaii's health care system cannot absorb them all. The proposed project will provide an opportunity to retain many skilled and experienced health care professionals and technicians in Hawaii. Approximately 400 full time equivalents will be hired to resume emergency room and hospital operations.
- *"Ensure that any proposed service will at least maintain overall access to quality health care at a reasonable cost"* – As a division of The Queen's Medical Center, the proposed hospital will benefit from Queen's clinical, operational and financial strengths and resources and bring Queen's standard of high quality care to West Oahu. Cost-effectiveness and financial viability will be improved through the economies of scale that can be achieved through centralized business operations, such as human resources, finance, purchasing, IT, legal, etc. Queen's clinical quality and operational experience along with its culture of continuous performance improvement will promote productivity and minimize waste.
- *"Strive for equitable access to health care services"* – As a division of The Queen's Medical Center, the proposed hospital will serve the mission of The Queen's Health Systems to provide quality health care services to improve the well being of Native Hawaiians and all of the people of Hawaii. Access to services will be available to all patients, regardless of ability to pay, and in particular the elderly, low income persons, racial and ethnic minorities, women, persons with disabilities, and other underserved groups.
- *"Establish a statewide emergency and trauma system"* – The closure of the HMC-West emergency room has strained the capacity limits of Oahu's emergency rooms and EMS services. It was the State's second busiest ER for ambulance arrivals, handling over 6,400 ambulance patients last year. Neighbor island trauma patients

have also been affected with longer wait times for transfers to Oahu hospitals due to unavailability of beds. The proposed project will restore lost emergency room capacity and strengthen Hawaii's emergency and trauma system.

This project supports the following West Oahu SAC priorities:

- *“Improve and increase access to acute care, critical care, specialty care, emergency care options, routine outpatient diagnostic services and services for uninsured and underinsured”* – After failing to emerge from a second bankruptcy in 3 years, the hospital has been closed since December 2011. Queen's acquisition and renovation of the hospital at 91-2141 Fort Weaver Road will bring these priority services back to the residents of West Oahu. West Oahu is the fastest growing community on Oahu in population and business development. The hospital's central location in the region will improve timeliness of care for urgent and emergency/trauma patients, reduce transportation barriers to access care, and address patients' preference for care closer to home.
- *“Increase community engagement”* – The Queen's Medical Center has a long history of community engagement and partnership. The proposed hospital will be a continuation of that effort to strengthen Hawaii's health care system. Only with the support of and partnership with government, other healthcare providers and the community will it be successful in improving the health and well being of the people of Hawaii.
- *“Improve education and increase preventive medicine”* – The Queen's Medical Center provides an extensive array of health classes and community outreach programs. The proposed hospital will provide a venue for those programs to be offered in closer proximity to the residents of West Oahu.

B. Need and Accessibility

The primary service area for the proposed project is the region on Oahu to the west of Honolulu, including the communities of Aiea, Pearl City, Mililani, Waipio, Waipahu, Ewa Beach, Kapolei, Makakilo, Nanakuli and Waianae. According to the 2010 U.S. Census, West Oahu is the fastest growing region on the island and is home to 356,000 (42%) of Oahu's residents. While the overall population on Oahu is expected to grow at an average of less than 1% per year, West Oahu's population is projected to grow at an annual rate of 2-3%. By 2030, it is expected to grow to 50% of Oahu's population with over 600,000 residents. Housing growth is expected to be strongest in Kapolei/Ewa, followed by moderate growth in Mililani/Waipio and Waianae. Kapolei business development is at a tipping point to truly becoming Oahu's second city. With 900 business and 36,000 jobs today, it is expected to have over 60,000 jobs by 2025. Long-range master planning includes: a) UH West Oahu 500-acre development for ultimately 7,600 students and 1,000 faculty, b) \$5.3B rail transit system from East Kapolei to Ala Moana Center, and c) 36,000 new residential units over the next 20 years with various commercial developments embedded in the residential master plans.

The West Oahu region is home to the largest concentration of Native Hawaiians in the State. According to the State of Hawaii Department of Health, Native Hawaiians have the poorest health status and lowest life expectancy among Hawaii's major ethnic groups.

The West Oahu region relies on the H1 and H2 freeways to access metropolitan Honolulu's emergency rooms, specialty care and hospital services. Traffic on these freeways is very heavy and the congestion often delays timeliness of care, especially for emergency and trauma patients. Transport time from West Oahu is often measured in hours rather than minutes.

This proposed project seeks Certificate of Need approval for the acquisition and renovation of the hospital at 91-2141 Fort Weaver Road. The needs for the proposed services were demonstrated when the original CONs were granted to establish those services. However, the West Oahu community needs still continue. Data from the Hawaii Health Information Corporation shows that in 2010, residents of the West Oahu service areas accounted for 26,000 (37%) of Oahu's acute inpatient discharges and 94,000 (37%) of Oahu's emergency room visits. In that same time period, HMC-West had 3,300 inpatient admissions and 25,800 emergency room visits. Since the hospital closure in December 2011, the other Oahu emergency rooms and hospitals have struggled to meet the continuing demand and their capacities are being pushed to the limits. As Oahu's fastest growing community, West Oahu's need and demand for emergency room and hospital services will mirror that growth. The needs of the West Oahu community for emergency room and hospital-based care are currently significantly underserved.

In Year 1 of operations, inpatient admissions are projected to be 3,300 and emergency room/outpatient visits to be 27,100. By Year 3, inpatients admissions will be 3,500 and emergency room/outpatient visits will be 29,400.

For more than a decade, financial difficulties plagued the previous hospital owners. Because of continual financial losses, capital was not available to properly maintain or upgrade the facilities and equipment. Now that the hospital is closed, the deferred maintenance issues must be addressed along with the need for upgrades and modernization. While there is an urgency to open the emergency room and hospital as soon as possible, Queen's must ensure that the facilities meet current building codes, life-safety standards, and licensing & accreditation requirements. It is also prudent to anticipate the community's future needs and to improve operational efficiency.

As a division of The Queen's Medical Center, the proposed hospital will serve the mission of The Queen's Health Systems to provide quality health care services to improve the well being of Native Hawaiians and all of the people of Hawaii. Access to services will be available to all patients, regardless of ability to pay, and in particular the elderly, low income persons, racial and ethnic minorities, women, persons with disabilities, and other underserved groups.

- For over 150 years, Queen's has demonstrated that it is a valuable asset to the community. As a responsible corporate citizen, Queen's supports many community programs and initiatives that promote the well being of the people of Hawaii. In fiscal year 2011, Queen's contributed to the well being of Hawaii by giving back to the community nearly \$122 million in health care services, education, charitable contributions and uncompensated care (see Exhibit 1.6).

- It is estimated that the proposed hospital will provide more than \$50 million annually in charity care, uncompensated care and under compensated care.
- Year 1 projections for patients by source of payment include Medicare 47%, Medicaid 20%, Commercial Insurance 24%, Self Pay 6% and Other 3%. In Year 3, Medicare 43%, Medicaid 18%, Commercial Insurance 29%, Self Pay 7% and Other 3%.

The location of the hospital in West Oahu will provide more timely access to services, especially for trauma and emergency patients. And the barriers of transportation and time will be reduced for residents and workers in the region.

C. Quality of Service/Care

Since the hospital closure in December 2011, over 25,000 emergency patients and 3,300 hospital inpatients annually are being forced to seek care outside of their community. The proposed hospital will restore those lost patient care services – improving timeliness of care and reducing transportation and time-related barriers to accessing care. And, as a division of The Queen’s Medical Center, it will bring Queen’s standard of high quality healthcare to the West Oahu community.

The Queen’s Medical Center has provided quality healthcare services to Hawaii for over 150 years. With a strong commitment to education, research and innovation, Queen’s has been at the forefront in advancing medical care and providing patients with the latest treatments, procedures and medical technologies.

Queen’s strives to ensure safe, quality care and excellent service for every patient. Queen’s performance standard of always putting patients first is embodied in the Hawaiian concept of Kina`ole – “doing the right thing in the right way, at the right time, in the right place, to the right person, for the right reason, with the right feeling, the first time”.

The Queen’s Medical Center is accredited by The Joint Commission. QMC is approved to participate in medical residency training by the Accreditation Council for Graduate Medical Education, and is a member of VHA, a national cooperative of over 1,400 hospitals. QMC has achieved Magnet recognition – the highest institutional honor for hospital excellence – from the American Nurses Credentialing Center. Magnet recognition is held by less than seven percent of hospitals in the United States. QMC is the first and only hospital in Hawaii to achieve Magnet recognition. Queen’s superior level of quality has been recognized with numerous other accreditations, certifications and awards (see Exhibit 1-7).

Prior to opening, the proposed hospital will meet all licensure and certification requirements for the State, Medicare, Medicaid and other regulatory agencies. Accreditation from The Joint Commission will be sought.

D. Cost and Finances (include revenue/cost projections for the first and third year of operation)

As a division of The Queen’s Medical Center, the proposed hospital will benefit from Queen’s financial strength and resources. The total capital expenditure of this project

will be \$73,200,000. Funding for this project includes \$25,200,000 from current assets and \$48,000,000 from debt.

In Year 1 of operation, net patient services revenue is projected to be \$65,791,000 and total operating expenses to be \$74,859,000, for a net loss of \$9,068,000. In Year 3, net patient services revenue is projected to be \$78,690,000 and total operating expenses to be \$83,061,000, for a net loss of \$4,371,000. Positive operating results for the proposed hospital are anticipated in Year 5.

The Queen's Medical Center consolidated balance sheet for the last two fiscal years demonstrates Queen's ability to fund the cash portion of the project's capital expenditures and to sustain the net losses in the first four years of operations (see Exhibit 1-8). The strong balance sheet contributes to Queen's excellent credit rating (Moody's A1 and S&P A+) and its ability to access the debt market. Potential sources of debt financing include commercial paper and State of Hawaii special purpose revenue bonds. The State of Hawaii authorized the issuance of special purpose revenue bonds of up to \$200 million for Queen's in Act 176, Session Laws of Hawaii 2003, as amended by Act 86, Session Laws of Hawaii 2007. Queen's has a loan agreement for a revolving credit facility of \$90 million for the issuance of commercial paper.

E. Relationship to the existing health care system

Queen's proposed acquisition and renovation of the hospital at 91-2141 Fort Weaver Road will strengthen the existing health care system.

- It will restore the emergency room and hospital-based services that had been accessible in the West Oahu community since 1990.
- It will relieve the pressure that the December 2011 closure of the hospital has had on the capacity limits of the existing health care system, especially hospitals, emergency rooms and the City's EMS ambulance service.
- As Oahu's fastest growing region in population and business development, West Oahu's needs for quality health care services will continue to grow. As the only full service emergency hospital in the region, the proposed hospital will play a vital role in supporting the health and well being of the region's residents and workers.

F. Availability of Resources

Financial Resources

The Queen's Medical Center has access to the financial resources to fund this project. The project will be funded with both cash and debt. The Queen's Medical Center consolidated balance sheet for the last two fiscal years demonstrates Queen's ability to fund the cash portion of the project's capital costs and to sustain the net losses in the first four years of operations (see Exhibit 1-8). The strong balance sheet contributes to Queen's excellent credit rating (Moody's A1 and S&P A+) and its ability to access the debt market. Potential sources of debt financing include commercial paper and State of Hawaii special purpose revenue bonds. The State of Hawaii authorized the issuance of

special purpose revenue bonds of up to \$200 million for Queen's in Act 176, Session Laws of Hawaii 2003, as amended by Act 86, Session Laws of Hawaii 2007. Queen's has a loan agreement for a revolving credit facility of \$90 million for the issuance of commercial paper.

Human Resources

The closure of both HMC hospitals left approximately 1,000 employees out of work. It is anticipated that there will be an adequate supply of skilled workers for this project without impacting other health care providers.

G. Hospital Acquisition – Part VII HRS 323D

Attorney General Review

A copy of this CON Administrative application has been submitted to the Attorney General for action pursuant to Part VII of HRS 323D. A financial and economic analysis and report from an independent expert is included as Exhibit 1-9.

Agency Review

HRS 323D-77 provides that the Agency, in making a decision whether to approve or disapprove an application, shall consider:

- (1) *Whether sufficient safeguards are included to ensure that the affected community has continued access to affordable care;*

This project proposes to acquire and renovate the hospital at 91-2141 Fort Weaver Road. After failing to emerge from a second bankruptcy in 3 years, the hospital has been closed since December 2011. The project's objective is to re-establish the emergency room and hospital-based services that had been accessible in West Oahu since 1990. As a division of The Queen's Medical Center, the proposed hospital will be an additional location of QMC in West Oahu and will serve the mission of The Queen's Health Systems "To fulfill the intent of Queen Emma and King Kamehameha IV to provide in perpetuity quality health care services to improve the well being of Native Hawaiians and all of the people of Hawaii". The Queen's Medical Center has provided quality healthcare services to Hawaii for over 150 years.

- (2) *Whether the purchaser and parties to the acquisition have made a commitment to provide health care to the disadvantaged, uninsured, and underinsured, and to provide benefits to the affected community to promote improved health care. Current and prior health care activities and funding for those activities by the seller or its successor nonprofit corporation or foundation may be considered in evaluating compliance with this commitment;*

As a division of The Queen's Medical Center, the proposed hospital will be a non-profit tax-exempt hospital. Access to services will be available to all patients, regardless of ability to pay, and in particular the elderly, low income persons, racial and ethnic minorities, women, persons with disabilities, and other underserved groups. In fiscal year 2011, Queen's contributed to the well being of Hawaii by giving back to the community nearly \$122 million in health care services, education, charitable contributions and uncompensated care (see Exhibit 1.6). It is estimated

that the proposed hospital will provide more than \$50,000,000 annually in charity care, uncompensated care and under compensated care.

- (3) *If health care providers will be offered the opportunity to invest or own an interest in the purchaser or a related entity to the purchaser;*

The Queen's Medical Center is a not-for-profit corporation. Health care providers will not be able to invest or own an interest.

- (4) *Whether procedures or safeguards are in place to avoid conflict of interest in patient referral and the nature of those procedures or safeguards.*

The Queen's Health Systems maintains policies and procedures to avoid conflict of interest in patient referrals. The relevant portion of the QHS Code of Conduct is included as Exhibit 1-10. The Corporate Compliance department is responsible for overseeing compliance with these policies and procedures. It also provides training to managers and staff.

10. Eligibility to file for Administrative Review. This project is eligible to file for Administrative review because: (Check all applicable)

- It involves bed changes, which will have a capital expense of \$1,000,000 or less, and which will have an increased annual operating expense of less than \$500,000.
- It involves service changes which will have a capital expense of \$1,000,000 or less, and which will have an increased annual operating expense of less than \$500,000.
- It is an acquisition of a health care facility or service, which will result in lower annual operating expenses for that facility, or service.
- It is a change of ownership, where the change is from one entity to another substantially related entity.
- It is an additional location of an existing service or facility.
- The applicant believes it will not have a significant impact on the health care system.