

HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

STANDARD APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 05-25

Applicant: Malulani Health and Medical Center, LLC
One Main Plaza, 2200 Main Street, #513
Wailuku, HI
Phone: 808-244-5022

Project Title: Establishment of Malulani Health and Medical Center
(150 acute care beds and ancillary services)

Project Address: TMK: (2) 2-2-24: por. 16
Kihei, Hawaii

1. **TYPE OR ORGANIZATION:** (Please check all applicable)

Public _____
Private X
Non-profit _____
For-profit X
Individual _____
Corporation _____
Partnership _____
Limited Liability Corporation (LLC) X
Limited Liability Partnership (LLP) _____
Other: _____

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2. **PROJECT LOCATION INFORMATION:**

A. **Primary Service Area(s) of Project:** (Please check all applicable)

Statewide: _____
O`ahu-wide: _____
Honolulu: _____
Windward O`ahu: _____
West O`ahu: _____
Maui County: X
Kaua`i County: _____
Hawai`i County: _____

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3. **DOCUMENTATION** (Please attach the following to your application form):

A. **Site Control documentation** (e.g. lease/purchase agreement, DROA agreement, letter of intent)

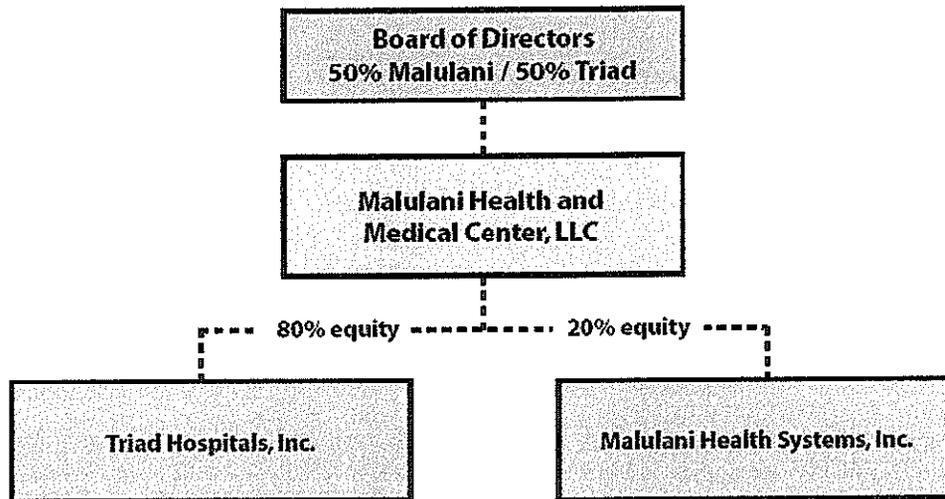
Please refer to the non-binding letter of intent between Malulani Health and Medical Center LLC and Maui R&T Partners c/o Pacific Rim Land, Inc.

B. **A listing of all other permits or approvals from other government bodies** (federal, state, county) that will be required before this proposal can be implemented (such as building permit, land use permit, etc.)

- State Land Use Commission
- Community Planning District
- Maui County Public Works (Building permit, driveway and grading)
- Maui County Planning Department (Floor plans, site plans, elevators and landscaping)
- Hawaii Department of Health – certificate of occupancy, waste water disposal, ventilation, food service, underground injection control, radiographic equipment, surgical services, etc.
- Maui Department of Water Supply – plan review
- Maui County Fire Department – plan review
- Maui County Building Department – building permit, plumbing, telephone/electrical
- Joint Commission on Accreditation of Hospitals
- Hawaii Licensing Branch for Medicare/Medicaid Certification
- Occupational Safety and Health Administration

- C. Your governing body: list by names, titles and address/phone numbers: Board of Directors and Officers of the Board.

The following organizational chart provides an overview of the Malulani Health and Medical Center, LLC ownership structure. Malulani Health and Medical Center, LLC was formed by Triad Hospitals, Inc. (Triad) and Malulani Health Systems, Inc. for the primary purpose of operating Malulani Health and Medical Center. At closing, 20% of the LLC will be sold to Malulani Health Systems, Inc. and new directors will be named (in accordance with the attached Joint Venture Letter of Intent dated September 7, 2005). The current directors and officers are provided in the table below.



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Following are the Board of Directors for Malulani Health and Medical Center, LLC.

Name	Board Office	Occupation
James D. Shelton	President	Chairman and CEO, Triad Hospitals, Inc.
Rebecca Hurley	Senior Vice President, General Counsel, & Secretary	Senior Vice President, General Counsel, and Secretary, Triad Hospitals, Inc.
Tom Frazier	Senior Vice President	Senior Vice President of Administration, Triad Hospitals, Inc.
Steve Love	Senior Vice President and Controller	Senior Vice President Interim CFO, Triad Hospitals, Inc.
Robert Frutiger	Vice President	Vice President of Tax, Triad Hospitals, Inc.
Joe Johnson	Senior VP and Assistant Secretary	Vice President of Legal Affairs, Triad Hospitals, Inc.

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D. If you have filed a Certification of Need Application this current calendar year, you may skip the four items listed below. All others, please provide the following:

- Articles of Incorporation – See Attachment
- By-Laws – See Attachment
- Partnership Agreements – See Attachments
- Tax Key Number (project's location) - TMK: (2) 2-2-24: por. 16

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

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

5. **TOTAL CAPITAL COST:** \$119,313,197 (estimate)

6. **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

In addition Malulani Health and Medical Center will operate 10 unlicensed beds (observation/flex) to allow staff up to 23 hours to evaluate whether or not to admit a patient to a licensed bed.

Type of Bed	Current Bed Total	Proposed New Beds Total	Total Beds
Medical/ Surgical	0	110	110
Critical Care	0	25	25
Obstetrics	0	10	10
Neonatal Intensive Care	0	5	5
TOTAL Inpatient Beds	0	150	150

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7. CHANGE IN 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 consult 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 agency staff.

Program / Function	Need and Access	Criteria For Evaluation										
		N/A	Cost to Community	N/A	Financial Feasibility	Licensure / Certification	Quality of Services	N/A	Relationship to State Plan	Relationship to Existing Facilities	More Cost Effective Approaches	Availability of Resources
Acute Bed Services	<p>1) Only one hospital on Maui; 2) New hospital will improve access for residents of South Maui, West Maui and Up Country; 3) Existing healthcare system is taxed at current population level and will not be able to support growth in permanent residents and visitor population; 4) Maui Health and Medical Center will accept all patients regardless of racial, ethnic or economic status.</p>	Does not apply to this CON Application	This will be the most cost effective way to add healthcare resources to the market due to the proven ability of Triad to efficiently manage the delivery of hospital services in multiple markets across the U.S.	Does not apply to this CON Application	Maui Health and Medical Center is projected to generate an operating profit in the second full year of operations. The project is projected to generate sufficient cash flow to ensure continuity of services and ongoing investment in new technologies that will benefit Maui residents.	Maui Health and Medical Center will obtain all relevant federal and state licenses required to operate an acute care hospital and obtain certification by all relevant organizations, including the Joint Commission on Accreditation of Healthcare Organizations.	The goal for Maui Health and Medical Center is to be the State of Hawaii's quality leader in the delivery of healthcare services.	Does not apply to this CON Application	This project directly addresses most of areas of emphasis in the state health services and facilities plan and the annual implementation plan and the Tri-Isles priorities. Specific details are provided in the body of this application.	Maui Health and Medical Center (MHMC) will complement the existing services provided on Maui. We realize a second hospital will provide consumers, physicians, hospital personnel and payors an option for institutional healthcare services. All of these parties will benefit from some level of competition between Maui Memorial Medical Center (MMMC) and MHMC and we recognize that some individuals currently affiliated with MMMC will choose to affiliate with MHMC.	The opening of Maui Health and Medical Center (MHMC) will be the most cost effective way to add healthcare resources to Maui due to the proven ability of Triad to manage hospital services. Analyses of Medicare cost reports shows that the cost per adjusted discharge at MHMC in 2010 will be lower than the cost per adjusted discharge in 2004 for all but one major Hawaii hospital and will be lower than all major hospitals if costs are inflated to 2010 levels.	Triad provides two key resources that are not currently available in Hawaii: 1) sufficient capital to undertake the construction and operation of a new hospital and 2) seasoned management with a proven track record of cost effective hospital management. Access to physicians, nurses and medical technicians will be addressed through a variety of strategies designed to attract new resources to Maui - these strategies are described in the body of this application.
Medical / Surgical												
Obstetrics												
Neonatal Intensive Care												
Critical Care												
Non-Bed Services												
Emergency Room												
Diagnostic Radiology												
Computed Tomography												
Stationary												
PET/CT												
Nuclear Medicine												
Ultrasound												
Clinical Laboratory												
Pharmacy												
Recompression Chamber												
Social Services												
Magnetic Resonance Imaging Stationary												
Special Services												
Cardiac Catheterization												
Heart Surgery												

Need and Access - the need that the population served or to be served has for the services proposed to be offered or expanded, and the extent to which all residents of the area, and in particular low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups, and the elderly, are likely to have access to those services

N/A - In the case of reduction or elimination of a service, including the relocation of a facility or service: (A) The need that the population presently served has for the service (B) The extent to which that need will be met adequately by the proposed relocation or by alternative arrangements; and (C) The effect of the reduction, elimination, or relocation of the service on the ability of low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups, and the elderly, to obtain needed health care

Cost to Community - The probable impact of the proposal on the overall cost of health services to the community

N/A - The probable impact of the proposal on the costs of and charges for providing health services by the applicant

Financial Feasibility - The immediate and long term financial feasibility of the proposal

Licensure / Certification - The applicant's compliance with federal and state licensure and certification requirements

Quality of Services - The quality of health care services proposed

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8. PROJECT COSTS AND SOURCES OF FUNDS (For Capital Items Only)

A. List All Project Costs

Project Costs	Total Amount	Clinical Capital Cost
Land Acquisition	\$ 8,900,000	\$ 1,082,297
Construction Contract (includes soft costs, pre-opening costs and contingency)	\$ 139,341,000	\$ 90,571,850
Fixed Equipment	\$ 34,929,000	\$ 26,196,750
Movable Equipment	In Fixed	In Fixed
Information Technology and Systems	\$ 3,750,000	\$ 1,462,500
Telecommunications	\$ 3,929,000	\$ -
Financing Costs (capitalized)	\$ 10,960,000	\$ -
Fair Market Value of Assets Acquired by Lease, Rent, Donation, etc.	\$ -	\$ -
Other	\$ 10,000,000	\$ -
Total	\$ 211,809,000	\$ 119,313,397

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B. Source and Method of Estimation

Describe how the cost estimates in Item "A" were made, including information and methods used:

Construction cost estimates are determined by applying Honolulu RS Means Construction Cost data to estimated building square feet. RS Means costs were escalated through the mid point of construction and a 5% factor was added to reflect construction experience in Maui.

Soft costs include planning fees, architectural fees, contingencies and escalation. Planning fees, architectural fees and contingencies are based on a percentage of construction costs; escalation is based on the estimated inflation rate for construction (approximately 3 percent per year).

Equipment and information technology cost estimates were developed by Triad Hospitals, Inc. (Triad) Estimates for major equipment items are based on a line item analysis for each major piece of equipment included in the project. A general estimate was developed for miscellaneous equipment. Information technology estimates reflect an all digital hospital.

Pre-opening estimates were based on hiring chief executive, nursing and finance officers by early 2006 and are included in the construction cost estimate. Working capital estimates are based on the financial projections contained in exhibits to this CON Application.

C. Source of Funds

AMOUNT:

1. Cash	\$ <u>95,450,717</u>
2. State Appropriations	_____
3. Other Grants	_____
4. Fund Drive	<u>23,862,679</u>
5. Debt	_____
6. Other: _____	_____

TOTAL SOURCE OF FUNDS: \$119,313,397

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9. **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) CON approval – June 2006
- b) Engage key management – 3rd Quarter 2006
- c) Architectural design completed – September 2006
- d) Obtain required permits – December 2006
- e) Bid negotiations complete – December 2006
- f) Construction begins – January 2007
- g) Management and staff interviews begin – June 2008
- h) Physician education meetings begin – July 2008
- i) Equipment procurement expeditions – September 2008
- j) Licenses and permitting – September through December 2008
- k) Department directors begin – October 2008
- l) Equipment installation and testing – October 2008
- m) In-service training – December 2008
- n) Staff training – December 2008
- o) Operations commence – January 2009

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10. **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.

Malulani Health and Medical Center will be a comprehensive, state-of-the-art, fully digital healthcare campus that will effectively and efficiently meet the needs of the Maui County community. The campus is projected to open its doors to Maui County residents and visitors in January 2009. Following is an overview of the project.

- Malulani will be located on a 40 acre site in Kihei – 40 adjacent acres will be developed by other parties and contain support facilities such as medical office buildings, resident hospice/palliative care facility, affordable housing for staff, complementary and alternative medicine treatment pavilion, and a "Greenhouse" elder care facility.
- Major components of the Medical Center include:
 - An ambulatory pavilion connected to the hospital that will house inpatient and outpatient advanced diagnostic and therapeutic services. The comprehensive imaging center will serve both inpatients and outpatients
 - An 8 suite operating room (2 shelled rooms)– two surgical suites will be sized and one will be equipped for open heart surgery – and a 2 room endoscopy suite.
 - An invasive suite with 1 cardiac cath lab, 1 electrophysiology lab and 1 angiography suite – these suites will treat acute coronary, stroke and other vascular syndromes.
 - A 150-bed tertiary acute care hospital with the following components:
 - 25 critical care beds
 - 110 private medical/surgical beds
 - 10 labor, delivery, recovery, ante/postpartum beds and a 5-bed Level II nursery
 - 20 bay emergency department with direct access from a heliport
 - 10-bed observation / flex unit to accommodate 23-hour stays (not in 150-bed total).

The Malulani Health and Medical Center campus will be located off the Lipoa Parkway in South Maui. This site was selected due to its favorable access to all areas of Maui County and its proximity to the Maui Research and Technology Park will allow Malulani Health and Medical Center to benefit from state-of-the-art information technology resources.

Malulani Health and Medical Center will be designed with the traditional "hale mauka makai" ("The house towards the mountains and ocean") in mind. Buildings will rest lightly on the slope between mountaintop and coastal beach of South Maui. The entrance, or "Grand Hale", is on the Mauka ("toward the mountain") side while the medical and surgical haies are on the Makai ("toward the sea") side and reach out for the Ocean.

Malulani Health and Medical Center will exist within the context of a larger "healthy community." Malulani Health and Medical Center's campus plan blends seamlessly with, and makes allowances for, the Kihei-Makena Community Plan. The healthy community concept will result from a partnership with local groups and will include a sustainable, mixed-use, walkable neighborhood that contains the necessary community functions cited within the Community Plan.

The planning for Malulani Health and Medical Center assimilates Eastern and Western ideologies with all of the accoutrements of a modern medical facility. Holistic healing practices will not only occur within the walls of the facility. The idea of restoration will transform and heal the surrounding landscape as restored riparian intermittent streambeds containing native biophytic vegetation run throughout the site. These features will be repeated in courtyards within the buildings in the form of natural healing gardens.

Malulani Health and Medical Center's exterior design will respond to, and highlight, regional colors, materials, natural light, views and landscaping. The intent is to ensure that facilities fit within the overall context of the community and allow for a feel of "local ownership and pride" of this community asset. Malulani Health and Medical Center will have efficient departmental layouts to facilitate the circulation of patients, staff, and visitors allowing for growth-expansion zones.

The new hospital will have state of the art "Fire Life and Safety Systems" which includes self-sustaining electrical, water and medical gas systems with separate smoke and fire corridors so that it can remain operational and sustain and protect life during a disaster or fire.

a. Relationship to the Hawai'i Health Performance Plan (H2P2)

The design and development of the Malulani Health and Medical Center very specifically addresses the goals and objectives set forth in The Hawai'i Health Performance Plan (H2P2). H2P2 is a healthcare initiative that seeks to improve the health and well-being of all the people of Maui County, including full-time residents, part-time residents and the visitors to Maui County.

H2P2 contains provocative information designed to guide healthcare providers as they develop future service offerings. Although it would be impossible for any single provider to address all of the issues identified in H2P2, the Malulani Health and Medical Center will capitalize on community partnerships to effectively address Hawai'i's healthcare challenges. Following are some highlights of the H2P2 as it relates to Maui County. Please refer to Section A of this application for a detailed discussion of how the Malulani Health and Medical Center will support H2P2.

H2P2 identified the following healthcare vision for the State of Hawaii.

"Supported by their community, individuals achieve optimum health"

The passage on the following page (relating to visitors admitted to Hawaii hospitals) is excerpted from the last paragraph in Chapter VII on pages 13-14 in H2P2 (the chapter relates to Heart Disease and Stroke). H2P2 has special meaning to Maui County because 1) Maui County's economy is highly dependent on tourism 2) Maui is the only major Hawaiian Island with only one acute care hospital and 3) the existing hospital's physical structure is outdated and continually exceeds occupancy thresholds.

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- "An additional benefit derived from improving services ... Since tourism is important to our state's economic viability it is essential that the healthcare delivery system throughout the state be of the highest quality with the most state of the art equipment and services, in 1992 the tourist industry contributed 4.9% of the gross state product... In 1996,... of that group 3,319 were discharged from a Hawaii acute care ... These represent 2.5% of the total Hawaii acute care discharges and 3.1% of the total charges. Of the total ... 31.2% were for patient discharges with a final cardiac diagnosis. It is important that those visiting our islands are confident that we can provide the most current medical services, especially in an emergency situation."

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State of Hawaii Health Care Goals

- Increase the span of healthy life for Hawaii's residents
- Reduce health disparities among Hawaii's residents
- Achieve equitable and effective access at reasonable cost for all Hawaii's residents to health services that are responsive to the holistic needs of community's Members

State of Hawaii Health Care Objectives (support the preceding goals)

- Promoting successful birth outcomes
- Reducing the incidence of vaccine-preventable childhood diseases
- Early detecting and diagnosing of treatable diseases
- Reducing the effects of chronic disease and prolonging health related quality of life
- Reducing morbidity and pain through timely and appropriate treatment
- Establishing regionalized healthcare delivery systems that include community input, are cost-effective, and that foster improved access to quality healthcare services

H2P2 also addressed the healthcare needs of each Subarea. Following are the Values and Priorities for the Maui County "Tri-Isle" Subarea that the Malulani Health and Medical Center will address (please refer to Section A of this application for a detailed discussion).

"Tri-Isle" Values

- Accessible/Easy Access
- Competent
- Respectful/Culturally Respectful
- Accountable/Responsible
- Effective
- Appropriate
- Efficient
- Caring
- Ethical

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"Tri-Isle" Priorities

- Priority 2 – Emergency Medical Services
- Priority 5 – Medical Services for the Uninsured
- Other Priorities
 - Preventive Health Services
 - Open Heart Surgery
 - Rehabilitation/Occupational Therapist
 - 24-hour medical care on all Islands/Satellite 24-Hour Urgent Care+

b. Need and Accessibility

Maui is the only major Hawaiian island without at least two acute care hospitals and the only major island with acute inpatient services provided solely by the Hawaii Health Services Corporation (HHSC). Maui has the lowest acute care bed to population ratio of any major Hawaiian island. Bed shortages at Maui's acute care hospital occur on a regular basis, potentially endangering the well being of critically ill patients. **The result is that Maui County residents must go to Oahu to receive medical care that should be provided on Maui.** This increases costs and creates unnecessary burdens on Maui County residents (especially low income and indigent). Evaluation of the Inpatient Facilities Utilization Report shows that:

- The majority of Hawaii's acute care beds are located in Metropolitan Honolulu
- The most recent data (2004) shows Maui Memorial Medical Center (MMMC) medical/surgical unit occupancy at 92.9% - MMMC physicians indicate current occupancy often exceeds 100%.

Malulani Health and Medical Center will provide many critical programs currently missing, or capacity constrained on Maui. Following are some of the key programs that will address Maui County's unique needs and access challenges:

- The emergency department will be able to receive and stabilize most traumas and emergencies. Malulani Health and Medical Center will develop a relationship with experienced operators to establish helicopter services. The helicopter service will significantly improve acute care access and timely transfer for Maui County residents, especially for trauma, cardiac, obstetric and stroke emergencies – these services may also benefit residents and visitors on the Big Island as the time required to access care may be shortened by as much as 30 minutes (versus transport to Oahu), providing a better chance for successful intervention.
- Comprehensive cardiovascular, peripheral vascular and neurological services will provide state of the art care for two of the leading causes of mortality in Hawaii and Maui County.
- High risk obstetrics and Level II neonatal services will enable more mothers to deliver on Maui and improve birth outcomes.
- An island community with only one acute care hospital is at a great disadvantage should a natural or man-made disaster or an epidemic occur. Maui Memorial is already at overcapacity and these crises could result in the closure of the only acute care hospital for the Maui County community. For example, one case of SARS resulted in the closure of a 500 bed hospital in Toronto for several weeks and Hurricane Katrina severely damaged the medical facilities in the Gulf Coast area.
- A telemedicine program will provide a 24 hour link to practitioners in West Maui, Hana, Up Country, Molokai and Lanai. This program will let primary care physicians receive specialty physician consultations.
- Telemedicine access will also extend to Triad hospitals on the Mainland. This will allow all Maui residents access to specialty consultations in all medical disciplines.

Malulani Health and Medical Center will provide patients, physicians and payors a choice for their inpatient care. This will also improve the negotiating position of payors and self-insured residents and will lead to more cost-effective care.

c. Quality of Service/Care

Malulani Health and Medical Center will benchmark quality and service standards to the best in the nation. By incorporating state-of-the-art technology, advanced medical practices (developed in cooperation with Triad) and highly trained physicians and staff, Malulani Health and Medical Center will drive exceptional clinical outcomes.

- An electronic medical record and a fully digital platform will lead to reductions in medical errors, improve patient outcomes, shorten length of stay and reduce resource consumption – all contributing to lower costs for Maui residents.
- Physicians will have access to real time reporting of lab and x-ray results and the electronic transfer of orders and information will result in more rapid and efficient diagnosis and treatment of acutely ill patients leading to better outcomes and decreased lengths of stay.

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- Malulani Health and Medical Center continuing education programs will ensure that clinical staff receive ongoing training in best clinical practices.
- Clinical pathways and computer assisted evaluations will contribute to the practice of "evidence-based" medicine, and reduce medical errors, average length of stay and cost.
- New facilities and equipment will allow care givers to provide more advanced treatments in less acute settings.
- Nurse to staff ratios are targeted to ensure that patients receive the highest quality care, that the nursing staff is treated with appropriate respect and consideration, and that the nursing staff is not overburdened with a dangerous patient load.
- The telemedicine program will ensure that all of Maui County residents receive timely healthcare services with the highest quality medical professionals regardless of physical location – this should positively impact infant mortality and other medical outcomes.
- Malulani Health and Medical Center will have **all private rooms** to accommodate family members who wish to stay with the patient – to render personal assistance and support. Some benefits realized from the private room model include enhanced patient comfort, privacy, compliance with HIPAA regulations, and decreased risk of hospital acquired infection.
- Circulation and transportation corridors will be designed to separate visitors from patients and clinical staff to ensure privacy, comply with HIPAA regulations and decrease the risk for transmission of contagious diseases.
- Ventilation systems for all clinical areas will include appropriate venting, filtration and isolation features to ensure that there will be no spread of airborne illnesses (such as TB, SARS, Influenza or infectious molds / fungi) within the hospital.
- The facilities will provide peace of mind to Maui residents and visitors ... knowing that Maui hospitals are prepared to handle the full depth and breadth of medical needs.
- The combination of the best of Western, Native Hawaiian, Complementary, Alternative and Eastern medical philosophies will provide patients and their families a choice in accessing all forms of health services, while reflecting the cultural diversity of Maui County.
- Contemporary facilities and equipment will draw physicians to Maui, reducing the low ratio of physicians to residents.

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

The capital investment required to plan, build, equip, finance, open and provide working capital for Malulani Health and Medical Center is estimated to be \$211.8 million. This is the price that any organization will incur to build and equip a facility capable of providing contemporary, state-of-the-art facilities. We understand that the State of Hawaii cannot assume this burden. Therefore, we have developed a financially viable model to bring needed health facilities to the residents of, and visitors to, Maui. Financial estimates were developed by Triad (Exhibits D-2 and D-3 contain summary financial and operating assumptions for the first 3 years of operations).

The ability to augment human resources with technology will allow Malulani Health and Medical Center to be both profitable and provide care at a lower cost than Hawaii's other hospitals.

1. Significant unmet need and 100% equity financing (no debt service requirements) will enable MHMC to generate positive cash flow in the first year of operations.
2. Malulani Health and Medical Center's cost per adjusted discharge is projected to decline in each of the first three years of operations and increase slightly thereafter. We believe, the cost per adjusted discharge will be almost the same in 2009 and 2014 due to a variety of technology enabling factors, including:
 - i. Care will be provided in the most cost effective setting and more care will occur in outpatient settings (approximately 50% of revenue will be from outpatient services)
 - ii. Length of stay for inpatients will be reduced from Hawaii State averages due to "real-time" results reporting and reduced medical errors.

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The Malulani Health and Medical Center is a community-based organization. Our mission is to

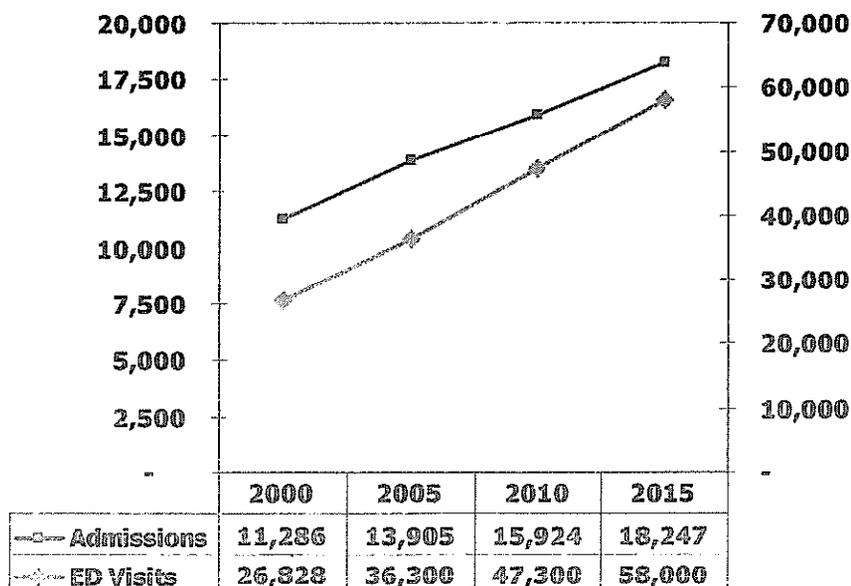
"Provide unsurpassed healthcare equally to native islanders, full and part-time residents, and visitors by blending the best of all medical philosophies"

True to our mission, Malulani Health and Medical Center will care for all individuals in need, regardless of ability to pay. The financial estimates for Malulani Health and Medical Center include a bad debt charge of \$2.4 million dollars in the first year of operations. This charge increases to over \$6.0 million in 2011. In addition, Malulani Health and Medical Center will only collect approximately 30% of the charges incurred for healthcare services. A portion of the revenue deductions will relate to charity care provided for individuals who meet the definition of the Malulani Health and Medical Center Charity Care policy (to be developed). And, as a partnership between a taxable and tax-exempt organization, the new hospital is projected to pay over \$10 million annually to State and County governments through provider and property taxes.

e. Relationship to the Existing Health Care System

The cost to modernize Maui Memorial Medical Center was estimated at \$264.6 million based on a document entitled "Master Plan—Maui Memorial Medical Center, 1999" – an amount that has only grown over the past 7 years. In addition, the crowded 17-acre Maui Memorial Medical Center site with a 54 year old central core is not conducive to expansion or replacement. Finally, the State of Hawaii does not have the capital resources to support healthcare infrastructure expansion of Maui. Therefore, Maui needs a private solution to address the healthcare needs of residents and visitors that Maui Memorial Medical Center is unable to meet.

Malulani Health and Medical Center is sized to supplement Maui's existing healthcare system. The chart below show estimated acute care admissions for the Maui County market (refer to Section B for a description of the methodology to calculate estimated admissions) and emergency department visits (based on visit rates per 1,000 residents published by the American Hospital Association) for the Maui Island market in 2005, 2010 and 2015. 70% of the estimated increase is due to population growth while 30% is due to population aging. Maui Memorial Medical Center does not have the capacity to accommodate the projected volume growth. Consequently, patients will be forced to continue to seek care off Maui in the future. Malulani Health and Medical Center will target Maui County's projected increase in admissions and emergency department visits over the next 10 years, in addition to patients that currently seek care somewhere other than Maui and selected emergencies that occur on the Island of Hawaii.



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A key factor in the evaluation of this CON is that neither hospital (Maui Memorial Medical Center or Malulani Health and Medical Center) will have enough capacity to meet all of the projected demand for inpatient services in Maui County – our estimates suggest that both hospitals will near capacity in 2015. Malulani Health and Medical Center will be located on a spacious 40 acre site which will accommodate future bed towers to address additional bed demand in 2015 and beyond.

Demand for advanced diagnostic and therapeutic services is also estimated to grow significantly over the next 10 years. Malulani Health and Medical Center facilities are estimated to complement services currently provided by MMMC, Maui Medical Group, Kaiser, Maui Diagnostic Imaging and HealthSouth. In addition, Malulani Health and Medical Center's state-of-the-art (e.g., 64 slice CT or even newer technology that will be state-of-the-art in 2009 and PET/CT) equipment will allow Maui County residents to undergo less invasive procedures and provide physicians with more accurate results.

Malulani Health and Medical Center will coordinate care with other Maui County healthcare providers to ensure continuity of care. Malulani management will work to establish relationships with Hospice Maui, the Cancer Institute of Maui, Hale Makua, the Community Clinic of Maui, the Hana Medical Center, Molokai General Hospital, Lanai, Kula, and Maui Memorial Hospitals.

f. Availability of Resources

Maui has the lowest physician and nurse to population ratios of any major Hawaiian island. A key challenge is to attract more physicians, registered nurses and other licensed/technical healthcare professionals to Maui. The development of a pool of health professionals will be one of the key initiatives Malulani Health and Medical Center management will pursue between CON approval and opening. **Triad will hire full-time recruiters after CON approval** to identify and recruit physicians, nursing and allied health professionals during the three years it will require to design and build MHMC. Management will aggressively work with local and State programs to increase the number of nursing and allied health professionals graduating each year.

A lack of choice (only one hospital) and the condition of existing healthcare assets on Maui is likely a contributing factor in the shortage of healthcare professionals on Maui – compared to other major Hawaiian islands. The chance to work in a state-of-the-art, tertiary care hospital on Maui will be very attractive to healthcare professionals. There are four major sources for increasing the number of health professionals on Maui:

1. Current residents of Maui that will graduate from medical, nursing and allied health programs over the next four years
2. Current residents of Hawaii that will be attracted to a new state-of-the-art hospital
3. New graduates from medical, nursing and allied health programs from the Mainland and elsewhere
4. Mature health practitioners currently practicing in the Mainland that want to improve their quality of life but continue working in a state-of-the-art medical center. Malulani Health and Medical Center leadership has already been contacted by numerous physicians, nurses and allied health professionals who would like to practice at a new Maui hospital.

It is likely that some health professionals currently working at other health providers on Maui will pursue career opportunities at Malulani Health and Medical Center (due to a variety of factors including the opportunity to practice in a higher acuity setting (e.g., cardiovascular, neurosurgery and neonatal programs). While Malulani Health and Medical Center management will not target these Maui health professionals, management will provide an equal opportunity for employment to all qualified applicants. The table on page F-2 provides a brief summary of how key positions (registered nurses, imaging technicians, pharmacy technicians, etc.) will likely be filled. It is important to note that hospital volumes are projected to begin at a fairly low level at opening and build through the first two years. Consequently, opening staffing levels will be approximately half the level required at the end of the first year.

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