



## HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

### STANDARD APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 05-27

Applicant: Honolulu Spine Center, LLC  
3525 Del Mar Heights Road, #131  
San Diego, CA  
Phone: 619-767-8014

Project Title: Establishment of Outpatient Spinal Surgery services  
Project Address: 500 Ala Moana Blvd., Bldg 1, Suite 303  
Honolulu, Hawaii

1. TYPE OF 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: \_\_\_\_\_ X \_\_\_\_\_
- Honolulu: \_\_\_\_\_
- Windward O`ahu: \_\_\_\_\_
- West O`ahu: \_\_\_\_\_
- Maui County: \_\_\_\_\_
- Kaua`i County: \_\_\_\_\_
- Hawai`i County: \_\_\_\_\_

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

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

*The designated area is located at 500 Ala Moana Boulevard, Building 1, Suite 303, Honolulu. (A copy of the Lease Option Agreement is included in Attachment 1.)*

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.)

- Building Permit
- Certificate of Occupancy
- State Licensure from the Department of Health
- Medicare/Medicaid Certification
- CLIA
- DEA
- City of Honolulu Business License
- Hawaii Pharmacy Permit (Facility non-dispensing version)
- A permit to operate an emergency generator

Oahu County Health Permit  
 A Permit to operate an Alarm System, Honolulu Police Department  
 Hazardous Waste Management Plan with county  
 Medicare Part B Agreement

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C. Your governing body: list by names, titles and address/phone numbers

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Year 2005 list included. See Attachment 2

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

- Articles of Incorporation: A copy of the Certificate of Formation is included in Attachment 3
- By-Laws: Not Applicable
- Partnership Agreements: Copies of the Operating Agreement, Contribution Agreement and Management Agreement are included in Attachments 4, 5 and 6.
- Tax Key Number (project's location): 1-2-1-29-1

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 Service	Change in Beds
Inpatient Facility					
Outpatient Facility			X	X	
Private Practice					

5. **TOTAL CAPITAL COST:** \$6,540,000.00 (Approx.)

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.

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Type of Bed	Current Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
Obstetrics			
Critical Care			RECEIVED
Medical / Surgical			
Psychiatric			
Skilled Nursing			05 NOV 15 9:31
TOTAL			

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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 with agency staff.

*Establishment of Outpatient Surgery Center*

8. **PROJECT COSTS AND SOURCES OF FUNDS**

A. List All Project Costs:

AMOUNT:

1. Land Acquisition	\$ <u>N/A</u>
2. Construction Contract	\$ <u>1,638,500</u>
3. Fixed Equipment	\$ <u>385,500</u>
4. Movable Equipment	\$ <u>876,000</u>
5. Financing Costs	\$ <u>760,000</u>
6. Fair Market Value of assets acquired by lease, rent, donation, etc.	\$ <u>2,880,000</u>
7. Other: <i>Design, Project Management, Permits, Legal Services, Hazardous Material, Contingency, Miscellaneous Additional Construction</i>	\$ _____
	\$ _____

**TOTAL PROJECT COST: \$ 6,540,000**

**B. Source and Method of Estimation**

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

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The costs reported above were calculated based upon the experience of NeoSpine Surgery, LLC, a member of Honolulu Spine Center, LLC, in building three similar ambulatory surgical center in Baltimore, Maryland, Denver, Colorado, and Bristol, Tennessee, during the past 12 months. Construction costs for those facilities were as follows:

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Baltimore, Maryland	\$1,186,000
Denver, Colorado	\$1,144,000
Bristol, Tennessee	\$1,140,000

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**Average Cost of Construction** **\$1,156,666**

The construction and equipment costs for these facilities were then increased by 40% in order to take into account the higher costs for labor and material in Hawaii.

**C. Source of Funds**

1. Cash	<u>\$ 760,000</u>
2. State Appropriations	<u>\$</u>
3. Other Grants	<u>\$</u>
4. Fund Drive	<u>\$</u>
5. Debt	<u>\$2,900,000</u>
6. Other: <u>Real Property Lease</u>	<u>\$2,880,000</u>

**TOTAL SOURCE OF FUNDS: \$6,540,000**

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) Date of site control for the Proposed Project: Site is already controlled by Applicant. See Attachment 1.
- b) Dates by which other government approvals/permits will be applied for and received: March 31, 2006
- c) Dates by which financing is assured for the project: February 28, 2006
- d) Date construction will commence: April 30, 2006

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- e) Length of construction period: 7 months
- f) Date of completion of the project: November 30, 2006
- g) Date of commencement of operation: January 31, 2007

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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.

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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.

- a) Relationship to the Hawai'i Health Performance Plan (H2P2), also known as the State of Hawai'i Health Services and Facilities Plan.
- b) Need and Accessibility.
- c) Quality of Service/Care.
- d) Cost and Finances (include revenue/cost projections for the first and third year of operation).
- e) Relationship to the existing health care system.
- f) Availability of Resources.

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### Introduction

Honolulu Spine Center, LLC ("HSC") seeks to establish an Ambulatory Surgical Center ("ASC") for the purpose of providing outpatient spinal surgery, as well as pain management services (the "Proposed ASC"). The Proposed ASC is a joint venture between Pacific Spine Institute, LLC ("Pacific Spine Institute"), which is comprised of ten Honolulu surgeons who are specialists in neurosurgery and orthopedic spine surgery, and NeoSpine Surgery, LLC, ("NeoSpine") an experienced surgical healthcare management company. Each member will own a 50% interest in the joint venture. The facility will consist of a business office, two operating rooms, one procedure room, five pre-operative beds and six private recovery rooms. A drawing of the floor plan of the Proposed ASC is included in Attachment 7. The proposed ASC will provide treatment for spine conditions, including debilitating and disabling cervical and lumbar disc disease (the "Diseases"), and will also offer pain management services. Diseases of the spine can be extremely painful and can lead to partial or permanent disability. Obtaining efficient and effective care is becoming more problematic for the relatively healthy workforce population in Hawaii due to the limited number of neurosurgeons and orthopedic spine surgeons in the State. The difficulty in attracting these specialty surgeons from the mainland to practice locally has impeded access and has limited the options for this type of spinal care. Furthermore, the spine surgeons who do practice are constrained by the current hospital surgical environment. Hospitals remain focused on acute and traumatic care and not elective care. This scenario has lead to an inefficient model of care to address these relatively healthy individuals suffering from spinal disease. Individuals suffering from these Diseases are often immobile or severely restricted and may be unable to work or engage in everyday activities. Thus, the Diseases not only affect the individuals suffering from their painful effects, but also burden their employers and families, who may have to accommodate the special needs of those rendered unproductive or in need of assistance by Diseases of the Spine. Accordingly, the Proposed ASC, in addition to improving access to spine care in a safe and high quality setting, will remedy many of the negative societal effects of these diseases as well.

**a. Relationship to the Hawai'i Health Performance Plan (H2P2), also known as the State of Hawai'i Health Services and Facilities Plan.**

The Proposed ASC is consistent with H2P2's goal to "increase the span of healthy life for Hawaii's residents," because it enables relatively healthy adults with spinal conditions to receive curative treatment in an efficient and safe environment, thereby allowing them to return to their

active lifestyles as quickly as possible. The Proposed ASC is also consistent with H2P2's objective of "early detecting and diagnosing of treatable diseases," because the convenience and accessibility of this outpatient facility will encourage treatment earlier in the progress of the Diseases and, thereby facilitate improved treatment outcomes. The H2P2's goal of "reducing the effects of chronic disease and prolonging health related quality life" will be achieved because the treatment offered at the Proposed ASC will enable those afflicted with Diseases of the Spine to function at their optimal level and experience greater enjoyment of life because of improved mobility. Finally, Diseases of the Spine are characterized by significant pain, often caused by even the simplest of movements. By providing convenient and effective early treatment options, the Proposed ASC will "reduc[e] morbidity and pain [associated with the Diseases] through timely and appropriate treatment."

**b. Need and Accessibility.**

The Proposed ASC's service area includes all of Oahu. It will be located in downtown Honolulu to facilitate accessibility for residents from all parts of the island. Neighbor island residents could also utilize the facility. A site map is included as Attachment 8. The H2P2 guidelines state that prior to initiation of new ASC services, other comparable operating rooms in the service area must average a minimum of 1,600 hours per room utilization per year. However, the Proposed ASC will be the first ASC on Oahu specifically targeting the treatment of spinal conditions. Therefore, valid comparisons with other ASC's in the service area cannot be made. By focusing on conditions of the spine, the Proposed ASC will offer its patients optimal quality of care by utilizing staff with specialized training and experience in performing the targeted procedures. Additionally, by limiting the range of procedures offered to those performed by its staff of specialty surgeons, the Proposed ASC will be able to minimize costs by limiting capital investment and maintenance expense to only that necessary for the specific procedures performed by its staff, thereby reducing costs to the patient. Due to the focus on spinal surgery, the Proposed ASC will employ an intense care model that will provide spinal patients with a level of service not found elsewhere in Hawaii. Finally, by allowing spine surgeons to manage their practice more efficiently, the ASC will facilitate their availability for on-call trauma service and designated inpatient procedures.

**c. Quality of Service/Care.**

The ASC will comply with State and Federal regulations for delivery of care, maintenance of service equipment, and maintenance of clinical environment. HSC will be accredited by JCAHO, Medicare certified, and licensed by the Department of Health.

Patient care at the Proposed ASC will be provided by credentialed physicians and RNs and LPNs with advanced specialty training and through well-defined and well-documented protocols for caregivers. Physicians will be credentialed in accordance with the Medical Staff Bylaws, Rules and Regulations that will be created and maintained by HSC's Governing Body and will include the delineation of application materials required of each applicant, decision time frames, prioritizing processes, fair hearing procedures, and the assessment of care rendered or proposed to be rendered by the applicant. Only member of the Medical Staff with admitting privileges may admit patients to the facility, and such individuals shall practice only within the scope of the privileges granted by the Governing Body. Each patient's medical condition will be the responsibility of a qualified member of the Medical Staff. In all cases, the results of quality assessment and improvement activities, which will examine components of care rendered by

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any privileged member, shall be considered before a re-appointment decision or any other decision affecting privileges is made.

All anesthesiologists practicing at the Proposed ASC will be Board Certified or Board Eligible in anesthesia. Other HSC surgeons are on the active medical staff of hospitals such as Queen's and St. Francis, with clinical privileges in neurosurgery or orthopedic surgery and are associated with such professional organizations as American Association of Neurological Surgeons, Congress of Neurological Surgeons, North American Spine Society, American College of Surgeons, American Medical Association, Hawaii Association of Neurological Surgeons, Hawaii Medical Association, American Association for the Advancement of Science, International Association for the Study of Pain, American Society for Interventional Pain Surgeons, International Spine Intervention Society, Association of Military Surgeons of the US, Honolulu County Medical Society, and Pan-Pacific Surgical Association.

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All licensed nursing personnel will be BLS certified. All PACU nurses will be ACLS certified. The Proposed ASC will conduct regular performance reviews of employees which, among other purposes, will be used to identify strengths, discover areas for improvement, document professional performance, and gather data as a guide for such actions as wage increases, promotions, disciplinary action and reassignment.

Moreover, as part of the network of ASCs managed by NeoSpine, the Proposed ASC will have access to data collected from NeoSpine surgical centers across the United States regarding clinical outcomes, bench marks seen at other centers and best practices, and its medical staff will have the opportunity to participate in a unique community of spine surgeons throughout the country. NeoSpine's Medical Advisory Board, which meets annually to discuss quality issues, is composed of some of the nation's most outstanding spine surgeons. See Exhibit C-2.

**d. Cost and Finances.**

As documented in Section 8A of the Application Form, the Proposed Project is estimated to cost approximately \$6,540,000. There will be a non-recourse loan through a non-affiliated lender in the amount of \$2,900,000, which will be used to pay for constructing and equipping the facility. The site, the estimated fair market value of which is \$2,880,000, will be acquired through a ten-year lease at a total cost of \$2,159,040 to be paid over the life of the lease. The investors (NeoSpine and Pacific Spine Institute) will establish a working capital reserve of approximately \$1,000,000 to fund start-up costs.

**e. Relationship to the existing health care system.**

The Proposed ASC will have a significant positive impact on health care in the State. Currently, there are no ambulatory surgery centers on Oahu dedicated to the treatment of spinal conditions. Demand for such a facility has increased as a result of advances in minimally invasive surgery and anesthesia techniques. Providing staff and facilities equipped to handle the special requirements of spinal procedures will expand the range of these types of procedures that can be performed in an outpatient setting. Therefore, the Proposed ASC will allow the hospital to focus on acute care and more complex surgeries that require an inpatient stay. By diversifying and developing more efficient treatment settings, a more efficient and effective state health care system benefiting patients, hospitals and surgeons will result. HSC anticipates performing approximately 1800 pain management and 293 surgical procedures during its first year of operations. Because this relatively small number of surgical procedures

will be shifted to the Proposed ASC from several of the island's hospitals, the initiation of services at the Proposed ASC should have minimal impact on any single hospital's revenues. Finally, as part of a network of spinal surgery centers with affiliates in all parts of the nation, HSC will have access to a shared base of data regarding clinical outcome and best practices that will provide information to enhance the care given to Hawaii residents overall. The ASC will also make spine surgeons more available to respond to trauma cases at local hospitals by increasing the efficiency with which they perform surgical services for their patients and thereby making more time available for on-call service.

**f. Availability of Resources.**

Ten surgeons and a sufficient number of anesthesiologists to serve patient care needs will comprise the Proposed ASC's medical staff. Ancillary staffing requirements will include six RNs/LPNs, one OR Technician, and six Administrative Personnel. HSC is confident it will acquire qualified personnel through inquiries and interviews with persons in the community with the requisite training and experience. There are minimal financial obstacles to the Proposed Project. The ASC will have established a working capital fund by HSC's members. The balance of the project will be funded through a non-recourse loan from a non-affiliated lender.

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