



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number: #07-07A

Applicant: Castle Medical Center
640 Ulukahiki Street
Kailua, Hawaii 96734

Phone: 808 263-5142

Project Title: Change of ownership and expansion of ambulatory
surgery services

Project Address: same

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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: X
- 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 proposed ambulatory surgery center ("ASC") will be located in the Harry and Jeanette Weinberg Medical Plaza and Wellness Center Building on the Castle Medical Center campus and is owned by Castle Medical Center. See Attachment 5, a commitment letter for lease of space to the ASC.

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.)

Department of Health – Licensure
Department of Permitting and Planning – Building Permit

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

See Attachment 1.

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:

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- Articles of Incorporation: See Attachment 2 (Articles of Organization)
- By-Laws: Not Applicable
- Partnership Agreements: See Attachment 3 (Operating Agreement)
- Tax Key Number (project's location): 4-2-006:004

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.

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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 Service	Change in Beds
Inpatient Facility					
Outpatient Facility				X	
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.

Type of Bed	Current Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
TOTAL			

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6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:

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1.	Land Acquisition	_____
2.	Construction Contract	ST. IRLYN PLNG & DEV. AGENCY <u>\$2,075,267</u>
3.	Fixed Equipment	<u>\$2,409,500</u>
4.	Movable Equipment	_____
5.	Financing Costs	REPLACEMENT PAGE <u>\$ 772,572</u>
6.	Fair Market Value of assets acquired by lease, rent, donation, etc.	_____
7.	Other: Development Costs*	<u>\$ 22,423</u>

TOTAL PROJECT COST: \$5,279,762

* Development costs include Equipment consultant, Life Safety facility consultant, HI fees, Legal fees, and pre-operation and expenses including staffing.

B. Source of Funds

1.	Cash	<u>\$3,185,919</u>
2.	State Appropriations	_____
3.	Other Grants	_____
4.	Fund Drive	_____
5.	Debt	<u>\$2,093,843</u>
6.	Other: _____	_____

TOTAL SOURCE OF FUNDS: \$5,279,762

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 is an expansion of an existing service. On June 30, 2003, SHPDA approved certificate of need application No. 03-16A in order to permit Castle Medical Center to expand its operating room services and relocate its endoscopy services to from the five main hospital operating suites to two new suites in a separate outpatient setting. The current proposal expands the previously approved outpatient surgery area. The expanded outpatient surgery center will include a total of two operating rooms and two procedure rooms, and will allow a wider range of procedures to be performed in the outpatient setting, thereby allowing better use of the main hospital's operating suites. Reference HAR § 11-186-5(3)(c).

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:

March 29, 2007 or as soon as CON is approved.

- b) Dates by which other government approvals/permits will be applied for and received:

Building Permit:
Applied for -- April 2007
Received -- July 2007

- c) Dates by which financing is assured for the project: June 2007

- d) Date construction will commence: August 2007

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e) Length of construction period: Eight (8) months

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f) Date of completion of the project: March 2008

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g) Date of commencement of operation: April 2008

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.

- 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.

EXECUTIVE SUMMARY

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Project Description

Castle Ambulatory Surgery Center, LLC ("Castle ASC") seeks to develop a multispecialty ambulatory surgery center ("ASC") at the Harry and Jeanette Weinberg Medical Plaza and Wellness Center Building, located on the campus of Castle Medical Center ("CMC") at 642 Ulukahiki Street in Kailua. See Attachment 4. Castle ASC was organized by CMC, which currently owns 100% of the company.

The proposed ASC will consist of two operating rooms and two procedure rooms, within the same space that was previously approved for development of an outpatient surgery center by CMC alone, see Certificate of Need Application No. 03-16A, plus additional space in the same building.

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 will advance H2P2's goal of achieving equitable and effective access at reasonable cost for Hawai'i's residents to health services that are responsive to the holistic needs of the community's members and its objective of prolonging health related quality of life and reducing morbidity and pain through timely and effective treatment by providing access to surgical procedures in an efficient and cost effective outpatient setting.

The proposed ASC is consistent with H2P2's basic principles of a health care system because it represents a coordinated and cooperative partnership between CMC and its staff physicians to improving access to secondary care. It will contribute toward improving two of the five critical elements of Hawai'i's health care delivery system that are identified by H2P2. It will promote equitable, effective and efficient access to care and improve the cost-effectiveness of Hawai'i's health care system by facilitating the provisions of appropriate surgical procedures in an outpatient setting where they will be performed in a more cost effective manner that also improves patient convenience. By allowing CMC to focus on services in its five operating rooms on more complex inpatient surgical procedures, it will facilitate increased efficiency and capacity for those services as well.

The proposed ASC will also improve access to health care in Windward Oahu by helping CMC to attract and retain highly qualified physicians and surgeons for the area.

b) **Need and Accessibility**

Analysis of historical outpatient surgery volume at CMC and interviews with physicians interested in utilizing the proposed ASC have shown that approximately 1,864 gastroenterology procedures and 1,774 surgical procedures are now being performed annually that could be performed at the proposed ASC. Projected procedure volume and case mix for the first and second years of operation are summarized in Table 1, below.

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Specialty	Year 1		Year 2	
	Volume	Percent of Total	Volume	Percent of Total
ENT	63	1.7	67	1.7
GI	1,864	51.3	1,976	51.3
Gen	310	8.5	329	8.5
GYN	154	4.2	163	4.2
Ophth	335	9.2	355	9.2
Ortho	779	21.4	825	21.4
Plastic	47	1.3	50	1.3
Pod	13	0.4	13	0.4
Uro	74	2.0	78	2.0
Total	3,639	100	3,856	100

Table 1. Project ASC Utilization.

After year 2, volume is expected to increase by 3% annually.

Utilization of CMC's existing operating rooms exceeds H2P2 threshold of 1,600 hours per room per year (approximately 1,920 hours per room during 2006). During 2006 CMC performed over 3,000 outpatient procedures. Relocation of these procedures to the proposed ASC will relieve congestion in CMC's five operating rooms and allow capacity for anticipated future growth.

Like CMC, the proposed ASC will provide services for all residents of its service area, including low income persons, racial and ethnic minorities, women, handicapped persons, the elderly and other underserved groups.

c) Quality of Service/Care

The proposed ASC will comply with applicable federal and state statutes and regulations governing the delivery of care and maintenance of service equipment and the clinical environment. It will seek accreditation from the Joint Commission of Accredited Healthcare Organization (JCAHO), be licensed by the State of Hawaii Department of Health and participate in the Medicare and Medicaid programs. The facility will provide patient care through well-defined processes for caregivers.

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

There is no capital cost associated with the transfer of ownership.

The project cost approved in the original CON was \$1,064,000. The cost of the expanded project now requested is \$5,279,762. Therefore, the difference in costs associated with the new project is \$4,215,762.

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The project will be funded by through a combination of equity and debt. Cash contributions from the owners will total \$3,100,000, equaling 58% of the total funding for the project, and will be applied to owners' equity in tenant improvement, equipment and 100% of start up costs. Debt financing will comprise 42% of the project funding and will represent 50% loan-to-value ratio for tenant improvements, office furniture, information systems, and medical equipment. Debt financing will be secured at a later date from CMC's traditional lending sources. CMC does not foresee any difficulty in obtaining the debt financing.

As shown on page 4, the total capital cost of the project is estimated at \$5,279,762, which includes \$2,075,267 for site improvements, \$2,409,500 for fixed equipment and movable equipment, \$772,572 for development costs and \$22,423 for financing costs. 58% of the project cost will be financed through the cash contributions of the joint venture participants. The remainder of the project costs will be financed through debt. The site is owned by CMC.

The operating revenue for the first year of operation is projected at \$3,854,628, and operating expenses for the same period are projected at \$4,025,489, resulting in a net operating loss of \$170,861. By the third year of operation, revenue is expected to increase to \$4,427,064, with total expenses for year three projected at \$4,334,483, resulting in an operating profit of \$92,581.

e) Relationship to the existing health care system

CMC is currently the anchor healthcare facility for Windward Oahu. The proposed ASC will add capacity needed to augment CMC's existing surgical services and facilitate efficient service to the hospital's surgical inpatients and outpatients. The project will improve the quality of outpatient surgical facilities available to patients in CMC's service area, and help the hospital recruit and retain highly qualified physicians and surgeons for the Windward Oahu community.

f) Availability of Resources.

As discussed in part (d), above, the project will be financed through a combination of equity and debt financing. This ASC will require substantial personnel resources including approximately 18 full time equivalents. These resources will be acquired through existing surgical staff from Castle Medical Center and recruited staff from across Oahu.

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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.

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