



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

STANDARD APPLICATION - CERTIFICATE OF NEED PROGRAM

Application Number: 10-02 Date of Receipt:
To be assigned by Agency

APPLICANT PROFILE

Project Title: Establishment of multi-specialty ambulatory surgery center in Mililani Mauka

Project Address: 95-1091 Ainamakua Drive, Mililani, Hawaii 06780

Applicant Facility/Organization: Central Oahu ASC, LLC

Name of CEO or equivalent: Roy H. Doi

Title: President

Address: 128 Lehua Street, Wahiawa, Hawaii 96786-2036

Phone Number: 621-8411 Fax Number: 621-4451

Contact Person for this Application: Roy H. Doi

Title: President

Address: 128 Lehua Street, Wahiawa, Hawaii 96786-2036

Phone Number: 621-8411 Fax Number: 621-4451

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.

Roy H. Doi
Signature

2/12/2010
Date

Roy H. Doi
Name (please type or print)

President
Title (please type or print)

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: _____

1. 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: X (and Central Oahu, North Shore)
- Maui County: _____
- Kaua`i County: _____
- Hawai`i County: _____

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

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

See 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 from City & County of Honolulu
- License from Department of Health
- Narcotic Registration from Drug Enforcement Administration and Narcotics Enforcement Division of the Hawaii Department of Public Safety

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

See Attachment 2.

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 3 (Articles of Organization).
- By-Laws: Not applicable.
- Partnership Agreements: See Attachment 4.
- Tax Key Number (project's location): 950490840000

3. **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 service/ establish new service/facility | Change in Beds |
|---------------------|--|---|---|---------------------|--|----------------|
| Inpatient Facility | | | | | | |
| Outpatient Facility | | | | | X | |
| Private Practice | | | | | | |

4. **TOTAL CAPITAL COST:** \$5,250,000

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 | | | |

6. **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 a multi-specialty ambulatory surgery center. HAR § 11-186-5(3)(c).

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

| A. List All Project Costs: | AMOUNT: |
|---|------------------------------|
| 1. Land Acquisition | _____ |
| 2. Construction Contract | <u>\$1,750,000.00</u> |
| 3. Fixed Equipment | <u>\$1,250,000.00</u> |
| 4. Movable Equipment | _____ |
| 5. Financing Costs | _____ |
| 6. Fair Market Value of assets acquired by lease, rent, donation, etc. (Site lease) | <u>\$2,250,000.00</u> |
| 7. Other: _____ | _____ |
| TOTAL PROJECT COST: | <u>\$5,250,000.00</u> |

B. Source and Method of Estimation

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

Construction and equipment cost estimates were calculated from national data for similar facilities with adjustments to take into account higher costs in Hawaii. The fair market value of the site was calculated based on the value of the lease.

| C. Source of Funds | AMOUNT: |
|--|------------------------------|
| 1. Cash | <u>\$1,200,000.00</u> |
| 2. State Appropriations | _____ |
| 3. Other Grants | _____ |
| 4. Fund Drive | _____ |
| 5. Debt | <u>\$1,800,000.00</u> |
| 6. Other: <u>site lease payments to be made from operating revenue</u> | <u>\$2,250,000.00</u> |
| TOTAL SOURCE OF FUNDS: | <u>\$5,250,000.00</u> |

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: January 2010 (subject to receipt of CON)
- b) Dates by which other government approvals/permits will be applied for and received:
Building Permit Applied For: May 2010
Building Permit Received: August 2010
Medicare Certification: June 2011 (Upon Completion)
- c) Dates by which financing is assured for the project: Upon Receipt of CON
- d) Date construction will commence: September 2010
- e) Length of construction period: 8 months
- f) Date of completion of the project: May 2011
- g) Date of commencement of operation: June 2011

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 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

Project Description

Central Oahu ASC, LLC (Central Oahu ASC) seeks to develop a multi-specialty ambulatory surgery center (the "proposed ASC") at an interim site at the Gateway office complex in Mililani Mauka. See Attachment 5. The proposed ASC will consist of two operating rooms, a pre-operative area, post-operative recovery room and business office area. See Attachment 6. The proposed ASC will eventually be moved to a permanent location within the medical mall that is to be built as part of Castle & Cooke Homes of Hawaii, Inc.'s ("CCHH") Koa Ridge Makai Community, which will be bordered, in part, by Ka Uka Boulevard and the H-2 Highway.

The interim ASC will be the first step in a long-term plan to develop the medical mall on 28 acres of land donated to Wahiawa General Hospital, Inc. ("WGH") by CCHH for the purpose of providing medical facilities at Koa Ridge Makai, a 575-acre master planned community. See Attachment 7. Implementation of the long-range plan is essential to the ongoing survival of WGH. The hospital building was last modernized and expanded in 1989, and some parts of the facility are more than 50 years old. Retrofitting the aging physical plant to accommodate the requirements of up-to-date technology cannot be accomplished in a cost effective manner. This challenge to WGH's continuing ability to provide top quality medical care to residents of its service area has been exacerbated by its on-going financial struggles, which have resulted from low reimbursements, a falling patient census as residents of the service area seek care at more modern facilities, and difficulties in attracting and retaining physicians for the aging hospital's medical staff. WGH's long-term care facilities, which occupy a portion of the current building, also need renovation and expansion to meet the ever growing demand created by the service area's aging population.

WGH's long-term plan seeks to maximize the revenue producing potential of CCHH's generous gift by developing a medical mall on the Koa Ridge property. The mall will include space to be rented to other health care providers, as well sites for joint ventures, such as the proposed ASC, between WGH, other health care providers and outside investors. After building of the Koa Ridge project commences, the ASC will be relocated to its permanent location. Income from space rentals and the joint venture located at the new medical mall will eventually be used for construction of a new, modern hospital building on the Koa Ridge property. Accordingly, the proposed ASC is the first step in development of the revenue stream needed to revitalize WGH. The hospital also anticipates that by offering physicians an opportunity to invest in such joint ventures, it will enhance its ability to recruit and maintain a larger medical staff, representing a wider range of specialists than is now available.

The Wahiawa Hospital Association (the Association), which owns and operates WGH, is the only current member of Central Oahu ASC. Ultimately, the company's members will include the Association, which will own 26% of the company, and physician members who will own 49% of the company. Smithfield Medical Development (Smithfield), which specializes in development and management of health care facilities, has also been identified as a tentative member of the company. Negotiations are underway to add Smithfield as a member owning a 25% interest in the company. The physician members will contribute \$588,000 and Smithfield will contribute \$612,000 to the company. WGH will contribute a portion of the Koa Ridge Property, when the ASC is ultimately relocated to its final site.

It is anticipated that the Koa Ridge medical mall will eventually provide residents of both the new development, and nearby communities in Central and the North Shore of Oahu that are already served by WGH, with a wide range of inpatient and ambulatory services, such as emergency and urgent care services, ambulatory surgery, and diagnostic imaging, as well as medical office space and additional needed long-term care facilities. The proposed ASC will be the first step in transitioning services now provided at WGH to the new site as the development proceeds.

a) Relationship to the Hawaii Health Services and Facilities Plan

The proposed ASC meets the threshold requirements set forth in the Hawaii Health Services and Facilities Plan ("HHSFP") because it will function as a component of WGH and, in the event that an ASC patient requires hospitalization, ASC personnel will coordinate the patient's transfer to WGH. The ASC's personnel will participate in the same training programs as WGH's inpatient surgery staff. Similarly, the ASC's operations will be integrated into WGH's emergency response planning, and its staff will be ready to participate as necessary in caring for victims of natural disasters, pandemics or other emergencies.

The proposed ASC will advance the HHSFP's statewide priority to promote the long-term viability of the health care delivery system by enabling WGH, a key provider of primary and secondary care to residents of its service area, to commence the long-term development plan that will enable it to build the updated facilities needed to provide high quality care to its patients and to meet the future needs of the area's increasingly older population. The project will also facilitate the recruitment and retention of surgeons into the area by giving surgeons who are members of WGH's medical staff an opportunity to purchase interests in the proposed ASC, thereby providing those physicians with supplemental income and a chance to directly participate in the operation of the facility and play an active role in the maintenance of high patient care standards.

The new facility will maintain overall access to high quality primary health care in the area because of its easily accessible site and will allow WGH to offer ambulatory surgery services within a more efficient patient-care model thereby lowering the overall cost of providing care to residents of the service area. Because it will function as part of WGH, the proposed ASC will fit within the larger continuum of care offered by the hospital and augment the hospital's contribution to the continuum of care available on a regional and statewide basis.

b) Need and Accessibility

The primary service area (PSA) for the proposed ASC consists of Central and the North Shore of Oahu, and its target population is composed of individuals residing in the PSA.

Population forecasts developed by the City & County of Honolulu Department of Planning and Permitting indicate the PSA's current population is about 254,297. WGH provides primary and secondary health care services for about 20-30% of the area's population, with other services provided by the large Honolulu medical centers, the military health system and Kaiser Permanente facilities.

The age profile of the targeted service area was estimated based on State of Hawaii estimates of Oahu growth by age group and the most recent (2007) age profiles of the Oahu planning zones that

comprise the targeted zip codes. The 65+ age segment is forecast to grow the most in the forecast period from 12% of the PSA population in 2010 to 16% in 2025.

Based on expected population increases in the PSA and anticipated increased demand resulting from the aging of the area's population, a preliminary health care Facilities Planning Forecast completed by Cattaneo & Stroud in January 2009 estimated that the need for medical services in the PSA should increase by approximately 29% from 2007 through 2025.

Based on data measuring the utilization of ASCs in California, current demand for ASC procedures in the PSA is estimated to be 2982 procedures per year. WGH provides only about 720 outpatient procedures annually. Accordingly, the PSA's resident must largely depend on service providers outside the area to satisfy the unmet need of approximately 2262 procedures annually.

The existing facilities at WGH are inadequate to meet current demand, much less permit growth to accommodate the anticipated demand, both because of the limited space for expansion at the existing hospital campus and because the age of the current hospital building limits its ability to accommodate some modern equipment without expensive retrofitting. Hence, need for new facilities is expected to become acute as the demand for medical services in the PSA continues to grow.

The proposed ASC will be conveniently located at the entrance to Mililani Mauka, and be handicapped accessible. The site has ample parking and is close to public transit routes. Like WGH, 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 State and Federal regulations for delivery of care, maintenance of service equipment, and maintenance of clinical environment. It will be accredited by the Accreditation Association for Ambulatory Health Care ("AAAHC"), 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, through well-defined and well-documented protocols for caregivers. Physicians will be credentialed in accordance with Medical Staff Bylaws, which 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 members of the Medical Staff with admitting privileges at WGH will admit patients to the facility, and such individuals shall practice only within the scope of the privileges granted by Central Oahu ASC's Board of Directors. 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 any privileged member, shall be considered before a re-appointment decision or any other decision affecting privileges is made.

Anesthesia services will be provided by Board Certified or Board Eligible anesthesiologists or Certified Registered Nurse Anesthetists.

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.

d) Cost and Finances

As documented in Sections 4 and 7.A of the Application Form (pages 3 and 4 of 9), the Proposed Project is estimated to cost approximately \$5,250,000. The physician members will provide \$588,000 and Smithfield will provide \$612,000 cash for the project. Further funding in the amount of \$2,350,000 will be obtained through a commercial loan. With the members' capital contributions, \$1,800,000 of the loan proceeds will be used for build out of the site and acquisition of equipment. The remaining \$555,000 will be used to fund the ASC's initial operating costs. The interim site, the estimated fair market value of which is \$2,250,000, will be acquired through a five-year lease. The cost of the site will be paid from operating revenues over the life of the lease. WGH will contribute a portion of its Koa Ridge property as a permanent site for the proposed ASC when development of the medical mall commences.

e) Relationship to the Existing Health Care System

Because it will be located in Central Oahu, where few same day surgery facilities are available, the project is expected to have minimal negative impact on the operations of other same day surgery providers on Oahu. Because it is anticipated that the proposed ASC will improve WGH's ability to attract and retain surgeons in the PSA and because it is the first step in WGH's long term plan to improve its facilities, the proposed ASC will make a positive contribution to the long term maintenance and improvement of Oahu's health care system.

f) Availability of Resources

Staffing requirements will include eight operating room nurses, two operating room nurse assistants, five OR Technicians, and six Administrative Personnel, including an Administrator, a Materials Manager and four administrative staff members. Central Oahu ASC 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 project will be funded through cash contributions from the members and a loan from a commercial lender.