



# HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

## STANDARD APPLICATION - CERTIFICATE OF NEED PROGRAM

Application Number: #11-16 Date of Receipt:  
To be assigned by Agency

### APPLICANT PROFILE

Project Title: Establishment of Ambulatory Surgery Center Service Limited to Orthopedic Procedures

Project Address: 550 South Beretania Street, Suite 701, Honolulu, Hawai'i 96813

Applicant Facility/Organization: Orthopedic Associates Ambulatory Surgery Center, LLC

Name of CEO or equivalent: Darryl Kan, M.D.

Title: President

Address: 1380 Lusitana Street, Suite 608, Honolulu, Hawai'i 96813

Phone Number: 536-2261 Fax Number: 538-3957

Contact Person for this Application: Darryl Kan, M.D.

Title: President

Address: 1380 Lusitana Street, Suite 608, Honolulu, Hawai'i 96813

Phone Number: 536-2261 Fax Number: 538-3957

### 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.

*Darryl Kan*

Signature

7/22/11

Date

Darryl Kan, M.D.

Name (please type or print)

President

Title (please type or print)

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: \_\_\_\_\_

2. **PROJECT LOCATION INFORMATION:**

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

- Statewide: \_\_\_\_\_
- O`ahu-wide:   X
- Honolulu:   X
- 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)

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 – City & County of Honolulu, Department of Permitting & Planning  
 License – State of Hawaii, Department of Health  
 Medicare Certification – State of Hawaii, Department of Health

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.
- By-Laws: Not applicable.
- Partnership Agreements: See Attachment 4.
- Tax Key Number (project's location): 2-1-03-5009-0000

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

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

**5. TOTAL CAPITAL COST:** \$3,174,440

**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.

Type of Bed	Current Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
<b>TOTAL</b>			

**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.

Implementation of ambulatory surgery services limited to orthopedic procedures in Honolulu.

Reference HAR § 11-186-5(3)(C).

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

<b>A. List All Project Costs:</b>	<b>AMOUNT:</b>
1. Land Acquisition	_____
2. Construction Contract	<u>\$ 825,000.00</u>
3. Fixed Equipment	_____
4. Movable Equipment	<u>\$ 425,000.00</u>
5. Financing Costs	<u>\$ 47,640.00</u>
6. Fair Market Value of assets acquired by lease, rent, donation, etc. (site lease)	<u>\$1,876,800.00</u>
7. Other: _____	_____
<b>TOTAL PROJECT COST:</b>	<b><u>\$3,174,440.00</u></b>

**B. Source and Method of Estimation**

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

Estimates of construction costs are based on bids solicited and an actual contract awarded for construction of another ambulatory surgery center in Honolulu within the last 8 months. OA-ASC is unaware of any significant changes in the underlying market conditions. Equipment cost estimates are based on quotes received and actual equipment purchases within the last 12 months by an ASC consulting firm for similar orthopedic surgery centers on the United States mainland.

<b>C. Source of Funds</b>	<b>AMOUNT:</b>
1. Cash	<u>\$ 722,640.00</u>
2. State Appropriations	_____
3. Other Grants	_____
4. Fund Drive	_____
5. Debt	<u>\$ 575,000.00</u>
6. Other: <u>site lease payment over lease term</u>	<u>\$1,876,800.00</u>
<b>TOTAL SOURCE OF FUNDS:</b>	<b><u>\$3,174,440.00</u></b>

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: September 2011 (or upon receipt of CON)
- b) Dates by which other government approvals/permits will be applied for and received:  
Building Permit applied for: October 2011  
Building Permit received: March 2012
- c) Dates by which financing is assured for the project: September 2011 (or upon receipt of CON)
- d) Date construction will commence: April 2012
- e) Length of construction period: 8 months
- f) Date of completion of the project: December 2012
- g) Date of commencement of operation: January 2013

*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.*

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 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

Orthopedic Associates Ambulatory Surgery Center, LLC ("OA-ASC") is a member-managed limited liability company formed by Orthopedic Associates of Hawaii, LLP, a physician group practice specializing in orthopedics, which seeks to establish an Ambulatory Surgery Center ("ASC") on the campus of The Queen's Medical Center ("QMC") at Physicians' Office Building III, located at 550 South Beretania Street in Honolulu. A map showing the location is included in Attachment 5. The facility will consist of three procedure rooms, a business office and a pre-op/recovery area. The third surgical suite will be built out at the same time as the rest of the facility, and will be equipped and staffed as needed to accommodate demand for outpatient orthopedic procedures. The facility will provide a wide variety of orthopedic procedures.

### a) Relationship to the State of Hawai'i Health Services and Facilities Plan.

The proposed ASC will enter into the required collaborative agreement with QMC and, in the event that one of its patients requires hospitalization, the center's personnel will coordinate the patient's transfer to QMC.

OA-ASC will advance the Statewide Health Coordinating Council's ("SHCC") priorities relating to promoting and supporting the long-term viability of the health care delivery system, maintaining overall access to quality health care, striving for equitable access to health care services and fitting within the statewide continuum of care by relieving over-utilization of the ambulatory surgery center at QMC. Currently, it is difficult to schedule emergency outpatient surgery procedures at QMC because most of the available hours have been reserved by physicians who perform all of their outpatient procedures during scheduled blocks of time. The proposed ASC will have more scheduling flexibility and therefore will be able to accommodate unanticipated emergency procedures.

The proposed ASC will also promote equitable access by the families of military personnel stationed on Oahu. Although military dependents are eligible for care at Tripler Hospital, because a substantial number of surgeons are deployed in support of the war effort, military dependents needing same-day surgery often must obtain it from civilian facilities. The proposed ASC will provide an alternative source of care for military dependents in need of ambulatory surgery who cannot obtain it on a timely basis at Tripler.

In the short term, the proposed ASC will maintain overall access to quality health care at a reasonable cost because it will only perform procedures within a single surgical specialty. Its medical staff will be able to standardize procedures and implants and equipment used at the facility, and provide specialized training to the center's support staff. This specialized focus will allow the proposed ASC to perform orthopedic procedures more efficiently and effectively, and less expensively, than can be accomplished at multispecialty ASC. By limiting the range of procedures offered to those performed by its staff of specialty surgeons, the proposed ASC will minimize costs by limiting capital investment and maintenance expense to only those necessary for the specific procedures performed by its staff, thereby reducing costs to the patient. The proposed ASC's lower operating expenses will be reflected in lower patient charges, which will help to control escalating health care costs.

The proposed ASC will also improve access to quality health care at a reasonable cost in the long term because it will be an important first step in transitioning Hawaii's health care system to a new model of care that will emphasize utilization of the most cost-effective providers. This change will be essential if Hawaii is to respond optimally to the challenges of implementing the Patient Protection and Affordable Care Act ("PPACA") and achieve its goals of making affordable health care available to all members of our community.

The proposed ASC will be integrated into QMC's emergency response team and therefore contribute to the statewide emergency response and trauma network. Its proximity to QMC will make it an ideal location for triage and treatment in the event of a natural disaster, pandemic or other emergency.

Finally, the proposed ASC will help to address Hawaii's health care manpower shortage by providing an additional training site for residents in the University of Hawaii, John A. Burns School of Medicine's ("JABSOM") Orthopaedic Residency Program.

**b) Need and Accessibility**

OA-ASC's service area includes all of O`ahu. It will be located on the campus of QMC in Physicians' Office Building III, located at 550 South Beretania Street in Honolulu, which is easily accessible via public transportation and has ample handicap accessible parking.

OA-ASC has projected utilization of the new facility from the number of ambulatory surgery cases the participating surgeons are performing now, with an estimated growth rate of two percent per year through year 3, based on average historical growth in the number of outpatient procedures performed by members of the group. Based on this calculation, OA-ASC estimates that the new facility will perform 5961 procedures during its first year of operations, 6081 procedures during its second year of operations and 6201 procedures during its third year of operations.

OA-ASC will be accessible to all the residents of Oahu, including low income persons, racial and ethnic minorities, women, people with disabilities, the elderly and the medically underserved. The proposed ASC will provide services to patients covered by Medicare and Medicaid, and will devote 3% of its operating budget to the provision of charity care.

**c) Quality of Service/Care**

OA-ASC will comply with State and Federal regulations for delivery of care, maintenance of equipment and maintenance of the clinical environment. It will seek accreditation from Accreditation Association of Ambulatory Health Care, be licensed by the Department of Health, and be certified by Medicare. The facility will implement a Quality Assessment and Performance Improvement program that complies with the requirements of the Medicare conditions of participation for ASCs, provide patient care through well-defined processes for caregivers, and conduct ongoing quality review.

Patient care will be provided by physicians licensed by the Department of Health and Board Certified or Board eligible in orthopedic surgery. All the physicians will be on the active medical staff of one or more Oahu hospitals. OA-ASC will have a transfer agreement with QMC, in the event of a medical emergency that requires a higher level of care than can be provided by OA-ASC.

Physicians will be assisted by registered nurses ("RNs"), licensed physician assistants ("PAs") and qualified operating room ("OR") technicians. Staff competency will be maintained by regular in-service education. All RNs employed by Pacific ASC will be ACLS certified.

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

As documented on page 4 of 8 of the Application form, the estimated cost of this proposal is \$3,174,440. Funds for the project will come from cash contributions of the members and a commercial loan. The site, which is valued at \$1,876,800, will be acquired by lease and will be paid for by means of monthly rent payments over the ten-year term of the lease.

The operating revenue for the first year of operation is projected at \$7,784,858, and operating expenses for the same period are projected at \$6,489,650, resulting in a net operating profit of \$1,295,208. By the third year of operation, revenue is expected to increase to \$8,262,164, with total expenses for year three projected at \$6,768,876, resulting in an operating profit of \$1,493,288.

## e) Relationship to the existing health care system

OA-ASC will have a significant positive impact on health care in the State by providing a less expensive alternative to hospital-based outpatient orthopedic surgery. The passage of PPACA marked the beginning of substantial changes in the health care system, both in Hawaii and nationwide. Achieving PPACA's goals of affordable and near-universally available health care will require an intensified emphasis on provision of services by the most cost-effective providers. One means of accomplishing this objective will be shifting outpatient surgical procedures from a high-overhead, hospital-based setting to lower-overhead ambulatory surgery centers. QMC's support for this project comes from its acknowledgment of this fact, along with its recognition that hospital-based care is best reserved for patients whose medical conditions require the additional services that are available in a hospital-based setting.

This proposal will fill a gap in the existing health care system by relieving over-utilization of QMC's ambulatory surgery unit that has made scheduling of emergency outpatient orthopedic procedures difficult. It will improve accessibility to outpatient orthopedic surgery for military dependents, who are eligible for treatment at Tripler Hospital, but who nevertheless must seek such services from civilian providers because deployment of military surgeons has reduced Tripler's ability to provide them.

In the long term, this facility will also improve access to healthcare by providing an alternative training site for residents in JABSOM's Orthopaedic Residency Program, which will help to address Hawaii's shortage of orthopedic physicians.

## f) Availability of Resources.

OA-ASC will employ 19.5 FTEs total personnel, which will include 12 FTEs clinical staff. OA-ASC is confident that qualified personnel can be acquired through inquiries and interviews with persons in the community with requisite training and experience.

There are minimal financial obstacles to the project. Funding for the project will be obtained from cash contributions of the member physicians and a commercial loan from First Hawaiian Bank. The site will be leased.