



STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

NEIL ABERCROMBIE
GOVERNOR OF HAWAII

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August 14, 2012

CERTIFIED MAIL, RETURN RECEIPT REQUESTED

Arthur Ushijima
President
The Queen's Medical Center
1301 Punchbowl Street
Honolulu, HI 96813

Dear Mr. Ushijima:

The State Health Planning and Development Agency has evaluated The Queen's Medical Center's application #12-16A under Part V and Part VII of Chapter 323D, Hawaii Revised Statutes (HRS) for the acquisition and renovation of the hospital located at 91-2141 Fort Weaver Road, Ewa Beach, Hawaii, at a capital cost of \$73,200,000 (the "Proposal").

1. Pursuant to Title 11, Chapter 186 of the Hawaii Administrative Rules (HAR), the Agency has determined that the Proposal is eligible for administrative review as it meets one or more of the criteria in Subsection 11-186-99.1(b), HAR.
2. The Queen's Medical Center (the "applicant") states that "This project proposes to acquire and renovate the hospital at 91-2141 Fort Weaver Road at a total capital cost of \$73,200,000. As an additional location of The Queen's Medical Center (QMC), the hospital will be a division of QMC in West Oahu. It will serve the mission of The Queen's Health Systems 'To fulfill the intent of Queen Emma and King Kamehameha IV to provide in perpetuity quality health care services to improve the well being of Native Hawaiians and all of the people of Hawaii'. This project proposes to maintain the same beds and services that were approved in May 2012 for CON #11-18E for St. Francis Healthcare Systems of Hawaii."
3. The applicant states that "Queen's acquisition and renovation of the hospital at 91-2141 Fort Weaver Road will strengthen Hawaii's health care delivery system. As a division of The Queen's Medical Center, the proposed hospital will benefit from Queen's clinical, operational and financial strengths and resources. The closure of HMC-West in December 2011 has strained the capacity limits of Oahu's emergency rooms, EMS services, and inpatient beds. Neighbor island patients have also been affected with longer wait times for admissions and transfers to Oahu hospitals. This project proposes to restore lost patient care capacity that the health care delivery system urgently needs and it will support the long-term viability of the health care delivery system statewide."

4. The applicant states that "The closure of the HMC-West emergency room has strained the capacity limits of Oahu's emergency rooms and EMS services. It was the State's second busiest ER for ambulance arrivals, handling over 6,400 ambulance patients last year. Neighbor island trauma patients have also been affected with longer wait times for transfers to Oahu hospitals due to unavailability of beds. The proposed project will restore lost emergency room capacity and strengthen Hawaii's emergency and trauma system."
5. The applicant states that its Proposal supports the West Oahu SAC priority to "Improve and increase access to acute care, critical care, specialty care, emergency care options, routine outpatient diagnostic services and services for uninsured and underinsured... Queen's acquisition and renovation of the hospital at 91-2141 Fort Weaver Road will bring these priority services back to the residents of West Oahu. West Oahu is the fastest growing community on Oahu in population and business development. The hospital's central location in the region will improve timeliness of care for urgent and emergency/trauma patients, reduce transportation barriers to access care, and address patients' preference for care closer to home."
6. The applicant states that "The needs for the proposed services were demonstrated when the original CONs were granted to establish those services. However, the West Oahu community needs still continue. Data from the Hawaii Health Information Corporation shows that in 2010, residents of the West Oahu service areas accounted for 26,000 (37%) of Oahu's acute inpatient discharges and 94,000 (37%) of Oahu's emergency room visits."
7. The applicant states that "According to the 2010 U.S. Census, West Oahu is the fastest growing region on the island and is home to 356,000 (42%) of Oahu's residents... By 2030, it is expected to grow to 50% of Oahu's population with over 600,000 residents."
8. The applicant states that "In addition to acquiring the land and building assets, Queen's is proposing to invest \$52,000,000 in facilities renovation and equipment prior to opening the hospital. For more than a decade, financial difficulties plagued the previous hospital owners. Because of continual financial losses, capital was not available to properly maintain or upgrade the facilities and equipment. Now that the hospital is closed, the deferred maintenance issues must be addressed along with the need for upgrades and modernization. While there is an urgency to open the emergency room and hospital as soon as possible, Queen's must ensure that the facilities meet current building codes, life-safety standards, and licensing & accreditation requirements. It is also prudent to anticipate the community's future needs, such as the projected growth in emergency room visits, and to improve operational efficiency, such as moving the imaging department closer to the emergency room."
9. The applicant states that "Access to services will be available to all patients, regardless of ability to pay, and in particular the elderly, low income persons, racial and ethnic minorities, women, persons with disabilities, and other underserved groups."

10. The applicant states that "The Queen's Medical Center is accredited by The Joint Commission. QMC is approved to participate in medical residency training by the Accreditation Council for Graduate Medical Education, and is a member of VHA, a national cooperative of over 1,400 hospitals. QMC has achieved Magnet recognition- the highest institutional honor for hospital excellence - from the American Nurses Credentialing Center."
11. The applicant states that "Prior to opening, the proposed hospital will meet all licensure and certification requirements for the State, Medicare, Medicaid and other regulatory agencies. Accreditation from The Joint Commission will be sought."
12. The applicant states that "In Year 1 of operation, net patient services revenue is projected to be \$65,791,000 and total operating expenses to be \$74,859,000, for a net loss of \$9,068,000. In Year 3, net patient services revenue is projected to be \$78,690,000 and total operating expenses to be \$83,061,000, for a net loss of \$4,371,000. Positive operating results for the proposed hospital are anticipated in Year 5."
13. The applicant states that "The Queen's Medical Center consolidated balance sheet for the last two fiscal years demonstrates Queen's ability to fund the cash portion of the project's capital expenditures and to sustain the net losses in the first four years of operations..."
14. The applicant states that "Queen's proposed acquisition and renovation of the hospital at 91-2141 Fort Weaver Road will strengthen the existing health care system.
 - It will restore the emergency room and hospital-based services that had been accessible in the West Oahu community since 1990.
 - It will relieve the pressure that the December 2011 closure of the hospital has had on the capacity limits of the existing health care system, especially hospitals, emergency rooms and the City's EMS ambulance service.
 - As Oahu's fastest growing region in population and business development, West Oahu's needs for quality health care services will continue to grow. As the only full service emergency hospital in the region, the proposed hospital will play a vital role in supporting the health and well being of the region's residents and workers."

15. The applicant states that "The Queen's Medical Center has access to the financial resources to fund this project. The project will be funded with both cash and debt. The Queen's Medical Center consolidated balance sheet for the last two fiscal years demonstrates Queen's ability to fund the cash portion of the project's capital costs and to sustain the net losses in the first four years of operations... The strong balance sheet contributes to Queen's excellent credit rating (Moody's A1 and S&P A+) and its ability to access the debt market. Potential sources of debt financing include commercial paper and State of Hawaii special purpose revenue bonds. The State of Hawaii authorized the issuance of special purpose revenue bonds of up to \$200 million for Queen's in Act 176, Session Laws of Hawaii 2003, as amended by Act 86, Session Laws of Hawaii 2007. Queen's has a loan agreement for a revolving credit facility of \$90 million for the issuance of commercial paper."
16. The applicant states that "The closure of both HMC hospitals left approximately 1,000 employees out of work. It is anticipated that there will be an adequate supply of skilled workers for this project without impacting other health care providers."

Pursuant to Title 11, Chapter 186, HAR, the Agency has determined that:

- (a) The Proposal is eligible for administrative review as it meets one or more of the criteria in HAR 11-186-99.1(b).
- (b) The applicant, The Queen's Medical Center, has proven by a preponderance of the evidence that the Proposal meets the Certificate of Need criteria in HAR 11-186-15.
- (c) There is no compelling public interest which will be served by requiring the application to go through the standard review process.

As required under Subsection 323D-43(b), HRS, the Agency finds that:

1. There is a public need for the Proposal.
2. The cost of the Proposal will not be unreasonable in light of the benefits it will provide and its impact on health care costs.

The Agency has determined that the Proposal meets the applicable criteria in Section 323D-77, HRS.

Accordingly, the State Health Planning and Development Agency hereby APPROVES the Proposal under Part VII of Chapter 323D, HRS and ISSUES a Certificate of Need to The Queen's Medical Center for the Proposal described in Application #12-16A. The maximum capital expenditure allowed under this approval is \$73,200,000.

Please be advised that pursuant to Section 323D-47, HRS, Subsection 11-186-99.1(g), HAR and Part VII, HRS, any person may, for good cause shown, request in writing a public hearing for reconsideration of the Agency's decision within ten working days from the date of this decision. Accordingly, if no person makes such a timely request for reconsideration, this decision shall become final immediately after the deadline for making such a request has expired.



Romala Sue Radcliffe
Administrator