



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 03-15A

Applicant: Hawaii Outpatient Surgery L.L.C.
91-2141 Ft. Weaver Road
Ewa Beach, HI
Phone: 808-678-7000

Project Title: Change of ownership of ambulatory surgical suite

Project Address: 91-2141 Ft. Weaver Road
Ewa Beach, HI

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: _____	_____

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:	X
Maui County:	_____
Kaua`i County:	_____
Hawai`i County:	_____

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

- A. Site Control documentation (e.g. lease/purchase agreement, DROA agreement, letter of intent)
- 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.)
- C. Your governing body: list by names, titles and address/phone numbers
- 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
 - By-Laws
 - Partnership Agreements
 - Tax Key Number (project's location)

See Documentation Attachments A through D on following pages

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 Ownership	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			

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

A. List All Project Costs:

AMOUNT:

- 1. Land Acquisition _____
- 2. Construction Contract _____
- 3. Fixed Equipment _____
- 4. Movable Equipment _____

5.	Financing Costs	_____
6.	Fair Market Value of assets acquired by lease, rent, donation, etc.	_____
7.	Other: Purchase of Business	\$1,250,000

TOTAL PROJECT COST: \$1,250,000

B. Source of Funds

1.	Cash	\$ 250,000
2.	State Appropriations	_____
3.	Other Grants	_____
4.	Fund Drive	_____
5.	Debt	\$1,000,000
6.	Other: _____	_____

TOTAL SOURCE OF FUNDS: _____

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 is not a proposal for a new service. There is no change of Service with this proposal, the location of existing services will remain as is.

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,
- b) Dates by which other government approvals/permits will be applied for and received,
- c) Dates by which financing is assured for the project,
- d) Date construction will commence,
- e) Length of construction period,
- f) Date of completion of the project,
- g) Date of commencement of operation

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.

IMPLEMENTATION SCHEDULE

Implementation Schedule	Target Date	Notes
Site Control	5/01/03	See lease Summary
Government Approvals/Permits	7/01/03	CON
	9/15/03	DOH/DEA/CMS
Financing	7/30/03	Requires CON
Commencement of Operations	10/1/03	

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.

St. Francis Medical Center-West (SFMC-W) and Hawaii Outpatient Surgery L.L.C. (HOS) seek administrative approval to transfer ownership of an existing ambulatory surgery suite, located, owned and operated by SFMC-W to HOS, a substantially related company.

SFMC-W is a partner in HOS. National Medical Development Inc. (NMDI) is another partner in this project. The sister hospital of SFMC-W, SFMC-Liliha, together with NMDI already operate: a licensed ambulatory surgery center for gastroenterology, a multi-modality imaging center, and a cardiac cath lab at the St. Francis Liliha campus and a mobile P.E.T. scanner. This project will be the fifth overall project for this basic partnership between St. Francis Hospitals and National Medical Development.

This proposed change of ownership will not change accessibility or the general population served by this ambulatory surgery center. The proposed change will provide proven management skills combined with fiscal expertise. The inclusion of physicians assures the facility will have the physician leadership so important to successful, cost efficient, quality services.

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

In Chapter II of H2P2, many of the goals and objectives are supported by this proposed surgery center. Among these "Achieve equitable and effective access at reasonable cost for all Hawaii residents...;" "Establish regionalized health care delivery systems...." This proposed surgery center will keep costs down through aligned incentives for all partners. Health care is being moved to outpatient facilities through realized efficiencies when the overhead of the inpatient settings are not factored in. The patients who use SFMC-W now are the patients who will continue to utilize this surgery center under the new ownership. This surgery center will maintain its current location on the campus of SFMC-W. This continues to enhance the regional services offered through SFMC-W.

Chapter II of H2P2 also calls for “Supporting collaborative relationships between... health care providers...”

This surgery center, by its very nature, is a partnership that fosters collaborative relationships between health care providers.

Chapter II, Section G discusses capacity thresholds used to guide the development of new services and technologies.

As this is not an establishment of a new service, or a change in service, or a new location for this service, capacity thresholds do not apply.

b) Need and Accessibility

The population served and geographic origin of patients will remain unchanged with the new ownership.

The overall service area for this proposed surgery center is Oahu wide. More specifically, it is serving the population within an approximate one hour drive of St. Francis Medical Center West (SFMC-W). This is the current service area for all acute services at SFMC-W and there should be similar patient utilization for this out-patient surgery center. The table below shows the population for the geographic area surrounding St. Francis Medical Center West.

Neighborhoods within the service area of SFMC-W (DBEDT state data book)

Neighborhood Board	2000 census	% change last 10 years
22 Waipahu	62,402	+21.9
23 Ewa	53,099	+97.4
24 Waianae Coast	42,333	+12.6
25 Millilani/Waipio	34,592	-0.2
26 Wahiawa	39,553	-11.2
27 North Shore	18,380	+16.9
28 Koolauloa (portion)	7,000	+2.0
34 Makakilo/Kapolei	15,545	-2.0
35 Millilani Mauka	10,622	Not reported
	283,496	

There are 283,496 residents in the greater service area surrounding the hospital. A portion of this target population is Native Hawaiian, at greater risk than the general population and more likely underserved. The service area coverage extends to: Waianae, Ewa, Makakilo/Kapolei and even Wahiawa and the North Shore.

All residents of the area, and in particular low income persons, racial and ethnic minorities, woman, people with disabilities, and other under-served groups, and

the elderly, will have access to these services. To the extent allowable under federal guidelines transportation will be provided for patients utilizing the surgery center.

c) Quality of Service/Care

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St. Francis Medical Center-W is JCAHO accredited and this outpatient surgery center will likewise apply for accreditation when eligible, it requires one year of operations before application for accreditation is accepted. Further this center will be certified by the Centers for Medicare/Medicaid Services (CMS) and the Hawaii Department of Health as an ambulatory surgery center. From commencement of operations HOS will adhere to SFMC-W quality programs and policies.

Staff will be registered nurses and other technical specialties, this center will have a registered nurse as manager. These nurses will be surgical specialists with formal training both by history and ongoing in the form of continuing education. Other staff categories, such as technologists and physician assistants will also come from an experienced pool and continue with educational programs in their areas of responsibility. The existing staff will have priority in the start up process.

d) Cost and Finances

The total cost for this project is \$1,250,000. \$1,000,000 comes from new debt; the remainder is cash contributions from National Medical Development and SFMC-W. The expenses for the first year are budgeted at \$1,417,884; this provides a small operating surplus in the first year. By year three the expenses are expected to reach \$1,630,965 and the revenues should be \$1,792,163; this will lead to a third year surplus of \$161,198. A detailed three year cost and revenue statement is included as an attachment immediately following this page.

Three Year Proforma for Hawaii Outpatient Surgery

	Year 1	Year 2	Year 3
Average Monthly Procedures	60	62	64
Annual Procedures	720	742	764
Procedure Growth		3.0%	3.0%
Price Growth		1.0%	1.0%
Collected Revenues >>	1,428,300	1,722,737	1,792,163

FTE increases		1.5%	1.5%
Wage exp increases		4.0%	4.0%
All other expenses		3.0%	3.0%

Salaries & Benefits	690,561	728,956	769,486
Clinical Supplies	144,000	152,770	162,073
Insurance - Malpractice	24,000	24,720	25,462
Maint & Repairs	24,000	24,720	25,462
Office Supplies	24,000	24,720	25,462
Legal & Accounting	30,000	30,900	31,827
Billing & Collections	85,698	103,364	107,530
Rent	98,000	100,940	103,968
Taxes - Property/Other	71,415	86,137	89,608
Telephone	18,000	18,540	19,096
Utilities	18,000	18,540	19,096
Miscellaneous	37,598	40,975	42,671
Total Expenses >>	1,265,272	1,355,281	1,421,740
Debt Service	152,613	209,225	209,225
Total Exp & Debt Service >>	1,417,884	1,564,506	1,630,965

Free Cash Flow >>	10,416	158,231	161,198
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e) Relationship to the Existing Health Care System

As this project is not establishing a new service, nor expanding an existing service, we anticipate no impact on existing health care providers.

There will be many services used by both SFMC-W and HOS. These include: Facilities services, housekeeping, laboratory, education, infection control, employee health and others.

Patient transfers between SFMC-W and HOS, should that become necessary, will have protocols agreed to in advance for smooth and seamless continuation of care.

f) Availability of Resources

In the initial hiring and start up every consideration will be given to current employees on the SFMC-W campus. It is anticipated that all or most of the staff will come from this pool over to the new ownership. The sister ambulatory surgery center (Hawaii Endoscopy Centers) at Liliha will provide additional training and management at start up as well.

Formal recruitment, if necessary, will be through search firms specializing in surgical centers and will be local first and mainland second in priority.

Financial resources are available to fund this project through the combined resources of National Medical Development Inc. and St. Francis Medical Center-west.

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.