



## HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

### STANDARD APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 04-15

Applicant: Kaiser Foundation Hospital, Inc.  
3288 Moanalua Road  
Honolulu, Hawaii  
Phone: 808-432-5955

Project Title: Expansion and Renovation of Kaiser Permanente Moanalua  
Medical Center

1. **TYPE OR ORGANIZATION:** (Please check all applicable)

- Public \_\_\_\_\_
- Private   X
- Non-profit   X
- For-profit \_\_\_\_\_
- Individual \_\_\_\_\_
- Corporation   X
- Partnership \_\_\_\_\_
- Limited Liability Corporation (LLC) \_\_\_\_\_
- 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: \_\_\_\_\_
- 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)  
**N/A**
- 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, DOH Office of Health Care Assurance**
- C. Your governing body: list by names, titles and address/phone numbers  
**See Attachment A**
- 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 - **On File with SHPDA**
  - By-Laws - **See Attachment B**
  - Partnership Agreements
  - Tax Key Number (project's location)

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			X			X
Outpatient Facility						
Private Practice						

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5. **TOTAL CAPITAL COST:**         \$68,450,000        

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. **N/A**

Type of Bed	Current Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
Medical/Surgical	167	+47	214
Critical Care *	24	+12	36
Pediatric	16	+2	18
Neonatal ICU	13	+7	20
Obstetric	30	0	30
<b>TOTAL</b>	<b>250</b>	<b>+68</b>	<b>318</b>

\*includes 4 PICU beds.

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.

**N/A**

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

**A. List All Project Costs:**

**AMOUNT:**

1.	Land Acquisition	_____
2.	Construction Contract	<u>56,050,000</u>
3.	Fixed Equipment	_____
4.	Movable Equipment	<u>12,400,000</u>
5.	Financing Costs	_____
6.	Fair Market Value of assets acquired by lease, rent, donation, etc.	_____
7.	Other: _____	_____

**TOTAL PROJECT COST: 68,450,000**

**B. Source and Method of Estimation**

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

Contractors' and Vendors' Estimates

**C. Source of Funds**

**AMOUNT:**

1.	Cash	<u>68,450,000</u>
2.	State Appropriations	_____
3.	Other Grants	_____
4.	Fund Drive	_____
5.	Debt	_____
6.	Other: _____	_____

**TOTAL SOURCE OF FUNDS: 68,450,000**

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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,
- 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, and
- 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.*

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 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

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**9. IMPLEMENTATION SCHEDULE:**

- a) Date of site control for the proposed project  
**Kaiser Permanente Moanalua Medical Center: March 2004.**
- b) Dates by which other government approvals/permits will be applied for and received  
**March 2004**
- c) Dates by which financing is assured for the project  
**March 2004**
- d) Date construction will commence  
**May 2005**
- e) Length of construction period  
**4 years**
- f) Date of completion of the project  
**July 2009**
- g) Date of commencement of operation  
**January 2009**

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The proposed project will be completed in phases based on construction sequence (see Attachment C for detailed timeline). Beds/ORs will become available as construction phase is completed and will also be based on actual demand for service type. If service demands do not increase as anticipated, Kaiser Permanente will use double rooms as single room, to match community standards, until the demand increases and double bed rooms are needed again.

**10. EXECUTIVE SUMMARY:**

The Kaiser Permanente Medical Care Program requests approval from the State Health Planning and Development Agency (SHPDA) to expand and renovate the Moanalua Medical Center. The Medical Center has not undergone any expansion or major renovation to accommodate demand since its construction 20 years ago.

Moanalua Medical Center began operations in 1985 to serve a projected membership of 114,000 in 1985 and 126,500 in 1990. Actual member growth experience was 40% higher than the projection. Kaiser Permanente provided care to this growing membership through utilization improvement efforts, creative use of space and contractual arrangements with community facilities. Recent membership projections show increases from the current membership level of 235,000 in 2003 to 319,000 in 2016 (36% increase). In conjunction with the growth in membership, the demand for services such as inpatient beds, operating rooms and emergency services is also projected to increase. Demand for hospital beds alone is expected to increase from 250 in 2004 to 318 by 2016.

Due to the growth in membership over the last 20 years, Kaiser Permanente is faced with a shortfall in hospital services capacity. This situation

places the Kaiser's financial stability at risk from increasing outside services cost brought on by a sharp climb in "no bed" days at the hospital. This also affects our ability to provide our patients continuity of care in our integrated delivery system.

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In addition to capacity constraints, the Medical Center is faced with a myriad of other space related challenges, such as regulatory and compliance issues and impediments to optimal work flow. Regulatory and compliance issues and facility constraints have already impacted Kaiser's ability to meet federal and state regulatory agency standards.

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Without this project, Kaiser Permanente would still incur significant capital expenses to upgrade existing mechanical and electrical upgrades to meet minimum regulatory and operational requirements of the Medical Center.

This project is a major part of Kaiser Permanente's Care Delivery System Strategy that includes Inpatient Care, Specialty Clinic, and Ambulatory Clinic. The tertiary care facility needs are addressed in the Medical Center Renovation and Expansion project. The success of the Kaiser Permanente's delivery system relies on the integrated system of outpatient care, available capacity at the Medical Center for hospital services, and the strategic use of community hospitals and services.

The proposed project would entail the construction of a new tower that would add approximately 176,000 sq ft and renovation of existing space (95,000 sq ft) that would improve functionality and useable space. Included are the addition of 68 licensed acute care beds, 8 operating rooms (including 1 shelled OR), and 6 ED treatment rooms, 5 urgent care/Fast Track treatment spaces. Services will be operational during construction period. No new services will be added. No additional land requirements would be needed as the proposed project can be accommodated within the existing land area of the medical campus. This proposed project will meet projected membership growth through 2016.

Given the unique characteristics of the Medical Center's site and existing structure, there is only one opportunity to conduct an expansion project. Limitations on available land area will preclude any further expansion of the facility. Therefore, it was determined that it is in Kaiser's best interest to build out the capacity to its maximum level (within acceptable limits) and phase in operations to coincide with required space.

A. Relationship to the Hawai'i Health Performance Plan (H2P2)

Kaiser Permanente and this project fit the needs identified in H2P2. Kaiser Permanente is a health care delivery system that is comprehensive, cost-

effective, well coordinated, and responsive to member needs. Kaiser Permanente has the principles, desired characteristics and critical elements of a health care delivery system as described in the H2P2. This proposed project, which will add inpatient capacity, will help to achieve the goals and objectives for realizing the vision of individuals achieving optimum health.

Kaiser's current utilization of acute care beds and operating rooms exceeds the H2P2's capacity thresholds and emphasizes the need for these services. Without a dedicated observation unit and the shortage of long-term care beds in the community, many of Kaiser's acute care beds are taken up by observation patients and waitlist patients who increase our actual occupancy rates. Therefore, Kaiser's current hospital census reports show that the hospital has reached its maximum physical capacity and consistently exceeds the industry benchmark of 80% occupancy.

#### B. Need and Accessibility

Moanalua Medical Center is Kaiser Permanente's only inpatient facility in the state. The Medical Center, built in 1985, has exceeded capacity limitations and requires expansion and renovation in order to maintain acceptable levels of service for both existing and future members.

Although square footage has not been added, the Medical Center's original design has changed in order to keep up with the growing demand. These changes in configuration have resulted in a potpourri of mismatched adjacencies and space inefficiencies. From broom closets converted into provider offices to a Cardiac Cath lab between maternity rooms, the existing layout of many departments' functionality is inefficient and inadequate. These inefficiencies interfere with the hospital's ability to bend the cost curve and take advantage of new technologies. Double occupancy rooms create a number of problematic situations for the hospital. Gender issues (room assignment), infection control, and confidentiality requirements prohibit the use of rooms in an efficient manner. Because of the current space limitations, there is also an increased risk of compromising patient care and satisfaction.

Current projections indicate that the Medical Center will need a total of 318 licensed acute care beds, 17 ORs and 23 ED beds and 11 urgent care/Fast Track treatment spaces by 2016.

This project will increase capacity and enhance access for all patients at the Medical Center requiring inpatient services.

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C. Quality of Service/Care

Providing high quality, cost-effective health care is the guiding principle at Kaiser Permanente. Kaiser Permanente is proactive and diligent in the pursuit, maintenance, and improvement of quality of care and quality of service. Kaiser Permanente has received continuing approval by the Joint Commission on the Accreditation of Healthcare Organizations (JCAHO). Kaiser Permanente has also been awarded full accreditation by the National Committee for Quality Assurance (NCQA).

D. Cost and Finances

Kaiser Permanente has determined that it will require a capital investment of \$68,450,000 to renovate and expand the Moanalua Medical Center. In order to ensure the most efficient use of funds, Kaiser Permanente Hawaii is financing this project through its national program. Kaiser Permanente's Board of Directors has approved this project and has allocated funding for it.

As a staff model HMO, Kaiser Permanente is accountable for the expenses incurred by its members' for their inpatient services. If Kaiser is unable to internally accommodate the needs of its members, outside costs will be incurred. These associated facility and professional fees are always at a higher rate than the internal cost of operation (generally three times higher). The proposed project will provide the additional internal capacity for inpatient services to accommodate the increase in demand.

Providing for capital upgrades is a normal part of business. While capital investment in this project will result in higher fixed costs, this will be mitigated by more efficient operation and the capacity to serve a greater number of members in the future. Hospital costs are just one part of the total cost of healthcare. We firmly believe that building capacity is the best cost option for our members in the long run.

E. Relationship to the Existing Health Care System

The proposed project will allow Kaiser Permanente to continue to provide inpatient services to its members and patients. The increase in demand for inpatient services will be from the aging of existing Kaiser Permanente members and the increase in membership from its portion of organic growth of the state population. Kaiser Permanente will continue to use certain community services for specific cases it deems more appropriate in an outside service setting. As such, there will be minimal impact on the existing health care system and should not significantly change occupancy in other hospitals. This proposal will allow

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Kaiser Permanente to continue providing a much needed service to its patients without overburdening the health care system.

F. Availability of Resources

With the renovation and expansion of the Medical Center, Kaiser Foundation Hospital is expected to have a total of 1,400 FTEs in 2009 for its operations. This 200 FTE increase from 2003 includes all staff, from nurses to support staff. This does not include the physicians. Primarily, physicians are budgeted for based on membership and not the number of beds at the hospital.

The hospital nurse executive team has begun planning for the increased staffing needs by beginning to encourage cross-training of nursing staff to cover multiple specialty areas and training medical/surgical nurses to cover telemetry and critical care areas. The Nursing Recruiter is working with National Kaiser Program Human Resources to recruit nurses and other direct care providers from the mainland. The New Nursing School Graduate program is growing and expanding to help fill openings and to foster experienced nurses to fill openings created by the hospital expansion. Kaiser is also fortunate that it sustains one of the lowest employee turnover rates in the State of Hawaii.

In order to ensure the most efficient use of funds, Kaiser Permanente Hawaii is financing this project through its national program. Kaiser Permanente's Board of Directors has approved this project and has allocated funding for it.

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