



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number: #07-08A

Applicant: Shriners Hospitals for Children
1310 Punahou Street
Honolulu, Hawaii 96826

Phone: 808 941-4466

Project Title: Reduction of 16 medical/surgical beds
Project Address: same

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1. TYPE OF 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: _____

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)

The designated area is located on the Shriners Hospitals for Children Honolulu campus and is owned by Shriners Hospitals for Children.

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

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

See Attachment 1

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: See Attachment 2
- By-Laws: See Attachment 2
- Partnership Agreements: Not applicable

- Tax Key Number (project's location): (1) 2-4-007-001

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	Change in Beds
Inpatient Facility					X
Outpatient Facility					
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
Medical/Surgical	40	-16	24
TOTAL	40	-16	24

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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: Design, Project Management, permits, legal services, hazardous material, contingency, misc. additional construction costs _____

TOTAL PROJECT COST: _____

B. Source of Funds

- 1. Cash _____
- 2. State Appropriations _____
- 3. Other Grants _____
- 4. Fund Drive _____
- 5. Debt _____
- 6. Other: _____

TOTAL SOURCE OF FUNDS: _____

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The reduction in beds is not expected to have any impact on costs or funding sources for the larger project that was already approved.

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.

Reduction in the number of Medical/Surgical Beds from 40 to 24. Reference:
HAR § 11-186-5(1)(A).

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:

Site is already controlled by applicant

- b) Dates by which other government approvals/permits will be applied for and received:

Building Permit

Applied for: March 2007

Received: July 2007

- c) Dates by which financing is assured for the project:

Funding will be provided through the capital budget of Shriners Hospitals for Children, to be enhanced by a fundraising campaign. This proposal has been reviewed and approved by the Board of Trustees and the senior management of Shriners Hospitals for Children.

- d) Date construction will commence: August 2007

- e) Length of construction period: 32 months

- f) Date of completion of the project: May 2010

The first phase of the proposed project, which includes all of the CON relevant hospital areas, will be complete by June 2009. The Second Phase of the project, involving non-clinical areas, will be complete by May 2010. The components of each phase of the proposed project are described in more detail in subsequent sections of this application.

g) Date of commencement of operation:

Construction will occur in two phases, allowing the Hospital to continue operations during construction of the proposed project. All clinical areas of the proposed project are expected to be completed and operational by May 2010.

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.

- h) Relationship to the Hawai'i Health Performance Plan (H2P2), also known as the State of Hawai'i Health Services and Facilities Plan.**
- i) Need and Accessibility**
- j) Quality of Service/Care**
- k) Cost and Finances (include revenue/cost projections for the first and third year of operation)**
- l) Relationship to the existing health care system**
- m) Availability of Resources.**

Executive Summary

Introduction

Shriners Hospitals for Children is a network of 22 hospitals throughout North America (with one hospital located in Mexico City and one hospital located in Montreal) that treats children's orthopedic conditions completely free of charge and without relying on any government program funding or insurance reimbursement. Shriners Hospitals for Children is supported by the Shriners fraternity, a charitable organization first established in 1872. Early members of the Shriners fraternity included Hawaii's King Kalakaua. In 1919, the Shriners fraternity began focusing on the needs and treatment

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of children with orthopedic conditions as the focal point of its charitable efforts. In 1920, the Shriners fraternity took the first steps to establish the Shriners Hospitals for Children organization. For over 80 years, Shriners Hospitals for Children has provided high quality medical care, free of charge, to approximately 735,000 children. Shriners Hospitals for Children admits over 27,000 children annually to its hospitals.

Shriners Hospitals for Children - Honolulu Unit (the "Honolulu Hospital" or the "Hospital") is the second oldest hospital in the Shriners Hospitals for Children network. The Hospital opened in January 1923, in the rear wing of the Kauikeolani Children's Hospital in the Liliha area. In October 1930, the present Punahou site of the Hospital was deeded to Shriners Hospitals for Children by the Dowsett family. The Dowsett mansion located at the Punahou site served as a 30-bed Honolulu Hospital from 1930 until 1966. In 1967, the current 40-bed hospital was built and unveiled in grand opening ceremonies attended by many Hawaii residents.

The Honolulu Hospital has treated children's orthopedic conditions for over 80 years, admitting approximately 23,000 children. Nevertheless, no major improvements have been made to the Hospital since 1967, and the Hospital suffers from a lack of space, antiquated facilities, and general wear and tear. The current inpatient rooms consist of four-bed wards, with one toilet for eight beds, and one shower room for 20 beds. The existing inpatient nursing units are awkward, cramped and inconveniently located. The clinic area rooms are exceedingly small, compromising access, family-centered care and exam efficiency. Many of the Hospital's operating systems have exceeded their reasonable life expectancy and are now at maximum capacity, with unpredictable longevity and reliability.

In July 2005, the Honolulu Hospital submitted Certificate of Need ("CON") Application No. 05-16 for its original proposal to rebuild its physical facilities, to modernize and increase the space available for patient care. After the application received unanimous approval from the Oahuwide Certificate of Need Review Committee and the Certificate of Need Review Panel, review by the Statewide Health Coordinating Counsel was waived pursuant to Hawaii Revised Statutes ("HRS") § 323D-44.6. SHPDA approved the application in its Decision on the Merits, dated September 13, 2005.

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Since that time, the Honolulu Hospital has proceeded with plans for the rebuilding project. However, the sharp increase in construction costs that occurred as a result of efforts to rebuild the United States Gulf Coast following Hurricane Katrina pushed cost projections for the project as originally proposed beyond its planned budget and caused the Honolulu Hospital to re-examine the original plan in an effort to cut costs while still meeting its objective of modernizing the Hospital's facilities and optimizing space utilization within the facility.

Concurrently, the Honolulu Hospital determined that improved surgical techniques were reducing the average length of stay of its patients, and that the incidence of same day surgery at the Hospital was increasing substantially. The use of minimally invasive surgical techniques also made residency in the enhanced family quarters planned for

the new hospital a viable alternative to inpatient post-operative care for many of the Honolulu Hospital patients, making fewer inpatient beds necessary.

Accordingly, the proposed project has been scaled back from the originally planned four-story expansion that was to house 40 beds and three operating suites. The revised proposal is for a two-story expansion that will include 24 beds and two operating suites (the "Proposed Project"). The Education Building will be expanded from the originally planned one story to two stories and will house the hospital's administrative and doctors' offices. Two outlying buildings, Orthotics and Physical Plant, which were originally designated to be demolished, will instead be retained. Finally, the Motion Analysis Lab, recreation therapy pool and gym will be relocated to the Family Quarters Wing. Notwithstanding the smaller size of the Proposed Project, the Honolulu Hospital does not anticipate any reduction in utilization or the scope and volume of services that will be offered at the new hospital building.

Like the original proposal, the revised rebuilding plan will take place over several years and in two phases. During the "First Phase," projected to commence in August 2007, the current family quarters, classrooms, an auditorium, and the inpatient wards will be demolished. The new operating suites, semi-private patient rooms and supporting facilities will then be constructed. Because some temporary patient rooms, a Mobile Surgical Operating Unit and other essential areas of the Hospital will remain operating, the Hospital will be able to continue providing its full range of services to patients. In September 2009, when the new hospital is constructed and becomes operational, the "Second Phase" of rebuilding will begin. The "Second Phase" of rebuilding will include non-clinical areas, including an office building and auditorium and the new family housing building. The Hospital will be fully functional during this phase. The Hospital will take all necessary precautions and measures to ensure that services can continue during the entire construction period and treatment will not be affected by the rebuilding, consulting with the Department of Health as needed.

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

The Proposed Project is consistent with H2P2's goal to "increase the span of healthy life for Hawaii's residents" because it will allow children and adolescents to "develop and mature in good health, secure in their prospects for a productive and happy future." As part of its mission, the Honolulu Hospital treats many children with orthopedic deformities. The Hospital provides an environment where children sharing similar struggles can feel "normal" and respected, allowing them to "develop and mature" in a healthy way.

The Proposed Project is also consistent with H2P2's goal of "reducing morbidity and pain through timely and appropriate treatment" by diagnosing and treating potentially debilitating and crippling degenerative orthopedic diseases in the early stages of development. The Proposed Project will achieve this goal by allowing enhanced care through increased space and modernization.

The Proposed Project will also “reduce health disparities among Hawaii residents” and provide “equitable and effective access at reasonable cost.” The Honolulu Hospital accepts patients under the age of 18 for orthopedic medical conditions treated by the Hospital without regard to the child’s (or family members’) race, color, creed, national origin, sex, gender, religion, disability, marital status, or other categories protected by law. The Hospital and its parent entity have a long history of providing charitable health services free of charge to patients and their families. Additionally, treatment is not dependent on government funding or assistance, or the availability of health insurance reimbursement. Therefore, by providing its own source of funds for the treatment of patients, the Proposed Project serves to “reduce health disparities” by not only providing “equitable and effective access at reasonable cost,” but access at no cost to the patients and their families.

The Proposed Project will facilitate “establishing regionalized health care delivery systems that include community input, are cost-effective, and that foster improved access to quality health care services.” The Honolulu Hospital provides Hawaii with unique, family-centered services for children. The Proposed Project will improve patient access to the Hospital’s health care services. New semi-private patient rooms and improved family accommodations will support comprehensive delivery of services to patients and their families and integration of families into the treatment process, thereby improving the Hospital’s ability to accommodate an increasing demand for services in an efficient, cost-effective way. Replacing the current cramped and outdated treatment rooms will also facilitate delivery of optimal care.

The Honolulu Hospital has a long history of working with other regional health care providers, and will continue to collaborate with all local hospitals to provide health care services and maintain consultation and transfer arrangements with other health care facilities to provide the best treatment possible to its patients in the most efficient and effective way possible.

The Proposed Project will allow the Hospital to create a more family-centered environment by enhancing family accommodations. As Hawaii’s only specialty children’s orthopedic hospital, and as a health care facility that serves children who require prolonged treatment at no cost to its patients, the Proposed Project will assist the Honolulu Hospital to further basic principles of Hawaii’s health care delivery system as described in H2P2, by ensuring service that is comprehensive, cost-effective, well coordinated and responsive to community/regional needs.

The Proposed Project will improve access to appropriate, culturally sensitive care. Patients admitted to the Hospital come from numerous ethnic backgrounds, including those rooted in native Hawaiian, Samoan, Micronesian, Filipino, and other Pacific Island cultures. In order to ensure that children receive proper emotional support during treatment, the Hospital seeks to integrate children’s families into the treatment process in a manner that acknowledges and understands cultural differences. Patients’ families are taught how to care for the patient upon release from the Hospital. The Proposed

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Project will enhance this effort by improving accommodations for families who must travel from distant locations in order to stay close to children receiving treatment at the Hospital.

The Proposed Project also addresses quality management and cost effectiveness in the health care delivery system on Oahu, and in the State of Hawaii, because it will increase space available for patient treatment areas, thereby allowing practitioners more mobility, and patients and their families more privacy and comfort. This will serve to enhance quality management and cost effectiveness in the services provided at the Hospital. H2P2 states, "where feasible, resources should be directed to programs and services that prevent illness and intervene in the early stages of disease." The Proposed Project advances this purpose through its outreach programs; the Honolulu Hospital screens patients for various orthopedic-related diseases.

The two-phased construction process will ensure that services at the Hospital will continue during rebuilding, the Hospital will take all necessary precautions and measures, consulting with the Department of Health, when necessary, to ensure that treatment will not be adversely affected by the reconstruction. Accordingly, continuity of care will not be affected during rebuilding.

Constituent participation involves working with communities to define, assess and evaluate health care services, development and education. The Honolulu Hospital is actively involved in the community to promote health care, and because the Honolulu Hospital is family-centered, it is community-centered.

b) Need and Accessibility

As discussed above, the Honolulu Hospital has determined that improved surgical techniques have reduced the average length of stay of its patients, and that the incidence of same day surgery at the Hospital has increasing substantially. The use of minimally invasive surgical techniques has also made residency in the enhanced family quarters planned for the new hospital a viable alternative to inpatient post-operative care for many of the Honolulu Hospital patients, making fewer inpatient beds necessary.

The results of a revised bed needs analysis, taking into account anticipated shift to greater utilization of same day surgery and concomitant reduction in the length of inpatient stays, is summarized below:

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Patient Discharges	561 actual	540 projected	787 projected	allows 4.5% per year growth in patient discharges
Patient Service Days	6,523 actual	6,523 projected	6,500 projected	maximum patient days based on 75% occupancy rate and 24 beds
Average Length of Stay	11.0 actual	13.0 projected	8.35 projected	corporate target for Honolulu
Average Daily Census	17.5 actual	17.8 projected	18.0 recommended	based on the ALOS target and 75% occupancy rate
Occupancy Rate	43.8% actual	44.5% projected	75.0% recommended	considers 100% scheduled cases & mid-week, peak occupancy
Bed Need	40 actual	40 actual	24 recommended	reduced bed recommendation adjusts for low occupancy rate and ambulatory care model

Accordingly, the Honolulu Hospital has concluded that inclusion of the 40 beds originally planned for the project will result in significant over capacity and attendant unnecessary operating costs.

c) Quality of Service/Care

The quality control processes already in place at the Honolulu Hospital and to be utilized in the new facility were discussed in detail in the already approved CON application No. 05-06. The proposed reduction in the number of beds will have no impact on those processes.

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

Although the Honolulu Hospital anticipates that a greater proportion of its surgical procedures to be done on an outpatient, rather than inpatient, basis, it does not expect any significant decline in the total number of procedures performed. Likewise, reductions in inpatient nursing activities are expected to be offset by increases in

outpatient treatments. Accordingly, the proposed reduction in the number of med/surgery beds will not result in any significant change in operating costs. Projected expenses are \$18,286,682 for the first year of operations following completion of the rebuilding program and \$19,913,900 for the third year of operations following completion of the project. Treatment will continue to be paid for by the Honolulu Hospital and to be completely free to patients. Hence, there will be no significant revenues. The proposed reduction in the number of beds will not affect the Honolulu Hospital's long term financial viability or the cost of health care in Hawaii.

e) Relationship to the existing health care system

Because the proposed reduction in the total number of med/surgery beds represents only a reduction in an already approved project, the change is not expected to have any significant impact on health care in Hawaii. Construction of the revised project will still be conducted in phases. As a result, the Hospital will continue its regular operations throughout the rebuilding process. Service will not be affected.

f) Availability of Resources

As discussed, the Proposed Project does not establish new services. The Honolulu Hospital does not expect any increase in the need for staffing or capital resources beyond those planned for the previously approved project.

10. 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.

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