

HAWAI'I STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

EMERGENCY APPLICATION - CERTIFICATE OF NEED PROGRAM

Application Numbe	er: 11-18E To be assigned by Age	Da	te of Receipt:
		APPLICANT PE	ROFILE
Project Title:		tures providing ou	(HMC), HMC East/West; acquisition of HMC's utpatient cardiac catheterization and IC East
Project Address:	Hawaii Medical Cer	nter Liliha, 2230 Lilil	ha St.,Honolulu, HI 96817
	Hawaii Medical Cen	ter West, 91-2141 I	Ft. Weaver Rd., Ewa Beach, HI 96706
Applicant Facility	//Organization: <u>St. Fra</u> <u>Francis Medical Cente</u>	ncis Healthcare Sy er-West	rstem of Hawaii, St. Francis Medical Center, St
Name of CEO or	equivalent:Jem	y J. Correa, Jr.	
Title:	Pres	ident & Chief Exec	utive Officer
Address:	2226	Liliha St. #227, Ho	nolulu, Hawai`i 96817
Phone Number:	547-8004	Fax Number:	547-8018
Contact Person for	or this Application: <u>Je</u>	rry Correa	
Title:	Chi	ief Executive Office	r
Address:	222	6 Liliha St. #227, H	lonolulu, Hawai`i 96817
Phone Number:	547-8004	Fax Number: _	547-8018
	CER	TIFICATION BY	APPLICANT
contained herein	. I declare that the	project described	re knowledge of the content and the information and each statement amount and supporting by knowledge and belief.
	JW/-		APR 0 5 2012
Signature	/		Date
Jerry J. Correa, J Name (please type			President & Chief Executive Officer Title (please type or print)
ertificate of Need Standar	rd Application		

Cert July 2000 1. TYPE OR ORGANIZATION: (Please chapter applicable)

Public
Private
Non-profit
For-profit
Individual
Corporation
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:	X_
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 A, "SETTLEMENT AGREEMENT AND RELEASE"
 - 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.)
 - Bankruptcy court approval of the settlement agreement.
 - Medicare/Medicaid Certification (can only be applied for subsequent to hospital relicensure by the State)
 - A list of additional licenses/certifications/approvals is attached as Exhibit 1 on page 10
 - C. Your governing body: list by names, titles and address/phone numbers.

 See attachment B for the lists of directors
 - 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 attachments C*
 - By-Laws See attachments D*
 - Partnership Agreements
 - Tax Key Number (project's location)

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4. TYPE OF PROJECT. This section helps to 29 viewer8 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 he wild AGE Project (over \$4 million)	Change in ównership	Change in service/ establish new service/facility	Change in Beds
Inpatient Facility				X		
Outpatient Facility						
Private Practice						

- 5. TOTAL CAPITAL COST: \$25,000,000 (Clinical component, \$14,750,000)
- 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.

Note: There will be no changes in the numbers of beds at either campus. The tables below show the SHPDA-approved bed counts for each facility, although the counts are outdated and both facilities have actually been operating at a lower capacity. We will make corrections through future CON applications when we determine what the appropriate bed counts should be. We are proposing no changes now since this application is merely for a change in ownership with no other changes in the status quo.

St. Francis Hospital-Liliha

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Type of Bed	Current Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved	
	230		230	
Medical/surgical				
	22		22	
Critical care				
	52		52	
Skilled Nursing				
	304		304	
TOTAL				

PF Pt Francis Hospital-Ewa

Type of Bed	Current Bed Total	Proposed Beds for your	Total Combined Beds if
		Project	your Project is Approved
Medical/surgical	12 APR 20 P4 2	8	113
	14		14
Critical care	ST HITH PLAG		
Obstetric	& DEV. AGENCY		7
TOTAL	134		134

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.

This application includes the re-establishment of the services previously provided at the Liliha and Ewa campuses, with the exception of organ transplant services.

Please note that transplant surgery has been assumed by the Queen's Medical Center and will not be provided at either the Liliha or West medical centers.

A list of the acute and long-term bed services is included in item 6 above. A List of those non-bed, CON-covered, services to be re-established, as enumerated in Section 11-186-5 Hawaii Administrative Rules, is attached as Exhibit 2, page 11 of this application.

In addition, the table below summarizes the acquisition by St. Francis Medical Center of the partial ownership by HMC East of two services at Liliha.

SERVICES/PERCENT OWNERSHIP CHANGE INCLUDED IN THIS CON APPLICATION

Service	Current Provider	HMC%	HMC East	
Cardiac Catheterization outpatient	Island Cardiac Centers, L.L.C.	33	X	
Endoscopy Center	Hawaii Endoscopy	29	Х	\neg
	Centers, LLC			- 1

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

Α.	List A	II Project Costs: CLINICAL 12 APR 20 P 4 :2βORTION	TOTAL AMOUNT
	1.	Land Acquisition* (see note below)	
	2.	Construction Contract ST HLTH PLNG & DEV. AGENCY	
	3.	Fixed Equipment	
	4.	Movable Equipment	
	5.	Financing Costs	
	6.	Fair Market Value of assets acquired by lease, rent, donation, etc.	

7. Other: <u>Acquisition of existing assets</u> \$14,750,000** \$25,000,000

*note re: land acquisition. S.F. already holds the fee interest in the land involved. HMC is leasing the land from S.F. and thus holds a leasehold interest. This leasehold interest is the land "asset" which is being acquired by S.F. as a result of the Settlement Agreement and Release, and the fair market value of the leasehold interest has already been included in the Cain Brothers valuation report.

**Assumes that 59% of the amount is for the clinical portion. This is the percentage that was used by HMC, and accepted by SHPDA, in CON #06-15.

TOTAL <u>\$14,750,000</u> <u>\$25,000,000</u>

B. Source and Method of Estimation

Describe how the cost estimates in Item "A" were made, including information and methods used: Cost estimates are based upon and supported by a Cain Brothers Valuation report. See Attachment E for page 14 of that report

C. Source of Funds

No transfer of funds is involved. St. Francis Medical Center, St. Francis Medical Center-West And St. Francis Healthcare System are acquiring, through a Settlement Agreement and Release, approved by the bankruptcy court, the assets of HMC-East, HMC-West and HMC.

TOTAL SOURCE OF FUNDS: \$ 0

- 9. IMPLEMENTATION SCHEDULE: Please present a projected time schedule for the completion of this project from start pripish / polude 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.
 - ST HLTH PLNG e) Length of construction period, f) Date of completion of the project, and

 - g) Date of commencement of operation.

We estimate that the CON, Attorney General approval, and bankruptcy court approval will all be achieved by May 3, 2012, following which all the assets will be acquired by the St. Francis entities. We will then take immediate steps to have the facilities and The first priority will be to reopen the services reopened as quickly as possible. emergency room at West. Since this is a hospital-based ER, the hospital will need to be licensed before the ER can reopen. Other services will be reopened as quickly as possible, given the licensure and certifications which must be met first.

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
 - Availability of Resources
 - St. Francis Healthcare System of Hawaii, St. Francis Medical Center and St. Francis Medical Center-West is requesting an emergency CON, as provided under section 11-186-99, Hawaii Administrative Rules, to acquire the operating assets and services of Hawaii Medical Center - East (HMC-East), Hawaii Medical Center - West (HMC-West) and Hawaii Medical Center ("HMC"). (Hereinafter, the collective St. Francis entities will be referred to as "SF," and the collective Hawaii Medical Center entities as "HMC.")

Settlement Agreement and Release. The assets of HMC will be acquired through a "Settlement Agreement and Release" (Attachment A). This agreement was signed by the interested parties (SF, HMC and the Unsecured Creditors Committee) on March 2. 2012, thus permitting the filing of this amended CON application. The agreement was submitted on March 30, 2012 to the bankruptcy court for its approval, and is scheduled to be heard by the court on April 16, 2012. We expect a prompt approval from the court. The public document on file with the court has redacted sections concerning the wind down fund. These sections have no impact on the capital cost of the project, the operating expenses, nor any of the CON criteria.

Nature of the emergency. HMC filed for Chapter 11 bankruptcy in June 2011. At that time, it was anticipated that there could be a reorganization plan by which SF could acquire HMC, and SF filed a CON application to that effect. However, the problems of HMC were so great that the reorganization plan was infeasible, and SF asked SHPDA to suspend review of the CON application periodic problems.

HMC has now closed down all its operations at Ewa and Liliha. The loss of these services constitutes a clear and present danger to the community, and it is important that as many of these services as possible be restored as soon as possible. We note in particular that the Ewa facility had the second-most utilized emergency room on Oahu, and its loss has put a strain on the entire emergency medical services system of the island.

Even an administrative CON process would delay the provision of services by weeks, or even months, since the facilities could not apply for Medicare and Medicaid certification until they reopen, and they cannot reopen without a CON. In short, the CON, licensure and certification processes are sequential, not consecutive, and we need to shorten the delay as much as possible.

Therefore, SF requests review of this CON under the emergency provisions of the rules.

Outpatient imaging and urgent care services can be provided almost immediately upon approval of this CON. These services do not need to wait for the return of the hospital buildings since they can be provided from medical space that is already controlled by St. Francis in other buildings on the campuses.

Attorney General review. A copy of this amended application is also being submitted to the Attorney General for whatever action may be appropriate under Part VII of HRS 323D. A financial and economic analysis and report from an independent expert is included as attachment F.

<u>Provisions of HRS 323D-77.</u> We are uncertain of the applicability of HRS 323D-77 in the case of emergency applications. Nevertheless, we provide the following information.

HRS 323D-77 provides that the Agency, in making its decision whether to approve or disapprove an application, shall consider:

- 1. "Whether sufficient safeguards are included to ensure that the affected community has continued access to affordable care."
- St. Francis has committed itself to continue to provide the community with access to affordable care. The Sisters of St. Francis have a 128-year record of service in Hawaii which demonstrates this commitment.

2. "Whether the purchaser and parties to the acquisition have made a commitment to provide health care to the disadvantaged, uninsured and underinsured, and to provide benefits to the affected community to promote improved participants care. Current and prior health care activities and funding for those activities by the seller or its successor nonprofit corporation or foundation may be considered in evaluating compliance with this commitment."

As stated in Part B of this application, St. Francis will provide service to all patients, including low income persons, racial and ethnic minorities, women, handicapped persons, other underserved groups and the elderly. St. PFYanoxiais known for its commitment to service to the elderly and disadvantaged.

3. "If health care providers will be offered the opportunity to invest or own an interest in the purchaser or a related entity to the purchaser."

The St. Francis entities are not-for-profit corporations. Health care providers will not be able to invest or own an interest.

4. "Whether procedures or safeguards are in place to avoid conflict of interest in patient referral and the nature of those procedures or safeguards."

There will be no conflict of interest in patient referrals, since no provider has a financial interest in the facilities

A. Relationship to the Hawai'i Health Services and Facilities Plan (HSFP).

This application is seeking approval to acquire the facilities and services previously provided by HMC and its subsidiaries until their recent shutdown. These were major and essential elements in Hawai`i's existing health care system and it is critical that they be restored as soon as possible.

This proposal relates directly to two of the four goals in the HSFP. Namely:

- "Focus on increasing cost-effective access to necessary health care services" and
- "Promote the financial viability of the health care delivery system."

B. Need and Accessibility

The need for these facilities/services has been established by the community's previous utilization. The closure has resulted in several problems. Notably, the other emergency rooms on the island have been crowded, with frequent occasions where one or more are on "divert" status, meaning that ambulances are directed to bypass them and go to some other hospital.

We have also heard reports about other hospitals being overcrowded, and there have even been newspaper reports of patients being directed to neighbor island facilities.

<u>Accessibility.</u> St. Francis provides service to all patients, including low-income persons, racial and ethnic minorities, women, handicapped persons, other underserved groups and the elderly. St. Francis is known for its commitment to service to the elderly and disadvantaged.

C. Quality of Service/Care

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St. Francis has a long history of providing quality health services to the people of Hawai`i, with emphasis on serving the poor and the managinal zerola This proposal to reacquire the HMC facilities and services will allow the continued provision of quality services.

When reopened, the facilities will meet all licensure requirements for the State, and all certification requirements for Medicare and Medicare and Medicare.

D. Cost and Finances

There are no capital costs in this acquisition. St. Francis is acquiring the facilities/services through a settlement agreement following the closing down of the HMC facilities.

Given the emergency situation following the HMC shutdown, and the need to proceed as quickly as possible, it is difficult to make revenue and expense projections for future operations. However, we do have projections from an earlier plan to reacquire the facilities and services, and we would expect these projections to be reasonably accurate. Under those projections, in the first year of operation (a ten month year), total revenue would be \$117,266,000 and total expenses would be \$115,796,000. In the third year of operation, these numbers would rise to \$151,152,000 and \$142,284,000 respectively.

E. Relationship to the Existing Health Care System

The existing health care system has been badly impacted by the closure of HMC. It is important to restore services as quickly as possible to minimize the negative impact of an extended closure on the existing health care system.

As noted earlier, the closure of two emergency rooms, one of them being the second most heavily utilized one on the island, has put serious strains on the remaining emergency system. Further, other hospitals have experienced overcrowding.

F. Availability of Resources

This application is seeking approval for the acquisition by SF of assets previously operated by HMC. No capital expenditures are required, since the existing assets are being acquired through a settlement agreement.

Upon reacquiring the assets, we will take steps to assure that the facilities and services are reopened as quickly as possible, including the recruiting of staff. Services would be opened incrementally and we anticipate that the revenues would be sufficient to meet the expenses as the services come on line. If there were any shortfalls they would be minor. These, as well as any start-up capital costs, could by covered by existing cash reserves held by SFHS.

The necessary personnel should be available, since about 1000 employees were recently laid off when HMC closed.

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Governmental Authority	Type of License	Licensee
State of Hawaii, Department of Health	Hospital Operating License DEV. AGENCY	Liliha
State of Hawaii, Department of Health	Skilled Nursing Operating License	Liliha
State of Hawaii, Department of Health	Radiation Facility License Diagnostic Imaging Radiology Emergency Room Nuclear Medicine	Liliha
State of Hawaii, Department of Public Safety, Narcotics Enforcement Division	Certificate of Registration for Controlled Substances	Liliha
State of Hawaii, Department of Commerce and Consumer Affairs	Pharmacy License	Liliha
U.S. Department of Justice, Drug Enforcement Administration	Controlled Substance Registration Certificate	Liliha
U.S. Nuclear Regulatory Commission	Materials License Cancer Center Nuclear Medicine	Liliha
U.S. Department of Health and Human Services, Food and Drug Administration	Blood Bank / Apheresis Registration	Liliha
U.S. Department of Health and Human Services, Office of Human Research Protections	Institutional Review Board Registration and Federalwide Assurance	Liliha
State of Hawaii, Department of Health	Hospital Operating License	West
State of Hawaii, Department of Health	Radiation Facility License Diagnostic Imaging Nuclear Medicine	West
State of Hawaii, Department of Public Safety, Narcotics Enforcement Division	Certificate of Registration for Controlled Substances	West
State of Hawaii, Department of Commerce and Consumer Affairs	Pharmacy License	West
U.S. Department of Justice, Drug Enforcement Administration	Controlled Substance Registration Certificate	West
U.S. Nuclear Regulatory Commission	Materials License	West
U.S. Department of Health and Human Services, Office of Human Research Protections	Institutional Review Board Registration and Federalwide Assurance	West

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NON-BED AND SPECIAL SERVICES TO BE RE-ESTABLISHED (FROM SEC. 11-186-5, HAWAND ADMINISTRATIVE RULES)

NON-BED SERVICE	LILIHA	WEST
Outpatient Clinic	X	X
Emergency Room	X	Χ
Outpatient Surgery (surgicenter)	Χ	Χ
Diagnostic Radiology	X	X
Computed Tomography Stationary	Χ	Χ
Nuclear Medicine	Χ	X
Ultrasound	X	X
Clinical Laboratory	Χ	X
Pharmacy	X	X
Social Services	Χ	X
Magnetic Resonance Imaging Stationary	X	X
SPECIAL SERVICES		
Cardiac Catheterization	X	
Neurosurgery	X	X
Heart Surgery	X	

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