

# STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

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September 17, 2003

## CERTIFIED MAIL, RETURN RECEIPT REQUESTED

IN THE MATTER OF	)	CERTIFICATE OF NEED
	)	APPLICATION
	)	NO. 03-22
Select Specialty Hospital-Honolulu, Inc.	)	
	)	
Applicant	)	
	)	DECISION ON THE MERITS

## DECISION ON THE MERITS

The State Health Planning and Development Agency (hereinafter "Agency"), having taken into consideration all of the records pertaining to Certificate of Need Application No. 03-22 on file with the Agency, including the written and oral testimony and exhibits submitted by the applicant and other affected persons, the recommendations of the Oahuwide Certificate of Need Review Committee, the Agency hereby makes its Decision on the Merits, including findings of fact, conclusions of law, order, and written notice on Certificate of Need Application No. 03-22.

I

## BACKGROUND

1. This is an application for a Certificate of Need ("Cert.") for the establishment of a 30 bed long term acute care hospital at 1301 Punchbowl Street, Honolulu, HI at a capital cost of \$3,295,140.
2. The applicant, Select Specialty Hospital-Honolulu, Inc. is a for profit corporation organized under the laws of the State of Hawaii.

3. The Agency administers the State of Hawaii's Certificate Program, pursuant to Chapter 323D, Hawaii Revised Statutes (HRS), and Title 11, Chapter 186, Hawaii Administrative Rules (HAR).
4. On July 17, 2003, the applicant filed with the Agency a Certificate of Need application for the establishment of a 30 bed long term acute care hospital (LTACH) at 1301 Punchbowl Street, Honolulu, HI at a capital cost of \$3,295,140 (the "Proposal"). On August 1, 2003, the applicant submitted additional information. On August 1, 2003 the application was determined to be complete. For administrative purposes, the Agency designated the application as Cert. #03-22.
5. The period for Agency review of the application commenced on August 4, 2003, the day notice was provided to the public pursuant to 11-186-39 HAR.
6. The Oahuwide Certificate of Need Review Committee met at a public meeting on August 11, 2003 and recommended unanimous approval of this application by a vote of 5 in favor and none opposed.
7. The Certificate of Need Review Panel and Statewide Health Coordinating Council reviews of the application were waived pursuant to Section 323D-44.6 HRS.
8. This application was reviewed in accordance with Section 11-186-15, HAR.
9. Pursuant to Section 323D-43(b), HRS:  
  
    "(b) No Certificate shall be issued unless the Agency has determined that:  
  
        (1) There is a public need for the facility or service; and  
        (2) The cost of the facility or service will not be unreasonable in the light of the benefits it will provide and its impact on health care costs."
10. Burden of proof. Section 11-186-42, HAR, provides:  
  
    "The applicant for a certificate of need or for an exemption from certificate of need requirements shall have the burden of proof, including the burden of producing evidence and the burden of persuasion. The degree or quantum of proof shall be a preponderance of the evidence."

II

**FINDINGS OF FACT**

**A. REGARDING THE RELATION OF THE PROPOSAL TO THE STATE HEALTH SERVICES AND FACILITIES PLAN (HAWAII HEALTH PERFORMANCE PLAN) OR "H2P2"**

11. The applicant states that the proposed service will focus on the treatment of patients that are critically ill and suffer from chronic illnesses. The applicant states that these treatment goals are consistent with the H2P2 objective of "reducing the effects of chronic disease and prolonging health related quality of life."

12. The applicant states that the Proposal supports the H2P2 statewide priority of "the development of care systems for the elderly and chronically ill population" by clinically focusing on "medically complex and chronically ill patients" of which "approximately 75 to 80%... will be Medicare-aged individuals."

13. With respect to the disease specific/health condition chapters (IV-XI) of H2P2, the applicant states the following:

- Chapter IV (*Infectious Diseases*) - the applicant states that its practices "will (sic) consistent with H2P2 objectives through the use of both regional and national benchmarking standards applied to all Select Specialty Hospitals."
- Chapter V (*Cancer*) - the applicant states that "it has established treatment protocols involving the care for cancer patients."
- Chapter VI (*Diabetes and Other Chronic Disabling Conditions*) - the applicant states that it will have established protocols for "multiple medical interventions for conditions such as diabetes."
- Chapter VII (*Heart Disease and Stroke*) - the applicant states that the Proposal will provide an environment that increases the probability of a patient being able to "progress further along the rehabilitative continuum of care."

14. The Agency finds that this criterion has been met.

**B. REGARDING NEED AND ACCESSIBILITY CRITERIA**

15. The applicant states that the "target population for the proposed LTACH would be the residents of the city of Honolulu and the island of Oahu that require the specialized services of an LTACH."

16. The applicant further states that "the proposed LTACH would accommodate acute care patients with serious and complex medical conditions that generally require long lengths of stay and a high level of clinical expertise."

17. The applicant states that the "proposed LTACH will provide a specialized level of care that is currently not available to the residents of Oahu."

18. The applicant projects that there is "an internal need for 107 LTACH beds within The Queen's Medical Center."

19. The applicant states that "It is anticipated that the proposed LTACH will reach an occupancy rate of 80% by the end of the second full year of operation."

20. The applicant states that its services "will be accessible to all residents and visitors to Oahu, including the elderly, low-income persons, racial and ethnic minorities, women, people with disabilities, and other underserved groups."

21. The applicant states that "The LTACH will make available at least 100 patient days of uncompensated care per year to those without financial resources to pay for such care."

22. The Agency finds that the need and access criteria have been met.

**C. REGARDING QUALITY AND LICENSURE CRITERIA**

23. The applicant states that the Proposal will improve the quality of care being delivered to the target group by providing "a treatment option, in the continuum of care, that will best meet the needs of patients that require longer lengths of stay and higher levels of clinical attention than the typical acute care patient."

24. The applicant states that "The quality function at each Select Specialty Hospital is staffed by a full-time quality manager. The quality manager works with the medical staff and reports at least quarterly to the Board. National consultants, senior quality managers, and Select Medical's Vice President of Clinical Services will provide additional support for the LTACH."

25. The applicant states that "Benchmarking standards will provide comparison against the top five most successful Select Specialty Hospitals for a particular category measured, i.e., rate of infection."
26. The applicant states that it "will be licensed as an acute care hospital and, as such, will meet all applicable local, state of Hawaii and federal hospital licensure criteria" and "... will apply for JCAHO accreditation."
27. The applicant states that "All staff will be required to maintain appropriate licenses pertaining to specialty. Each staff member will be required to attend in-house training conducted by Select Medical as well as any orientation sessions that The Queen's Medical Center may require of new hires, in general."
28. The Agency finds that quality and licensure criteria have been met.

D. REGARDING THE COST AND FINANCIAL CRITERIA

29. The applicant states that the capital cost of the project is \$3,295,140 and that it intends to finance the project with available cash from its parent corporation, Select Medical Corporation.
30. With respect to the Proposal's effect on health care costs, the applicant states:
- "The hospital-within-a-hospital model allows us to operate our specialty hospitals without the capital investment typically associated with buying or building a freestanding facility. We are also able to gain operating efficiencies by contracting with the host facility for selected ancillary services. As a result of these dynamics, we are able to operate with lower overhead while still providing complex and staff intensive care with customized treatment programs to LTACH patients."
31. The applicant projects that the net income from operations for the first three years of the Proposal will be: yr 1 - (\$1,027,904); yr 2 - \$960,522 and yr 3 - \$2,279,060.
32. The applicant states that "the construction of a freestanding LTACH on the island was rejected because it would cost substantially more than the renovations proposed in this application. When it proved feasible to accommodate the LTACH within existing space at The Queen's Medical Center, the new construction alternative was rejected as unnecessarily expensive."

33. The applicant states that the Proposal "is designed to provide operating efficiencies between the LTACH and the host facility. The LTACH itself will be able to reduce operating overhead through the lease and sharing of existing acute care space with The Queen's Medical Center rather than building or acquiring such facilities."

34. The Agency finds that cost and financial criteria have been met.

E. REGARDING THE RELATIONSHIP OF THE PROPOSAL TO THE EXISTING HEALTH CARE SYSTEM OF THE AREA

35. The applicant states that the Proposal "will fill a gap that currently exists along the acute care continuum on the island of Oahu. Critically ill and medically complex patients that require extended hospitalization now have few treatment options available."

36. The applicant states that the Proposal "will provide a needed 'stepping stone' to facilitate the movement of prospective LTACH patients from a costly ICU setting to other components of the acute and post-acute care continuums."

37. The applicant states that "Other healthcare providers will benefit through the ability to cost-shift those patients that are at risk of becoming costly outliers in their ICU settings."

38. The applicant states that it will collaborate with The Queen's Medical Center in the provision of ancillary services for LTACH patients. The proposed LTACH will purchase services such as dietary, radiology, lab, outpatient surgical services, and other special procedures from The Queen's Medical Center."

39. The Agency finds that this criterion has been met.

F. REGARDING THE AVAILABILITY OF RESOURCES

40. The applicant states that that it intends to finance the project with available cash from its parent corporation, Select Medical Corporation.

41. The applicant states that "It is anticipated that Select Specialty Hospital - Honolulu will first seek to staff the facility through local and statewide recruitment efforts. Select Medical will collaborate with The Queen's Medical Center in any recruiting efforts that would provide a mutual benefit to both organizations in filling staff vacancies."

42. The applicant states that "...recruitment from the 'mainland' is also a strong possibility should local efforts prove not to be completely successful."

43. The applicant states that "...Select Medical has more than 16,400 employees" and that it "...is well resourced and has solid recruitment capabilities."

44. The Agency finds that this criterion has been met.

### III

#### CONCLUSIONS OF LAW

Having taken into consideration all of the records pertaining to Certificate of Need Application No. 03-22 on file with the Agency, including the written and oral testimony and exhibits submitted by the applicant and other affected persons, the recommendations of the Oahuwide Certificate of Need Review Committee, and based upon the findings of fact contained herein, the Agency concludes as follows:

The applicant has met the requisite burden of proof and has shown by a preponderance of the evidence that the Proposal meets the criteria established in Section 11-186-15, HAR.

Accordingly, the Agency hereby determines that, pursuant to Chapter 323D-43(b):

- (1) There is a public need for this proposal; and
- (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.

#### ORDER

Pursuant to the findings of fact and conclusions of law contained herein, IT IS HEREBY DECIDED AND ORDERED THAT:

The State Health Planning and Development Agency hereby APPROVES and ISSUES a certificate of need to Select Specialty Hospital-Honolulu, Inc. for the proposal described in Certificate Application No. 03-22. The maximum capital expenditure allowed under this approval is \$3,295,140.

WRITTEN NOTICE

Please read carefully the written notice below. It contains material that may affect the Decision on the Merits. The written notice is required by Section 11-186-70 of the Agency's Certificate of Need Program rules.

The decision on the merits is not a final decision of the Agency when it is filed. Any person may request a public hearing for reconsideration of the decision pursuant to Section 11-186-82 of the Agency's Certificate of Need Program rules. The decision shall become final if no person makes a timely request for a public hearing for reconsideration of the decision. If there is a timely request for a public hearing for reconsideration of the decision and after the Agency's final action on the reconsideration, the decision shall become final.

DATED: September 17, 2003  
Honolulu, Hawaii

HAWAII STATE HEALTH PLANNING  
AND DEVELOPMENT AGENCY



David T. Sakamoto, M.D.  
Administrator

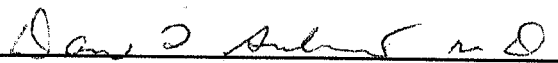


CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the attached Decision on the Merits, including findings of fact, conclusions of law, order, and written notice, was duly served upon the applicant by sending it by certified mail, return receipt requested, in the United States Postal Service addressed as follows on September 17, 2003.

Robert A. Ortenzio  
President and Chief Executive Officer  
Select Specialty Hospital-Honolulu, Inc.  
4716 Old Gettysburg Road  
Mechanicsburg, PA 17055

HAWAII STATE HEALTH PLANNING  
AND DEVELOPMENT AGENCY

  
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David T. Sakamoto, M.D.  
Administrator