

# STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

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October 15, 2004

## CERTIFIED MAIL, RETURN RECEIPT REQUESTED

IN THE MATTER OF	)	CERTIFICATE OF NEED
	)	APPLICATION
	)	NO. 04-15
Kaiser Foundation Hospital, 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. 04-15 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 Certificate of Need Review Panel and the Statewide Health Coordinating Council, 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. 04-15.

I

## BACKGROUND

1. This is an application for a Certificate of Need ("Cert.") for the expansion and renovation of Moanalua Medical Center, 3288 Moanalua Road, Honolulu, HI at a capital cost of \$68,450,000.
2. The applicant, Kaiser Foundation Hospital, Inc., is a non-profit corporation duly qualified to carry on business in 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 April 12, 2004, the applicant filed with the Agency a Certificate of Need application for the expansion and renovation of Moanalua Medical Center, 3288 Moanalua Road, Honolulu, HI at a capital cost of \$68,450,000 (the "Proposal"). On May 28, 2004, July 16, 2004, July 22, 2004, August 27, 2004, and September 7, 2004, the applicant submitted additional information. On September 9, 2004, the application was determined to be complete. For administrative purposes, the Agency designated the application as Cert. #04-15.

5. The period for Agency review of the application commenced on September 10, 2004, the date on which the review schedule for the application appeared in the newspaper of general circulation pursuant to Section 11-186-39 HAR.

6. The Oahuwide Certificate of Need Review Committee met at a public meeting on September 17, 2004 and recommended unanimous approval of the application by a vote of 4 in favor and none opposed.

7. The application was reviewed by the Certificate of Need Review Panel at a public meeting on September 16, 2004. The Panel recommended unanimous approval of the application by a vote of 7 in favor and none opposed.

8. The Statewide Health Coordinating Council Committee met at a public meeting on September 23, 2004 and recommended unanimous approval of the application by a vote of 11 in favor and none opposed.

9. This application was reviewed in accordance with Section 11-186-15, HAR:

10. 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."

11. 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"**

12. The applicant states that "The expansion of the Medical Center will continue to help achieve the goals (in H2P2) of increasing the span of healthy life for Hawai'i's residents, reduce health disparities among Hawai'i's residents, and achieve equitable and effective access at reasonable cost for all Hawai'i's residents by meeting the objective of 'Reducing morbidity and pain through timely and appropriate treatment'."

13. With respect to the H2P2 critical elements of quality management and cost-effectiveness, the applicant states that "Providing high quality, cost-effective health care is the guiding principle at Kaiser Permanente. Quality Assurance Programs, Disease Management Programs, and accreditation by JCAHO and NCQA insure that quality, cost-effective care is being provided."

14. The applicant states that "This project will improve the Statewide value of 'comprehensiveness' by continuing to provide inpatient services (hospital stay, surgery, emergency) in Kaiser's continuum of care through integration, collaboration, and coordination to address holistically the health and wellness needs of individuals and families."

15. The applicant states that "This project will also increase access to cost-effective healthcare services, specifically inpatient services, which is a statewide priority."

16. The applicant states that its proposal will assist in the diagnosis and treatment of many of the diseases and conditions contained in Chapters IV-XI of H2P2, including the following specific measures:

- CAP-5.1 Providing access to medical and/or surgical intervention in treatment of cancer cases
- HDP-9 Time from emergency department (ED) arrival to treatment with thrombolytic therapy for Acute Myocardial Infarction (AMI) and thromboembolic stroke unless contraindicated
- CDO-D2 Diabetic-Related Inpatient Admission Rate
- CDO-D3. Diabetic Limb Amputation Rate

17. The Agency finds that this criterion has been met. The applicant has proven by a preponderance of the evidence that the Proposal is consistent with the provisions of the state health services and facilities plan (H2P2).

**B. REGARDING NEED AND ACCESSIBILITY CRITERIA**

18. The applicant states that "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."

19. The applicant states that "The Medical Center was expected to serve 126,500 members in 1985. The current membership base (as of December 2003) has increased to over 235,000 members across the state and is forecasted to be approximately 319,000 by 2016. Utilization of hospital services is expected to increase with the projected growth and aging of membership."

20. The applicant states that "Kaiser Permanente Emergency Services has realized more than 30% utilization increase over the past 10 years. The Emergency Department at the Medical Center as (sic) reached capacity. In order to meet the growing demand for acute episodic treatment, improve patient care flow and prevent bed divert, the Emergency Department must be expanded."

21. The applicant states that "Bed demand was determined using Kaiser's long-range membership forecast extrapolated against utilization and weighted against variables such as service area (e.g. island locale), age category and repatriation of certain cases. Other factors such as the impact of new procedures (e.g. palliative care) were also used in determining bed demand. All of the collected information was used to determine projected inpatient days at the hospital; and the patient day figure was used to determine the exact number of beds, by bed type, needed to meet the projected membership population."

22. The applicant projects that Kaiser will have a deficit of 68 licensed acute care beds by 2016 categorized as follows: 47 Medical/Surgical, 12 Critical Care, 2 Pediatric and 7 Neonatal ICU.

23. The applicant states that "The 68 licensed acute care beds is projected to be phased in ... to coincide with the actual demand for service. If service demands do not increase as anticipated, Kaiser Permanente will use double rooms as single room (sic), to match community standards, until the demand increases and double bed rooms are needed again."

24. The applicant states that "Demand for surgical services was determined using Kaiser's long range-membership forecast extrapolated against known incidence rates per 1,000 members by service area, by surgical procedure and by age band. Capacity requirements were based on an 85% utilization threshold of available surgical time."

25. The applicant projects that it will have a deficit of 7 operating rooms by 2016.

26. The applicant states that "Demand for emergency services on Oahu was determined by using Kaiser's long-range membership forecast extrapolated against utilization/incident by age category (over/under 65). Kaiser studied the demand for emergent, urgent and convenience care on Oahu to determine the treatment space needs at the Medical Center and other clinic facilities. Kaiser used a 95% utilization threshold for meeting peak demand. Based on the findings, the Medical Center will have a deficit of 7 emergency treatment and 5 urgent care/ Fast Track treatment spaces by 2016."

27. The applicant states that "The proposed project will increase capacity and enhance access for all patients at Kaiser Permanente Moanalua Medical Center requiring inpatient services. This includes people with disabilities, low income persons, racial and ethnic minorities, women and the elderly."

28. The applicant states that "Inpatient services will continue to be available not only to Kaiser Permanente members but to all patients treated by a Kaiser Permanente physician. In 2003, over 5,000 inpatient days at Kaiser Permanente Medical Center were from non-Kaiser Permanente Hawaii members. 2004 is forecasted to have over 6,000 inpatient days from non-Kaiser Permanente Hawaii members. The increase in ER capacity will further enhance access for non-Kaiser Permanente members."

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

### C. REGARDING QUALITY AND LICENSURE CRITERIA

30. The applicant states that "The proposed project will improve the quality of care to patients requiring inpatient services at Moanalua Medical Center."

31. The applicant states that "The Kaiser Permanente Moanalua Medical Center 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)."

32. The applicant states that "To ensure that quality health care is provided to members, Kaiser Permanente has developed and implemented an extensive Quality Assurance Program for Kaiser Foundation Hospital, hospital departments, outside services (by non-Kaiser Permanente providers), and ambulatory services."

33. The applicant states that "OHCA license will be obtained for the additional acute care beds."

34. The Agency finds that quality and licensure criteria have been met.

#### D. REGARDING THE COST AND FINANCIAL CRITERIA

35. The applicant states that "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."

36. The applicant states "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 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."

37. The applicant states that "There are no other financially feasible and operationally feasible alternatives. Without adding capacity, 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. Also, without the added capacity, Kaiser Permanente would overburden the community with its requirement for services and be faced with rapidly accelerating outside service costs."

38. The applicant states that "The 68 licensed acute care beds is projected to be phased in to coincide with the actual demand for service. If service demands do not increase as anticipated, Kaiser Permanente will use double rooms as single room (sic), to match community standards, until the demand increases and double bed rooms are needed again."

39. 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**

40. The applicant states that "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. (Oahu market share is projected to increase by less than 2% from 2003 to 2016). 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"

41. The applicant states that "Inpatient services will continue to be available not only to Kaiser Permanente members but to all patients treated by a Kaiser Permanente physician. In 2003, over 5,000 inpatient days at Kaiser Permanente Medical Center were from non-Kaiser Permanente Hawaii members. 2004 is forecasted to have over 6,000 inpatient days from non-Kaiser Permanente Hawaii members. The increase in ER capacity will further enhance access for non-Kaiser Permanente members."

42. The applicant states that by adding the needed capacity, its proposal will improve the availability of health care in the community.

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

**F. REGARDING THE AVAILABILITY OF RESOURCES**

44. The applicant states that "... 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."

45. The applicant states that "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."

46. The applicant states that "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 area. 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."

47. The Agency finds that the applicant has met this criterion.

### III

#### CONCLUSIONS OF LAW

Having taken into consideration all of the records pertaining to Certificate of Need Application No. 04-15 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 Certificate of Need Review Panel and the Statewide Health Coordinating Council 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 Kaiser Foundation Hospital, Inc. for the proposal described in Certificate Application No. 04-15. The maximum capital expenditure allowed under this approval is \$68,450,000.



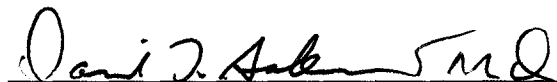
WRITTEN NOTICE

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: October 15, 2004  
Honolulu, Hawaii

HAWAII STATE HEALTH PLANNING  
AND DEVELOPMENT AGENCY



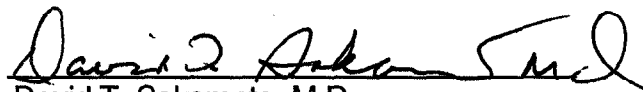
David T. Sakamoto, M.D.  
Administrator

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 October 15, 2004.

Ms. Susan R. Merrill  
Regional Hospital Administrator  
Kaiser Foundation Hospital, Inc.  
3288 Moanalua Road  
Honolulu, HI 96819

HAWAII STATE HEALTH PLANNING  
AND DEVELOPMENT AGENCY



David T. Sakamoto, M.D.  
Administrator