



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

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ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM

Application Number: # 20-13A
To be assigned by Agency

Date of Receipt: ST. HLTH PLNG & DEV. AGENCY

APPLICANT PROFILE

Project Title: Expansion and Renovation of Surgery Department at Castle Medical Center

Project Address: 640 Ulukahiki Street, Kailua, Hawaii 96734

Applicant Facility/Organization: Castle Medical Center, dba Adventist Health Castle

Name of CEO or equivalent: Kathryn Raethel

Title: President/Chief Executive Officer

Address: 640 Ulukahiki Street, Kailua, Hawaii 96734

Phone Number: (808) 263-5142 Fax Number: (808) 263-5143

Contact Person for this Application: J. George Hetherington

Title: Attorney

Address: 700 Bishop Street, 15th Floor, Honolulu, HI 96813

Phone Number: (808) 523-6000 Fax Number: (808) 523-6001

CERTIFICATION BY APPLICANT

I hereby attest that I reviewed the application and have knowledge of the content and the information contained herein. I declare that the project described and each statement amount and supporting documentation included is true and correct to the best of my knowledge and belief.

Signature: [Handwritten Signature]

Date: August 19, 2020

Name (please type or print): Kathryn Raethel

Title (please type or print): President/Chief Executive Officer

1. TYPE OF ORGANIZATION: (Please check all applicable)

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- 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: X
- 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 entire project described in this application will be completed within the existing hospital building, which is already owned by Castle Medical Center.

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 from City & County of Honolulu
Medicare Survey and Certification

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 3

- Partnership Agreements: Not applicable
- Tax Key Number (project's location): 1-4-2-6-4

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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
N/A	N/A	N/A	N/A
TOTAL			

6. PROJECT COSTS AND SOURCES OF FUNDS

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A. List All Project Costs:

AMOUNT:

1.	Land Acquisition	N/A
2.	Construction Contract	\$4,643,986
3.	Fixed Equipment	\$3,210,013
4.	Movable Equipment	N/A
5.	Financing Costs	N/A
6.	Fair Market Value of assets acquired by lease, rent, donation, etc.	N/A
7.	Other: <u>Professional Fees, Project Management Fees, IT Equipment, Signage</u>	\$1,532,524

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TOTAL PROJECT COST: \$9,385,623

B. Source of Funds

1.	Cash	\$9,385,623
2.	State Appropriations	N/A
3.	Other Grants	N/A
4.	Fund Drive	N/A
5.	Debt	N/A
6.	Other: _____	N/A

TOTAL SOURCE OF FUNDS: \$9,385,623

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.

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This project is an expansion and reconfiguration of an existing service. The proposed expansion project involves the addition of two (2) new operating rooms and one (1) procedure room to Castle Medical Center's surgery department, primarily to address increasing volume. It will also enable more minimally invasive surgical procedures to be conducted at Castle Medical Center, resulting in less trauma and recovery time for the patient.

7. 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: Not applicable; the site is already owned by Castle Medical Center

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

Building Permit from City & County of Honolulu

Applied for: 5/6/2020

Received: 7/23/2020

Medicare Survey and Certification

Applied for: June 2019

Received: September 2019

c) Dates by which financing is assured for the project: N/A

d) Date construction will commence: 11/20/2020

e) Length of construction period: 558 days

f) Date of completion of the project: 5/31/2022

g) Date of commencement of operation: 5/31/2022

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.

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.

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STATE PLANNING & DEV. AGENCY
- a) Relationship to 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.

EXECUTIVE SUMMARY

Castle Medical Center ("CMC") seeks approval to expand and renovate its surgery department situated within its existing hospital building, located at 640 Ulukahiki Street, Kailua, Hawaii, add two operating rooms and a procedure room, and acquire the da Vinci surgical robotic technology to perform minimally invasive surgery (hereinafter referred to as the "Proposal"). The main purpose of the renovation is to expand the hospital's ability to deliver surgical services to its patient population, which mainly reside on the Windward side of Oahu. A floor plan of the surgery department's renovation is included in Attachment 4.

CMC is the anchor hospital service provider for Windward Oahu, with a service area extending from Waimanalo to Kewalo Bay on the North Shore. The hospital first opened its doors in 1963, and while it has been expanded from time-to-time to address the needs of the growing Windward community, much of the hospital building's original infrastructure is still in place.

CMC currently has a total of five operating rooms and one Cardiac Cath Lab suite for all procedures, including open heart and vascular surgeries, neurosurgery, and obstetrics. CMC has reached a collective utilization rate of 80% for these rooms and will need more space to accommodate a projected growth in demand. Moreover, CMC will begin providing trauma services and will need these additional rooms provide trauma cases with timely access to the operating room. The proposed renovations will increase CMC's operating room space by a total of 1,310 square feet spread out over three rooms. The Proposal will add two operating rooms and one procedural area for endoscopy and bronchoscopy.

The Proposal will also include the acquisition of a da Vinci robot, which will enhance the quality and efficiency of surgical procedures performed by CMC's surgeons. This system will facilitate minimally invasive surgery, which results in faster recovery times and reduces the likelihood of surgical infections in CMC patients.

- a) Relationship to the State of Hawai'i Health Services and Facilities Plan.

The Hawaii Health Services and Facilities Plan (the "HSFP") does not include any threshold level for the addition of surgical services or added medical equipment. However, the renovation of the surgery department will advance the following priorities of the Statewide Health Coordinating Council ("SHCC"):

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- Ensure that any proposed services will at least maintain overall access to quality health care at a reasonable cost;
- Strive for equitable access to health care services;
- Ensure capacity and access to primary care services.

All of the new rooms will feature enhanced video and laparoscopic equipment and one of the new rooms will be designed specifically for the acquisition of the surgical robot. Having dedicated rooms for CMC's specific service lines and equipment will improve efficiency. Importantly, dedicated rooms are expected to extend the life of CMC's equipment as they will eliminate the need to move equipment around daily, thereby mitigating wear and tear. These advantages will allow CMC to serve a greater number of patients and promote equitable access to health care services.

The additional equipment purchased will also enhance surgery and endoscopy services available to the community. The surgical robot will be used to perform more complex urology, gynecology, and general surgery procedures in a minimally invasive manner. Typical cases expected to benefit from acquisition of the surgical robot include colon resections, hysterectomies, nephrectomy, prostate surgery, and possibly bariatrics. This will undoubtedly improve overall access to quality health care, which will in turn help with costs by keeping the risk of complications low.

Finally, this project will promote the Windward Oahu Subarea Council's priority of ensuring adequate access to facilities of care by providing additional operating room capacity that is needed to meet the Windward community's increasing needs for comprehensive health care services.

b) Need and Accessibility

Table 1, below, shows the annual number of surgery procedures performed in CMC's surgery department under existing conditions for the past four years.

Table 1. Number of Surgery Procedures Performed at CMC per Year

Year	2016	2017	2018	2019
Surgery Procedures	3,589	3,798	3,474	4,128

As the figures illustrate, over the past four years, there has been a 70% increase in the volume of surgery procedures performed by CMC. This puts CMC at about an 80% utilization rate, which inhibits CMC's ability to further grow under existing conditions. The population of the Windward side is rapidly increasing and it is critical to build capacity in order to expand services and match community growth.

Although the majority of CMC's patients reside in CMC's primary service area, CMC makes its services available to all Oahu residents, including low-income individuals, racial and ethnic minorities, individuals with disabilities, and the elderly and other underserved groups. By expanding CMC's surgery department, access will be improved to a significant portion of this windward and broader Oahu patient population.

The hospital in which the Proposal will be constructed is easily accessible, and has ample free, handicapped-accessible parking on the same level as the facility.

c) Quality of Service/Care

CMC has been nationally recognized for the excellence of the care it provides. This has translated to high patient satisfaction that has exceeded Hawaii's average for reported patient satisfaction. CMC is staffed by licensed physicians, nurses and allied health professionals, who provide patient care in accordance with the hospital's written protocols, policies and procedures. Additionally, CMC's Medical Staff includes board certified specialists, who enhance the quality of care provided to CMC patients by offering a patient-centric approach to its delivery of services.

All CMC Medical Staff members are credentialed in accordance with CMC's Medical Staff Bylaws and Rules and Regulations. CMC conducts regular performance reviews of employees which, among other purposes, are used to identify strengths, discover areas for improvement and document professional performance. The hospital conducts regular in-service training to assist its personnel in maintaining and improving their clinical skills. CMC seeks to continually assess and improve the quality of care given to its patients through the methods outlined in its written performance improvement and risk management Plan.

CMC complies with state and federal regulations for the delivery of care and the maintenance of the clinical environment. CMC is accredited by The Joint Commission, licensed by the State of Hawaii Department of Health and Medicare certified, and will continue to operate in the tradition of its mission to provide the highest quality of care.

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

The total cost of the Proposal is estimated at \$9,385,623, which includes the cost to purchase a da Vinci Robot. The project is being funded by internal resources and will have minimal impact on the overall costs of health services in the community. CMC is owned and operated by Adventist Health, which has already approved funding for the

renovation project from cash reserves. The renovation will take place totally within the footprint of the existing hospital building, and the site is owned by CMC.

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First and third year revenue and cost projections for the first and third year of operations for the expanded imaging center are shown in Table 2, below.

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DEPARTMENT

Table 2. First and Third Year Revenue and Cost Projections for Renovated Surgery Department

	Projected 1st Full Year Operations	Projected 3rd Full Year Operations
Total Operating Revenue	\$2,335,910	\$5,835,027
Operating Expenses		
Salaries, Wages, Benefits	\$225,215	\$585,433
Other Expenses	\$494,221	\$881,475
Depreciation	\$551,424	\$551,424
Total Expenses	\$1,270,860	\$2,018,332
Net Income (Loss) from Operations	\$1,065,050	\$3,816,696
Add Back: Depreciation	\$551,424	\$551,424
Excess (Deficit) Fund from Operations	\$1,616,475	\$4,368,120

The proposed renovations and equipment acquisitions will not negatively impact the operating performance of CMC's surgery department. Furthermore, the Proposal is expected to have minimal impact on operating expenses or revenues for other hospital departments.

e) Relationship to the existing health care system

The Proposal is needed to expand CMC's ability to deliver surgical services, including advanced minimally invasive surgeries, in order to meet rising demand, maintain the high quality of service expected by CMC patients, and bring the surgery spaces into conformity with contemporary safety and efficiency standards.

Because the renovation and expansion is intended to serve patients within CMC's existing service area, which is too distant from other hospitals to be served effectively by them, the project is expected to have little, if any, impact on other providers.

f) Availability of Resources.

There are no financial obstacles to the project. Adventist Health has already approved funding for the renovation from cash reserves. The site of the hospital building is already owned by CMC.

CMC will need to add 6-8 RNs and Surgical Technologists as it opens up the new rooms because the increase in surgical availability will require additional staffing.

CMC will easily be able to fill these additional staffing needs through its ongoing local and national recruiting efforts.

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8. **Eligibility to file for Administrative Review.** This project is eligible to file for Administrative review because: (Check all applicable)

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- 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.