



## HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

### ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 05-01A

Applicant: Straub Clinic and Hospital  
1010 S. King Street  
Honolulu, 96814  
Phone: 808-522-4000

Project Title: Change of ownership of outpatient open MRI services

Project Address: same

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: \_\_\_\_\_

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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:   X    
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). **[See ATTACHMENT "A"]**
- 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.).

**Not applicable – existing service in operation with current permits and certifications as required.**

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

**[SEE ATTACHMENT "B"]**

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 "C"]**
- By-Laws: **[SEE ATTACHMENT "C"]**
- Partnership Agreements: **N/A**
- Tax Key Number: **2-1- 42- 10, 23 and 24**

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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					
Outpatient Facility	(X)				
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.

**- NOT APPLICABLE (N/A) -**

Type of Bed	Current Total	Bed	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
N/A	N/A		N/A	N/A

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**1. PROJECT COSTS AND SOURCES OF FUNDS**

**A. List All Project Costs:**

**AMOUNT:**

1.	Land Acquisition	RECEIVED	N/A
2.	Construction Contract	05 FEB -2 P2:38	N/A
3.	Fixed Equipment		N/A
4.	Movable Equipment	ST. HLTH. PLNG. & DEV. AGENCY	N/A
5.	Financing Costs		N/A
6.	Fair Market Value of assets acquired by lease, rent, donation, etc. (i)		\$1,200,000
7.	Other:		_____
<b>TOTAL PROJECT COST:</b>			<b>\$1,200,000</b>

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**B. Source of Funds**

1.	Cash	_____
2.	State Appropriations	_____
3.	Other Grants	_____
4.	Fund Drive	_____
5.	Debt	_____
6.	Other: (fair market value of acquisition (i))	<u>\$1,200,000</u>
<b>TOTAL SOURCE OF FUNDS:</b>		<b>\$1,200,000</b>

(i) Straub Clinic & Hospital (SCH) currently owns 51% of share of HOMI. The \$1,200,000 in the budget represents 49% of the remaining fair market value of the assets being acquired from MD Services in HOMI. This value is derived by net present value of investment based on financial forecast of net income for project using a cost of capital of 5.5%.

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.

This project is neither an establishment of a new service or a new location of an existing service. The proposed project involves a change of ownership of an existing outpatient based open MRI located on S. King Street across the Thomas Square Park from Straub Clinic and Hospital. The current owners are Straub Imaging Services, Inc. (a wholly owned subsidiary of Straub Clinic and Hospital) and MD Services, a medical imaging company based in California. The current owners have a joint venture called Honolulu Open Medical Imaging, LLC (HOMI). The new owner will be Straub Clinic and Hospital who will acquire all the assets and liabilities of HOMI, in effect buying out MD Services' ownership interest in the outpatient open MRI.

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: N/A-existing
- b) Dates by which other government approvals/permits will be applied for and received: Existing certificates and licenses will be transferred on or before March 1, 2005
- c) Dates by which financing is assured for the project: N/A
- d) Date construction will commence: N/A
- e) Length of construction period: N/A
- f) Date of completion of the project: March 1, 2005
- g) Date of commencement of operation: March 1, 2005

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.

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**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.

The proposed project is a transfer of ownership of existing capital and services. HOMI is a joint venture between Straub Clinic and Hospital (through it's wholly owned for profit subsidiary, Straub Imaging Services, Inc.) and MD Services, a for profit corporation based in California. The joint venture operates an outpatient open MRI that commenced operations in 2003. MD Services wishes to divest itself of the joint venture and Straub Clinic and Hospital desires to acquire full control and ownership of the MRI. Since Straub Clinic and Hospital will be the sole owner and as a non for profit 501(c)(3) organization, there is no longer a need to maintain a for profit subsidiary (Straub Imaging Services, Inc.) - which enabled the joint venture arrangement with MD Services. Straub Clinic and Hospital will pay MD Services \$250,000 to buy out its interest in the MRI.

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

The proposed project only involves a change in ownership of an existing service. The relationship of an open MRI to the Hawaii Health Performance Plan (H2P2) was previously addressed in the original Certificate of Need application (#02-14) with subsequent review and approval. Straub Clinic and Hospital will continue to follow the guidelines of the H2P2.

**b) Need and Accessibility**

The proposed project only involves a change in ownership of an existing service. The need for the open MRI was addressed with the original Certificate of Need application (#02-14) at the initial launching of this service. The change of ownership will not have any impact on the need for this service or on accessibility of this service.

**c) Quality of Service/Care**

The change in ownership will not result in any degradation of quality of service or care. Straub Clinic and Hospital has the clinical and administrative personnel and resources to meet or exceed the quality of service and care as committed to in the original Certificate of Need application (#02-14).

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

The open MRI is projected to have a positive financial performance on a go-forward basis beginning in year 3. Straub Clinic and Hospital and Hawaii Pacific Health are committed to optimal utilization of the open MRI, including continued open access of the MRI to independent physicians, hospitals and other health care providers. The financial projections are in "ATTACHMENT D". The project is cost-effective as it utilizes existing space, equipment, Straub infrastructure and other resources.

**e) Relationship to the existing health care system**

The project is expected not to impact the existing health care system as it is simply a continuation of an existing service. The proposed project only involves a change in ownership of the open MRI. The need and justification for the open MRI was reviewed and approved with the original Certificate of Need application (#2-14). The change of ownership will not change the relationship of the service to the existing health care system.

**f) Availability of Resources.**

Straub Clinic and Hospital has the \$250,000 from operating funds for the buy-out of MD Services interest in the open MRI. Straub Clinic and Hospital also has the financial, clinical staff and administrative support to operate and maintain the open MRI including sufficient funds from operating capital to fund expected losses until the service achieves a positive margin (expected by year 3).

**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.