



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

14 JUL 23 P2:44

ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM

Application Number: #14-09A Date of Receipt: To be assigned by Agency

APPLICANT PROFILE

Project Title: Acquisition of ownership interest in Honolulu Spine Center, LLC

Project Address: 500 Ala Moana Boulevard, Building 1, Suite 303, Honolulu, Hawaii 96813

Applicant Facility/Organization: Surgery Center Holdings, Inc.

Name of CEO or equivalent: Michael T. Doyle

Title: Chief Executive Officer

Address: 5426 Bay Center Drive, Suite 300, Tampa, Florida 33609

Phone Number: (813) 569-6500 (Ext 1710) Fax Number: (813) 316-4814

Contact Person for this Application: John W. Lawrence, Jr.

Title: Senior Vice President and General Counsel

Address: Surgery Partners, 333 West Wacker Drive, Suite 1010, Chicago, Illinois 60606

Phone Number: (312) 780-3224 Fax Number: (312) 780-3224

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

Date

Name (please type or print)

Title (please type or print)

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

Public _____
Private X
Non-profit _____
For-profit X
Individual _____
Corporation X
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: _____
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 1 (Form 8K filed with United States Securities and Exchange Commission, including Merger Agreement)
- 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.)
State Licensure from the Department of Health
Medicare Certification
CLIA Permit
- C. Your governing body: list by names, titles and address/phone numbers
See Attachment 2
- 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 3 (Delaware Certificate of Incorporation)
 - By-Laws: See Attachment 4
 - Partnership Agreements: Not applicable
 - Tax Key Number (project's location): 1-2-1-29-1

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 Ownership	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.

Type of Bed	Current Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
TOTAL			

6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:

AMOUNT:

1.	Land Acquisition	_____
2.	Construction Contract	_____
3.	Fixed Equipment	_____
4.	Movable Equipment	_____
5.	Financing Costs	_____
6.	Fair Market Value of assets acquired by lease, rent, donation, etc.	_____
7.	Other: <u>Fair market value of interest acquired in Honolulu Spine Center</u>	<u>\$5,820,000</u>

TOTAL PROJECT COST: \$5,820,000

B. Source of Funds

1.	Cash	_____
2.	State Appropriations	_____
3.	Other Grants	_____
4.	Fund Drive	_____
5.	Debt	<u>\$4,605,366</u>
6.	Other: <u>equity</u> _____	<u>\$1,214,634</u>

TOTAL SOURCE OF FUNDS: \$5,820,000

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.

Acquisition of Symbion Holdings Corporation, which indirectly owns a

50 percent membership interest in Honolulu Spine Center, by Surgery

Center Holdings, Inc. The ownership interests of other members in

Honolulu Spine Center will be unaffected by the acquisition.

HAR § 11-186-5(3)(D)

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: Upon closing of the merger, which is scheduled to take place on or about September 15, 2014.

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

Applications for approval of merger will also be filed in other states requiring such approval where ambulatory surgery centers owned by Symbion Holdings are located around the same time period as this application.

Required approvals are expected to be received no later than September 15, 2014.

Upon closing of the merger, Honolulu Spine Center will apply for updated state license/laboratory permit, Medicare certification under new ownership (CMS Form 855B) and updated CLIA Certificate of Waiver.

c) Dates by which financing is assured for the project: June 13, 2014

d) Date construction will commence: Not applicable.

e) Length of construction period: Not applicable.

- f) Date of completion of the project: Upon closing of merger.
- g) Date of commencement of operation: Upon closing of merger.

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.

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.
- 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

Symbion ARC Management Services ("SMS") owns a 50 percent interest in Honolulu Spine Center, LLC ("Honolulu Spine"). SMS is an indirect, wholly owned subsidiary of Symbion Holdings Corporation ("Symbion"), which is affiliated with 57 ambulatory surgery centers ("ASCs"), located in 24 states.

Surgery Center Holdings ("Surgery Center") currently owns or operates 47 surgical centers across the United States, all of which are Medicare certified and licensed in the states where they are located.

Through a merger, Surgery Center will acquire 100 percent of the stock of Symbion and, as a result, become the indirect owner of SMS. The proposed transaction will create a network of ASCs that is about double the size of either entity's current affiliate network.

The acquisition is not intended to change the scope of services now provided at Honolulu Spine, which will maintain the same services described in CON # 05-27, approved on February 27, 2006 ("CON # 05-27"). The acquisition is expected to result in lower annual operating costs because of the economies of scale that will be realized from Honolulu Spine's participation in the larger merged network of centers and the combined operating policies and management expertise of Symbion and Surgery Center.

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

This proposal will advance the State Health Coordinating Council's ("SHCC") priorities by:

- Promoting and supporting the long-term viability of the health care delivery system;
- Maintaining overall access to quality health care at a reasonable cost;
- Facilitating equitable access to health care service; and
- Developing the regional and statewide continuum of care.

The proposal will also advance the Honolulu Subarea Health Planning Council's priority of controlling escalating costs for needed services.

The role of ASCs in providing outpatient surgery services to patients who do not require hospitalization has long been recognized as an important part of the continuum of care both on Oahu and throughout Hawaii. Because of their more focused practice emphasis, ASCs are typically able to perform procedures at substantially less cost than hospitals. After the transaction, Surgery Center will represent a nationwide network of more than 100 ASCs. The combined management teams of Symbion and Surgery Center have years of experience implementing best practices and cost-control measures and improving the overall operating efficiency of ASCs. Honolulu Spine will have an opportunity to realize economies of scale that will result from this combined experience in addition to Surgery Center's relationships within the health care industry. This will provide Honolulu Spine with resources to improve its operating efficiency, thereby controlling costs and facilitating access to outpatient spinal specialty surgery services for Oahu residents. Reduced costs and improved efficiency will also promote the long-term viability of Oahu's health care delivery system by strengthening Honolulu Spine's contribution to the important role of ASCs in the system.

Using Honolulu Spine for providing outpatient procedures has also allowed Oahu spine surgeons to manage their practices more effectively and, as a result, has improved the availability and quality of the specialty care they offer.

b) Need and Accessibility

The need for the services provided by Honolulu Spine is evidenced and established in its already approved CON No. 05-27. Honolulu Spine will continue to provide the same mix of services to patients covered by a wide range of third-party payment arrangements. Honolulu Spine's current payor mix is summarized in Table 1, below.

Payor type	Percent of cases
Auto Liability	0.53%
Commercial (including BCBS, HMO/PPO, and other commercial)	53.91%
Medicare	22.13%
Medicaid	5.1%
Workers Compensation	18.33%

Table 1.

Symbion and Surgery Center believe this payor mix represents the mix used by Oahu's population overall. No material change in the payor mix is expected after completion of the

proposed transaction. Honolulu Spine will continue to serve all Hawai'i residents including low income persons, racial and ethnic minorities, women, persons with disabilities and other underserved groups, and the elderly.

For the ASC's patients, the change of ownership will be invisible as timely processing of this certificate of need application will result in seamless continuity of care, and physicians and patients will continue to enjoy services and high-quality patient care that they have come to expect from Honolulu Spine.

c) Quality of Service/Care

Honolulu Spine is, and will continue to be, Medicare certified and licensed by the Hawaii Department of Health.

Patient care at the ASC is provided by credentialed physicians, registered nurses and licensed practical nurses with advanced specialty training, through well-defined and well-documented protocols for caregivers. Physicians are credentialed in accordance with Honolulu Spine's Medical Staff Bylaws, Rules and Regulations, developed and maintained by the ASC's Governing Body, which include the delineation of application materials required of each applicant, decision time frames, prioritizing processes, fair hearing procedures, and the assessment of care rendered or proposed to be rendered by the applicant. Only members of the Medical Staff with admitting privileges may admit patients to the facility, and such individuals may practice only within the scope of the privileges granted by the Governing Body. Treatment of each patient's medical condition is the responsibility of a qualified member of the Medical Staff. In all cases, the results of quality assessment and improvement activities, which examine components of care rendered by any privileged Medical Staff member, are considered before a re-appointment decision or any other decision affecting privileges is made.

All anesthesiologists practicing at the ASC are Board Certified or Board Eligible in anesthesia. Honolulu Spine surgeons are on the active medical staff of one or more Oahu hospitals, with clinical privileges in neurosurgery or orthopedic surgery and are associated with such professional organizations as the American Association of Neurological Surgeons, Congress of Neurological Surgeons, North American Spine Society, American College of Surgeons, American Medical Association, Hawaii Association of Neurological Surgeons, Hawaii Medical Association, American Association for the Advancement of Science, International Association for the Study of Pain, American Society for Interventional Pain Surgeons, International Spine Intervention Society, Association of Military Surgeons of the US, Honolulu County Medical Society, and Pan-Pacific Surgical Association.

All licensed nursing personnel are Basic Life Support ("BLS") certified. All post-anesthesia care unit nurses are Advanced Cardiac Life Support ("ACLS") certified. The ASC will conduct regular performance reviews of employees which, among other purposes, are used to identify strengths, discover areas for improvement, document professional performance, and gather data as a guide for such actions as wage increases, promotions, disciplinary action and reassignment.

The ASC will continue its existing transfer agreement with The Queen's Medical Center and its relationships with other members of Oahu's health care community.

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

This transaction is part of a nationwide, aggregate sale of 57 ASCs. As shown on page 4, based on a multiplier of Honolulu Spine's earnings before interest, taxes, depreciation and amortization ("EBITDA"), Surgery Center has calculated that the fair market value of the interest in Honolulu Spine which it will acquire is \$5,820,000. This amount has not been allocated among the types of assets acquired.

The estimated revenue and cost projections for Honolulu Spine for the first and third full years of operation following the acquisition are shown in Table 2, below.

	Projected 1st Full Year Operations	Projected 3rd Full Year Operations
Net Operating Revenue	\$5,739,545	\$5,854,910
Operating Expenses		
Salaries, Wages, Benefits	1,373,717	1,401,328
Other Expenses	3,829,111	3,906,076
Interest Expense	237,758	237,758
Depreciation	512,082	190,385
Total Expenses	5,952,668	5,735,548
Net Income (Loss) from Operations	(213,123)	119,362
Add Back: Depreciation	512,082	190,385
Excess (Deficit) Fund from Operations	\$298,959	\$309,747

Table 2.

e) Relationship to the existing health care system

The proposed acquisition is not expected to have any negative effect on other providers or impair the public's access to services. The acquisition will not result in any changes to Honolulu Spine's staffing or service mix. The physicians currently providing service at the facility will continue to do so. The ASC will continue to be managed pursuant to the current Management Agreement between Honolulu Spine and SMS. Accordingly, the proposed transaction will not have any significant impact on the existing health care system.

f) Availability of Resources.

There are minimal financial obstacles to the proposed acquisition. The transaction will be financed with a combination of equity and debt financing, which has already been secured. The proposed acquisition is not intended to result in any change in the staff currently employed by the ASC. Accordingly, no additional employees will be necessary as a result of the proposed transaction.

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.