

HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM

Application Number: #14-19A Date of Receipt: _____
To be assigned by Agency

APPLICANT PROFILE

Project Title: Acquisition of Membership Interest in MIS Endoscopy, LLC

Project Address: 1401 South Beretania Street, Suite 200, Honolulu, Hawaii 96814

Applicant Facility/Organization: Covenant Surgical Partners, Inc.

Name of CEO or equivalent: Richard K. Jacques

Title: President and Chief Executive Officer

Address: 401 Commerce Street, Suite 600, Nashville, Tennessee 37219

Phone Number: (615) 345-6900 Fax Number: (615) 345-6905

Contact Person for this Application: Whit Polley

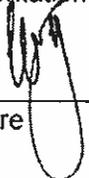
Title: Executive Vice President & Chief Development Officer

Address: 401 Commerce Street, Suite 600, Nashville, Tennessee 37219

Phone Number: (615) 345-6903 Fax Number: (615) 345-6903

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

12/15/2014
Date

Whit Polley
Name (please type or print)

Exec. Vice President & Chief Development Officer
Title (please type or print)

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

- Public _____
- Private _____
- Non-profit _____
- For-profit _____
- Individual _____
- Corporation _____
- Partnership _____
- Limited Liability Corporation (LLC) _____
- Limited Liability Partnership (LLP) _____
- Other: _____

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ST. HELENA'S & DEV. AGENCY

2. PROJECT LOCATION INFORMATION

A. Primary Service Area(s) of Project: (please check all applicable)

- Statewide: _____
- O`ahu-wide: _____
- 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)

A letter of intent is included in Attachment 1.

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

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
- By-Laws: See Attachment 4
- Partnership Agreements: Not applicable
- Tax Key Number (project's location): (1) 2-4-5-26 (portion of)

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			

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6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:

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AMOUNT:

- 1. Land Acquisition _____
- 2. Construction Contract ST. HELM PLANS & DEV. AGENCY _____
- 3. Fixed Equipment _____
- 4. Movable Equipment _____
- 5. Financing Costs _____
- 6. Fair Market Value of assets acquired by lease, rent, donation, etc. (Space lease) _____
- 7. Other: Fair market value of acquired membership interest in MIS Endoscopy, LLC \$6,500,000.00

TOTAL PROJECT COST: \$6,500,000.00

B. Source of Funds

- 1. Cash \$6,500,000.00
- 2. State Appropriations _____
- 3. Other Grants _____
- 4. Fund Drive _____
- 5. Debt _____
- 6. Other: _____ \$ _____

TOTAL SOURCE OF FUNDS: \$6,500,000.00

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 application is for the acquisition of a membership interest in
MIS Endoscopy, LLC, a Hawaii limited liability company, an ambulatory
surgery center specializing in endoscopy, by Covenant Surgical Partners,
Inc. The category is per HAR § 11-186-5(3)(C). No new locations or
expansions are proposed in this application.

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 closure of the purchase and sale transaction, which is expected to occur no later than March 31, 2015.
- b) Dates by which other government approvals/permits will be applied for and received: Not applicable.
- c) Dates by which financing is assured for the project: Not applicable. The acquisition will be paid for with cash.
- d) Date construction will commence: Not applicable.
- e) Length of construction period: Not applicable.
- f) Date of completion of the project: Upon closing of the purchase and sale transaction.
- g) Date of commencement of operation: Upon closing of the purchase and sale transaction.

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.

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- 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

Covenant Surgical Partners, Inc. ("Covenant"), a Delaware corporation, seeks to acquire a membership interest in MIS Endoscopy, LLC, a Hawaii limited liability company ("MIS Endoscopy"), which operates an ambulatory surgical center ("ASC") specializing in endoscopic procedures. Covenant is a dynamic healthcare organization that was established to proactively provide superior customer-focused healthcare to its patients. The current members of MIS Endoscopy have agreed to sell 51% of their membership interest in MIS Endoscopy to Covenant.

Covenant has entered into similar arrangements with other ambulatory surgical centers both in Hawaii and throughout the United States. By applying its proven management system, Covenant has improved the operating efficiency of the centers, reduced their expenses and increased their revenues.

The acquisition is not intended to change the scope of services currently provided at the ASC. MIS Endoscopy intends to maintain the same services described in CON # 11-06, which was approved on June 1, 2011 ("CON # 11-06").

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

The proposed acquisition will advance the Statewide Health Coordinating Council's ("SHCC") priorities of:

- promoting and supporting the long-term viability of the health care delivery system by ensuring the ASC's financial viability and ensuring that it continues to provide the endoscopic procedures described in CON # 11-06 for the foreseeable future;
- maintaining overall access to quality health care at a reasonable cost because Covenant's participation in the business is expected to improve the ASC's operational efficiency and reduce its operating expenses; and
- supporting preventive initiatives by providing endoscopy procedures that facilitate the early detection and treatment of stomach and colorectal cancer.

By facilitating the early detection and treatment of gastroenterological diseases, the ASC will also advance the Honolulu SAC's goal of controlling the rising costs of senior care. Colorectal cancer accounts for approximately 13 percent of all cancer incidence and 10 percent of all cancer mortality in Hawaii. Screening at recommended

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 frequency improves the chance that colorectal cancer will be detected at an earlier stage when the cancer is more likely to be cured by surgery alone, when the surgery needed is less extensive, and when recovery from surgery is much faster. About 80 percent of Hawaii residents who develop colorectal cancer are age 55 or older. Nevertheless, only about half of Hawaii residents age 50 or older have had a recent colorectal screening test, and only about 44 percent of the almost 3,900 cases of colon and rectum cancer diagnosed in Hawaii between 1995 and 2000 were diagnosed at an early stage. MIS Endoscopy will help control the costs of senior care by promoting the early detection of cancer through the use of screening procedures, thereby eliminating the need for more costly, and often less effective, treatment of late stage colon and rectal cancer.

b) Need and Accessibility.

The need for the ASC's services is evidenced and established in CON # 11-06. Access to endoscopic procedures in the current service area will be maintained at current levels. The proposed acquisition will continue to serve all Hawaii residents including low income persons, racial and ethnic minorities, persons with disabilities and other underserved groups, and the elderly.

c) Quality of Service/Care.

MIS Endoscopy will continue to ensure the continuity and quality of care by observing the same protocols described in CON # 11-06. The proposed acquisition is not intended to alter the scope of services provided at the ASC. The ASC will continue to be licensed by the Hawaii Department of Health and be Medicare certified, and will continue to comply with all applicable federal and state regulations. It will continue to provide high quality endoscopic services by physicians who are licensed by the Hawaii Department of Health and board certified or board eligible in gastroenterology. The ASC will continue to maintain staff competencies through ongoing continuing education and by following its existing written Quality Management and Improvement Plan.

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

Covenant will pay the members of MIS Endoscopy \$6,500,000 for 51% of their membership interest in the ASC. The purchase price will be paid in cash. The price is subject to adjustment based on MIS Endoscopy's financial performance prior to the closing date of the purchase transaction.

If the purchase price increases more than 15% from the currently anticipated price, Covenant will submit additional information to the agency describing the amount of increase in the purchase price.

MIS Endoscopy's estimated revenue and operating costs for the first and third full years of operation following the acquisition are shown in the table below.

	Projected 1st Full Year Operations	Projected 3rd Full Year Operations
Total Operating Revenue	\$3,747,393	\$3,747,393
Operating Expenses		
Salaries, Wages, Benefits	795,427	827,562
Other Expenses	1,386,426	1,386,426
Depreciation	247,674	247,674
Total Expenses	2,429,527	2,461,662
Net Income (Loss) from Operations	1,317,866	1,285,731
Add Back: Depreciation	247,674	247,674
Excess (Deficit) Fund from Operations	\$1,565,540	\$1,533,405

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 ASC intends to provide the same services that it currently provides following the acquisition. The same doctors are expected to continue practicing at the ASC. Accordingly, the proposed acquisition 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. Covenant will pay the current members of MIS Endoscopy for the ownership interest in cash. 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.