



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 05-05A

Applicant: Leeward Radiation Oncology
91-2135 Fort Weaver Road, B-120
Ewa Beach, HI 96706
Phone: 808-678-9000

Project Title: Change in Ownership of Leeward Radiation Oncology

Project Address: same

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

- Public _____
- Private X
- Non-profit _____
- For-profit X
- Individual _____
- Corporation _____
- Partnership X
- 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: _____
- Honolulu: _____
- Windward O`ahu: _____
- West O`ahu: X
- 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) **Not applicable, the facility already exists**
- 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 p. 7**
- 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
 - By-Laws
 - Partnership Agreements **See Exhibits A and B**
 - Tax Key Number (project's location)

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				XX	
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

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:

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>Acquisition of partners' interest</u> | <u>\$180,000</u> |

TOTAL PROJECT COST: \$180,000

B. Source of Funds

- | | | |
|----|----------------------|------------------|
| 1. | Cash | <u>\$180,000</u> |
| 2. | State Appropriations | _____ |
| 3. | Other Grants | _____ |
| 4. | Fund Drive | _____ |
| 5. | Debt | _____ |
| 6. | Other: _____ | <u>\$180,000</u> |

TOTAL SOURCE OF FUNDS: \$180,000

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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 not the establishment of a new service, rather it is a change of ownership in an existing service. Leeward Radiation Oncology (LRO) was established in 1994 as a general partnership of four partners, each with a 25% interest. Two of the partners propose to buy out the other 2 partners, so that each of the remaining partners will have a 50% interest. See the narrative for details.

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:

Please see page 7

- a) Date of site control for the proposed project,
- b) Dates by which other government approvals/permits will be applied for and received,
- c) Dates by which financing is assured for the project,
- d) Date construction will commence,
- e) Length of construction period,
- f) Date of completion of the project,
- g) Date of commencement of operation

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.

Please see page 7

- a) Relationship to the Hawai'i Health Performance Plan (H2P2), also known as 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.

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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.

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Continuation of item 3.C, Governing Body.

The governing body of LRO is an Executive Committee, with one representative from each of the four partners. (See item 9 below for a list of the partners). The members of the Executive Committee are:

1. Roger Eitelman, Administrator, St. Francis Medical Center West, 91-2141 Fort Weaver Road, Ewa Beach, HI 96706, ph: 678-8000.
2. Paul DeMare, M.D., Member, Island Radiation Oncology, 1650 Liliha St., Ste. 105, Honolulu, HI 96817 ph: 524-3131
3. Mark Yamakawa, President/CEO, Queen's Development Corp, 1099 Alakea St., Ste. 1100, Honolulu, HI 96813, ph: 535-8738
4. Gary Kajiwara, President/CEO, Kuakini Development Corp., 347 N. Kuakini St., Honolulu, HI 96817, ph: 536-2236

8. Implementation Schedule

Leeward Radiation Oncology (LRO) is an existing radiation therapy service on the grounds of St. Francis Medical Center West (SFMCW). LRO is currently a general partnership with four partners. This proposal is for the acquisition by two of the partners of the partnership interest of the other two partners. The acquisition will become effective immediately upon finalization of the Certificate of Need (CON) approval.

9. Executive Summary

LRO is a general partnership established in 1994. (Please see Exhibit A for the Partnership Registration Statement and Exhibit B for the original Partnership agreement and subsequent amendments). In 1994, LRO received a CON approval (#94-27) from SHPDA to provide radiation oncology service on the grounds of SFMCW.

The four partners of LRO are:

- St. Francis Health Enterprises, Inc. ("SFHE")
- Island Radiation Oncology, LLC ("IRO")
- Queen's Health Technologies, Inc. ("Queens")
- Kuakini Development Corporation ("Kuakini")

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Under the Assignment of Partnership Interest document (Exhibit C), SFHE and IRO will acquire the interests of Queen's and Kuakini. Thus, there will be 2 partners left in LRO, each with a 50% interest. Queen's and Kuakini will both be paid \$90,000 for their interest, and released as guarantors of the bank notes.

There will be no other expenditures. The existing equipment will be maintained, and the staff will remain the same.

This may be an unusual application in that the provider of the radiation oncology service both before and after the project is LRO. LRO is the legal entity which currently provides the service, and LRO will continue to be the legal entity providing service after the change of ownership.

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 the change in ownership of an existing service. The relationship of this radiation therapy service to the H2P2 was addressed and established at the initial launching of this service. LRO will continue to comply with the guidelines of the H2P2.

Of particular interest is the fact that LRO already exceeds the capacity threshold for radiation therapy as established on page II-7 of the H2P2. The H2P2 states that the "optimum capacity per unit is 9,792 procedures annually." In 2004, LRO provided 12,495 procedures. We anticipate this to increase to 13,521 in 2007 (see projections in Exhibit D).

b) Need and Accessibility

The proposed project only involves a change in ownership of an existing service. The need and accessibility of the service was addressed and established at the initial launching of this service. The change in ownership will not change how the service relates to need and accessibility.

Again, the need for the service is demonstrated by the fact that it provided 12,495 procedures to 325 patients in 2004. LRO is the only radiation therapy service in West O'ahu, thus meeting the needs of West O'ahu patients and making the service accessible to them. Without LRO, West O'ahu patients would have to travel to a downtown Honolulu facility for service.

c) Quality of Service/Care

The service provided by LRO will continue to be of high quality, and will not be affected by the change of ownership. The same staff will provide the same service with the same equipment governed by the same quality assurance procedures.

The American College of Radiation Oncology has a program to certify services such as LRO. LRO has applied for certification and was

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surveyed in December 2004. We are confident that we have met the criteria and expect to receive certification soon. This is another guarantee of LRO's quality.

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

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The cost of this proposal is \$180,000, which is the cost to SFHE and IRO to acquire the interests of the other two partners. Exhibit C, "Assignment of Partnership Interest" presents the necessary documentation. All the steps in the transactions have been completed except for the release of the two partners as guarantors of the bank notes. This final step will be completed as soon as the CON is final.

Exhibit D shows actual utilization and financial statements for 2004, and projections for 2005 to 2007. The projections show that the project is financially feasible, i.e., the revenues exceed the expenses. The project continues to be cost-effective, since it utilizes the existing facility, existing equipment and existing staff.

e) Relationship to the existing health care system.

LRO has already established itself as an important component in the health care system of West O`ahu. The change of ownership proposed in this application will not change the relationship of the service to the existing health care system.

f) Availability of Resources

The cost to SFHE and IRO of acquiring the interests of the other two partners is \$90,000 each. These funds are readily available.

The financial resources to operate the service are available, as shown in Exhibit D. The actual figures for 2004 show that there was sufficient revenue to meet expenses. The projections for the next three years are based on our actual operating experience, and show that there will be sufficient financial resources to support the service.

Exhibit D also presents a staffing pattern showing a total staff of 8.3 FTE. All these staff are currently employed, and staffing will not be affected by the proposed change in ownership.