



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

RECEIVED

'15 NOV -9 P12:37

**ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM**

STATE HEALTH PLANNING & DEV. AGENCY

Application Number: # 15-20A Date of Receipt:  
To be assigned by Agency

**APPLICANT PROFILE**

Project Title: Acquisition of capital stock in Bobby C. Baker, M.D., Inc

Project Address: 227 Mahalani Street  
Wailuku, HI 96793

Applicant Facility/Organization: Alliance Oncology, LLC

Name of CEO or equivalent: Gregory E. Spurlock

Title: President

Address: 1801 West End Avenue, Suite 700, Nashville, TN 37203

Phone Number: 615-263-7888 Fax Number: 615-665-8228

Contact Person for this Application: J. George Hetherington

Title: Attorney

Address: 700 Bishop Street, 15<sup>th</sup> 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

\_\_\_\_\_  
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 \_\_\_\_\_  
Partnership \_\_\_\_\_  
Limited Liability Corporation (LLC) \_\_\_\_\_ X \_\_\_\_\_  
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: \_\_\_\_\_  
Maui County: \_\_\_\_\_ X \_\_\_\_\_  
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 (Abstract of Transaction)
- 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 (Certificate of Formation)
  - By-Laws Not applicable
  - Partnership Agreements See Attachment 4
  - Tax Key Number (project's location): (2) 3-8-046-036-0000

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<br>(over \$400,000) | New/Upgraded Medical Equip.<br>(over \$1 million) | Other Capital Project<br>(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 |
|--------------|-------------------|--------------------------------|---|
|              |                   |                                |   |
|              |                   |                                |   |
|              |                   |                                |   |
|              |                   |                                |   |
| <b>TOTAL</b> |                   |                                |   |

**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 stock purchased and sold</u>         | <u>\$11,970,000</u> |

**TOTAL PROJECT COST: \$11,970,000**

**B. Source of Funds**

- |    |                      |                     |
|----|----------------------|---------------------|
| 1. | Cash                 | <u>\$11,970,000</u> |
| 2. | State Appropriations | _____               |
| 3. | Other Grants         | _____               |
| 4. | Fund Drive           | _____               |
| 5. | Debt                 | _____               |
| 6. | Other: _____         | _____               |

**TOTAL SOURCE OF FUNDS: \$11,970,000**

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.

This application is for the stock purchase of a 95% interest in Bobby C. Baker, M.D., Inc., a cancer treatment center. The category is HAR § 11-186-5(4)(G).

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 closing of the stock purchase and sale transaction.
- 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: October 1, 2015
- 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 stock purchase and sale transaction.
- g) Date of commencement of operation: Upon closing of the stock 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.

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

Alliance Oncology, LLC ("Alliance"), a Delaware limited liability company, seeks to acquire ninety-five percent (95%) of the outstanding capital stock in Bobby C. Baker, M.D., Inc., which is currently a Hawaii professional corporation (the "Company"). The Bobby C. Baker Trust, dated January 1, 1997 (the "Baker Revocable Trust"), owns 100% of the issued and outstanding capital stock (the "Shares") of the Company, which operates a cancer treatment center located at 227 Mahalani Street, Wailuku, Hawaii 96793 (the "Center"). Bobby C. Baker, M.D. ("Dr. Baker") also currently conducts his professional medical practice through the Company.

Upon receipt of all regulatory approval, the Baker Revocable Trust will transfer 95% of the Shares to Dr. Baker, who will convert the Company from a Hawaii professional corporation to a Hawaii business corporation (the "Conversion") and change the Company's name to Pacific Cancer Institute, Inc. Dr. Baker has established a new professional corporation to operate his professional practice. The Baker Revocable Trust will retain 5% of the Shares of the Company. Dr. Baker will then transfer and assign 95% of the Shares to The Julie and Bobby C. Baker Charitable Trust, a charitable remainder trust (the "Trust").

Upon receipt of all regulatory approval, the Trust shall sell its 95% of the Shares to Alliance, for the purchase price of \$11,970,000, subject to adjustment based on net profits received during calendar year 2016.<sup>1</sup>

Alliance has entered into similar arrangements with other cancer centers throughout the United States and, by application of its proven management system, has improved their operating efficiency, reduced their expenses and increased their net profits.

---

<sup>1</sup> For purposes of this application, the value of the shares to be purchased has been reported as \$11,970,000, the initial purchase price specified in the Purchase Agreement. The purchase price is subject to adjustment, based on the Center's profits during the 2016 calendar year. If the amount of the adjustment increases the purchase price more than 15%, the actual purchase price will be reported to SHPDA at the time the adjustment is made.

These transactions are not intended to change the scope of services now provided at the Center. The Center intends to maintain the same services described in CON # 93-09, which was approved on June 29, 1993 ("CON #93-09"). The purchase is expected to result in lower annual operating costs because of the economies of scale that will be realized from the Center's participation in the Alliance network of centers and the implementation of its proven operating policies and management expertise.

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

Cancer treatment centers are not subject to any of the utilization thresholds set forth in Chapter 2 of the Health Services and Facilities Plan ("HSFP").

The proposed purchase 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 long-term availability of radiation oncology services to Maui residents;
- maintaining overall access to quality health care at a reasonable cost by facilitating treatment of Maui cancer patients on Maui, thereby helping them avoid the costs of travel and lodging that would otherwise be required if they sought cancer treatment on Oahu;
- promoting equitable access by allowing Maui cancer patients to receive treatment near their home; and
- facilitating the regional and statewide continuum of care by allowing Maui residents to continue to receive radiation oncology services on their home island rather than traveling to Oahu to access such services.

The transaction will also advance Maui County/Tri-Isle SAC's goal of maintaining an innovative solution to Maui County's need for a local cancer treatment center. It would also ensure optimal, cost effective, and quality care.

b) Need and Accessibility

The Center is Maui's only cancer treatment center. It provides its patients with the latest in cancer treatment technology, featuring the State of Hawaii's only Varian TrueBeam STX system, which combines imaging, along with a sophisticated and powerful beam and advanced motion management to allow its operator to perform radiosurgery with great precision and speed.

The need for the Center's services is evidenced and established in CON #93-09. Access to radiation oncology procedures in the current service area will be maintained at current levels. The proposed transaction will continue to serve all Hawaii residents including low income persons, racial and ethnic minorities, persons with disabilities, the elderly, and other underserved groups, regardless of payor source.

c) Quality of Service/Care

The Center will continue to ensure the continuity and quality of care by observing the same protocols described in CON #93-09. The proposed transaction is not intended to alter the scope of services provided at the Center. The Center will continue to be licensed by the Radiation Section of the Hawaii Department of Health and comply with all applicable federal and state regulations. Physicians who currently provide professional services at the Center will continue to provide the same high quality radiology services under a Professional Services Agreement with Dr. Baker's new professional corporation. Accordingly, the transition will be seamless and have no effect on the care provided to patients.

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

Alliance will pay the Trust \$11,970,000 for ninety-five percent (95%) of the Stock. The price is subject to adjustment based on the Center's financial performance during the 2016 calendar year.

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

The Center's estimated revenue and operating costs for the first and third full years of operation following the transaction are shown in the table below.

|  | Projected 1st Full Year Operations | Projected 3rd Full Year Operations |
|--|------------------------------------|------------------------------------|
| <b>Total Operating Revenue</b>               | <b>6,667,000</b>                   | <b>6,600,000</b>                   |
| <b>Operating Expenses</b>                    |                                    |                                    |
| Salaries, Wages, Benefits                    | 1,129,000                          | 1,175,000                          |
| Other Expenses                               | 2,640,000                          | 2,674,000                          |
| Depreciation                                 | 455,000                            | 460,000                            |
| Total Expenses                               | 4,224,000                          | 4,309,000                          |
| <b>Net Income (Loss) from Operations</b>     | <b>2,443,000</b>                   | <b>2,291,000</b>                   |
| <b>Add Back:</b> Depreciation                | <b>455,000</b>                     | <b>460,000</b>                     |
| <b>Excess (Deficit) Fund from Operations</b> | <b>2,898,000</b>                   | <b>2,751,000</b>                   |

e) Relationship to existing health care system

The proposed transaction is not expected to have any negative effect on other providers or impair the public's access to services. It will have the positive effect of helping to ensure long-term access to radiation oncology services for Maui residents. After the stock purchase and sale, the Center will provide the same services that it does now. The same doctors are expected to continue practicing at the Center. Accordingly,



these transactions will not have any significant impact on the existing health care system.

f) Availability of Resources

RECEIVED  
15 NOV -6 P 4 :10

There are minimal financial obstacles to the proposed transaction. Alliance has cash available to pay the Trust for the Company stock purchased. The proposed transaction is not intended to result in any changes in the staff currently employed by the Center. 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.