

HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

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ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM

Application Number: # 16-05A
To be assigned by Agency

Date of Receipt:
STATE HEALTH
& DEV. AGENCY

APPLICANT PROFILE

Project Title: Acquisition of the shares of Pacific Cancer Institute, Inc.

Project Address: 227 Mahalani Street
Wailuku, HI 96793

Applicant Facility/Organization: PCI Maui Holdings, Inc.

Name of CEO or equivalent: Gregory E. Spurlock

Title: President

Address: 1800 West End Avenue, Suite 700, Nashville, Tennessee 37203

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

Contact Person for this Application: J. George Hetherington

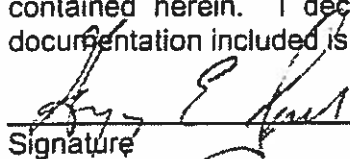
Title: Attorney

Address: 700 Bishop Street, 15th 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

25 July 2016
Date

Gregory E. Spurlock
Name (please type or print)

President
Title (please type or print)

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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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). The cancer treatment center will continue its operations on the same site. See Attachment 1 (Letter of Intent).
- 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 Incorporation).
 - By-Laws: See Attachment 4
 - Partnership Agreements: Not applicable.
 - Tax Key Number (project's location): (2) 3-8-046-036-0000

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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 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:	*16 AUG 16 P2 :47	AMOUNT:
1. Land Acquisition		_____
2. Construction Contract	ST. HELENA & DEV. AGENCY	_____
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 acquired</u>		<u>\$12,600,000</u>
TOTAL PROJECT COST:		<u>\$12,600,000</u>

B. Source of Funds

1. Cash	<u>\$12,600,000</u>
2. State Appropriations	_____
3. Other Grants	_____
4. Fund Drive	_____
5. Debt	_____
6. Other: <u>Fair market value of stock exchanged</u>	<u>\$12,600,000</u>
TOTAL SOURCE OF FUNDS: <u>\$12,600,000</u>	

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 all the shares of Pacific Cancer Institute, Inc. 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: August 12, 2016.
 - 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.
 - 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 exchange.
 - g) Date of commencement of operation: Upon closing of the stock exchange.

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. RECEIVED
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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.
- ST. HEALTH PLAN
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EXECUTIVE SUMMARY

The shareholders of Pacific Cancer Institute, Inc. (the "Institute") have established a new corporate entity, PCI Maui Holdings, Inc. ("PCI"), and seek approval for PCI's acquisition of all shares in the Institute as the first step in reorganization of the Institute's business structure. Each shareholder of the Institute will exchange its shares for the same percentage of shares in PCI. The Institute will then convert from a corporation to a limited liability company.

As a limited liability company, the Institute will continue to operate its radiation oncology center (the "Center") without any interruption in service. These transactions are not intended to change the scope of services now provided at the Center. The Center intends to maintain the same services at the same location, as described in CON # 93-09, which was approved on June 29, 1993 ("CON #93-09").

- 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").

As described in CON #93-09 and CON #15-20A, which was approved on November 25, 2015, the proposed transaction 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

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- 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 proposed 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, a sophisticated and powerful beam, and advanced motion management, allowing 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. After the proposed transaction, the Center 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. After its conversion to a limited liability company, the Institute will obtain a new license, reflecting its new name and ownership, from the Radiation Section of the Hawaii Department of Health. The Center will continue to comply with all applicable federal and state regulations governing its operations. The physicians and licensed technologists who currently provide professional services at the Institute will continue to provide the same high quality radiology services. 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).

The value of the shares to be exchanged is estimated at \$12,600,000.00. No cash will change hands.

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.

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	Projected 1st Full Year Operations	Projected 3rd Full Year Operations
Total Operating Revenue	\$5,700,000	\$6,000,000
Operating Expenses		
Salaries, Wages, Benefits	1,200,000	1,300,000
Other Expenses	3,100,000	3,200,000
Depreciation	700,000	700,000
Total Expenses	5,000,000	5,200,000
Net Income (Loss) from Operations	700,000	800,000
Add Back: Depreciation	700,000	700,000
Excess (Deficit) Fund from Operations	\$1,400,000	\$1,500,000

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 reorganization, 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

There are minimal financial obstacles to the proposed transaction. The stock being exchanged will have equal value and no cash will change hands. The proposed transaction is not intended to result in any changes in the staff currently employed by the Institute. Accordingly, no additional employees will be necessary as a result of the proposed transaction.

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.