



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 05-26A

Applicant: Liberty Dialysis-Hawaii, LLC
3820 East Mercer Way
Mercer Island, WA 98040
Phone: (206) 275-2000

Project Title: Acquisition of St. Francis Medical Center Chronic Renal
Dialysis services

Project Addresses: 2230 Liliha Street, Honolulu, HI
91-2137 Ft. Weaver Rd., Ewa Beach, HI
86-080 Farrington Hwy., Waianae, HI
140 Rainbow Drive, Hilo, HI
79-1020 Haukapila St., #213, Kealahou, HI
3224 Elua St., Lihue, HI
4643 A Waimea Canyon Rd., Waimea, HI
255 Mahalani St., Wailuku, HI
10 Hoohui Rd., #100, Lahaina, HI
28 Kamoi St., #400, Kaunakakai, HI

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: _____

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2. **PROJECT LOCATION INFORMATION**

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

- Statewide: X
- 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). **See Exhibit IV for a certified copy of an abstract of the Asset Purchase Agreement between St. Francis and Liberty Dialysis – Hawaii, LLC. St. Francis shall lease, assign or otherwise deliver site control to Liberty Dialysis – Hawaii LLC upon approval of the CON.**
- 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.) **Medicare/Medicaid Provider Numbers.**
- C. Your governing body: list by names, titles and address/phone numbers **See Exhibit 3C.**
- 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 Exhibit I.**
 - By-Laws **Not applicable for limited liability corporation. See LLC Operating Agreement attached as Exhibit II.**
 - See LLC Operating Agreement **See Exhibit II.**
 - Tax Key Number (project's location) **See Exhibit 3D**

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Item 3C (Continuation): The governing body for the Applicant consists of the following officers:

Eugene Wong, M.D.
Chief Medical Officer
Liberty Dialysis – Hawaii, LLC
1380 Lusitana Street, Suite 814
Honolulu, HI 96813

Telephone: (808) 478-3802

Jared Sugihara, M.D.
Medical Director of St. Francis Dialysis Program
Medical Advisory Board
Liberty Dialysis – Hawaii, LLC
Honolulu, HI 96817

Telephone: (808) 531-5711

Sister Beatrice Tom, O.S.F.
Chairperson, Charitable Programs
Liberty Dialysis – Hawaii, LLC
2226 Liliha St.
Honolulu, HI 96817

Telephone: (808) 547-6400

Mark E. Caputo
Chief Executive Officer
Liberty Dialysis – Hawaii, LLC
3820 East Mercer Way
Mercer Island, WA 98040

Telephone: (206) 275-2000

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Item 3D: Tax Key Numbers of SFMC's outpatient dialysis centers

Tax Key Number:

Liliha Campus : TMK 1-1-018-025-0000 and 1-1-8-018-003-000

Leeward Dialysis: TMK 1-9-1-017-057-0000

Waianae Dialysis: TMK 1-8-6-001-060-0000

Hilo Dialysis: TMK 3-2-3-027-002-0000

Kona Dialysis: TMK 3-7-9-013-017-0000

Kauai Dialysis: TMK 4-3-6-006-033-0000

West Kauai Dialysis: TMK 4-1-2-006-035-0000

Maui Dialysis: TMK 2-3-8-046-024-0000

Kahana Dialysis: TMK 2-4-3-005-038-0000

Molokai Dialysis: TMK 2-5-3-002-121-0000

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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 Service	Change in Beds
Inpatient Facility					
Outpatient Facility				X*	
Private Practice					

*This is a proposed change of ownership for SFMC's ten outpatient hemodialysis clinics (the three dialysis facilities on SFMC's Liliha Campus are considered one clinic), peritoneal dialysis program and acute dialysis program. Upon the approval of this application and the consummation of the proposed acquisition, Liberty shall continue to provide the services which are currently provided by SFMC. The acquisition will not involve any change in the scope and nature of the services provided to end stage renal disease (ESRD) patients who are presently served by SFMC.

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 | \$ <u>50,000</u> |
| 4. | Movable Equipment | \$ <u>1,800,000</u> |
| 5. | Financing Costs | _____ |
| 6. | Fair Market Value of assets acquired by
lease, rent, donation, etc. (including buildings & improvements) | \$ <u>2,320,000</u> |
| 7. | Other: _____ | _____ |

TOTAL PROJECT COST: \$5,170,000

B. Source of Funds

- | | | |
|----|----------------------|---------------------|
| 1. | Cash | \$ <u>5,170,000</u> |
| 2. | State Appropriations | _____ |
| 3. | Other Grants | _____ |
| 4. | Fund Drive | _____ |
| 5. | Debt | _____ |
| 6. | Other: _____ | _____ |

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TOTAL SOURCES OF FUNDS: \$5,170,000

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 change of ownership of dialysis clinics from SFMC to Liberty Dialysis – Hawaii, LLC, which shall be owned by St. Francis Medical Center, Liberty Nephrology Partners, LLC (headed by Eugene Wong, M.D.) and Liberty Pacific LLC (headed by Mark Caputo). This service category is per HAR Section 186-5(4)(A). 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 approval of the CON.**
 - 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. This is a cash transaction.**
 - d) Date construction will commence, **Not applicable.**
 - e) Length of construction period, **Not applicable.**
 - f) Date of completion of the project, **Upon approval of the CON.**
 - g) Date of commencement of operation, **Within 30 days of approval of the CON.**

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. **See Executive Summary on Pages 5A – 5H.**

- 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.

9. EXECUTIVE SUMMARY OF THE PROJECT

This application for the change of ownership of all the CON regulated medical assets of the dialysis business (Dialysis Assets) currently owned by St. Francis Medical Center to Liberty Dialysis – Hawaii, LLC. Liberty Dialysis – Hawaii is owned by St. Francis Medical Center, Liberty Pacific LLC and Liberty Nephrology Partners LLC. The Dialysis Assets relate to St. Francis' 10 outpatient dialysis clinics (the three dialysis areas on St. Francis Medical Center's Liliha Campus are considered one clinic) and the acute dialysis program.

The Dialysis Assets are being sold as one unit by St. Francis Medical Center. The timely sale of the Dialysis Assets is essential to the completion of the reorganization plans of St. Francis Healthcare System of Hawaii, St. Francis Medical Center's parent organization.

Early in 2004, Eugene Wong, M.D., a leading nephrologist who has served the patients of Hawaii for more than 30 years, along with several other nephrologists in Hawaii and Mark Caputo (who has partnered with nephrologists and non-profit hospitals around the country to provide dialysis services to local communities) offered to partner with St. Francis Medical Center in an effort to maintain and preserve the dialysis clinics operated by St. Francis.

The partnership that has been formed is called Liberty Dialysis-Hawaii, LLC, and is owned by St. Francis Medical Center, Liberty Pacific LLC (which is controlled by Mark Caputo) and Liberty Nephrology Partners, LLC (which is controlled by Eugene Wong, M.D., Mark Caputo and other nephrologists serving Hawaii). The Operating Agreement of Liberty Dialysis - Hawaii, LLC is attached as Exhibit II to this application. Mr. Caputo shall serve as CEO of Liberty Dialysis – Hawaii LLC. Dr. Wong shall serve as the Chief Medical Officer of Liberty Dialysis – Hawaii, LLC.

Mark Caputo is an existing partner with the Sisters of the Third Franciscan Order. Both St. Francis Healthcare System of Hawaii and St. Joseph's Hospital and Health System (Syracuse, New York) are operated by the Sisters. Mark Caputo has a long established relationship with St. Joseph's Hospital, where he is assisting St. Joseph's in expanding dialysis services in Central New York. Mr. Caputo shares the same patient care philosophy with the Sisters and provides charity care to patients who cannot otherwise afford dialysis treatment. This charity care policy applies not only to the St. Joseph dialysis centers, but to other dialysis centers owned by or affiliated with Mr. Caputo.

Subsequent to the acquisition, Liberty Dialysis – Hawaii, LLC will maintain all services provided by St. Francis and will retain all staff employed by its renal program. This acquisition may result in lower annual operating expenses resulting from improved purchasing contracts that Mr. Caputo has been able to negotiate for the benefit of St. Francis. Furthermore, Liberty Dialysis – Hawaii has already begun investing in improving the staff training resources for dialysis care personnel in Hawaii.

The change in ownership will be invisible to patients. Further, there will be no effect on existing providers as we are not proposing changes to existing services.

A. Relationship to the Hawaii Health Performance Plan (H2P2):

This proposal supports the goals and objectives of H2P2 for dialysis services to increase the span of life for those with chronic kidney failure (i.e., end-stage renal disease, or ESRD) who can no longer clean waste and toxins from their own blood. Without regular dialysis treatments, or a successful kidney transplant, patients suffering from ESRD will die. As such, outpatient dialysis services help older adults to maintain their health and independent personal functioning. Further, through timely dialysis treatment, morbidity is reduced and discomfort and medical complications are alleviated. We are a regionalized delivery system for dialysis care that will maintain cost-effectiveness and quality of care for patients. In addition, we will continue collecting patient outcome data and patient satisfaction information in an effort to continually improve the quality of the services we provide.

Further, in keeping with the basic principles for a health care delivery system, we will continue to be a part of the primary care system vis-à-vis our community outreach and patient education programs. St. Francis Medical Center has established a platform for a comprehensive chronic kidney disease (CKD) program designed for those at risk for, or living with, ESRD. St. Francis Medical Center's efforts to date have focused on disease prevention and patient education initiatives such as (i) monthly education sessions for patients who will be starting dialysis, (ii) on-going support and education for dialysis patients, families and communities, (iii) participation with the National Kidney Foundation of Hawaii (NKF Hawaii) in community education and CKD patient screening, and (iv) other educational programs with local health care agencies, including those involved in Native Hawaiian Health.

We will continue the programs developed by St. Francis Medical Center and to supplement them with elements of the CKD programs and research that the Liberty Care team has initiated in other locations. For example, while this program does not fall within certificate of need services, we would like you to know that we have begun to work with the local nephrology community, insurance companies, and pharmaceutical companies to introduce a clinical disease management program which will actively treat the conditions of CKD patients, such as diabetes, glomerulonephritis, secondary hyperparathyroidism and anemia, to help them to maintain good health and forestall the onset of ESRD. Hawaii's innovative GFR Alliance (so named because of its focus on monitoring patients' glomerular filtration rate, or GFR, a measure of kidney function) has pioneered an unprecedented program designed to identify and diagnose those with early-stage kidney disease. We will work closely with the NKF Hawaii - GFR Alliance to treat these patients before their conditions progress to chronic kidney failure. In Hawaii, the rate of kidney failure is approximately 30% higher than the national average. Therefore, these CKD initiatives are imperative in the quest to maintain the good health of Hawaiians. By helping these high-risk patients to remain healthy as long as possible, we hope to (i) forestall the onset of ESRD and, therefore, their need for dialysis treatment, and (ii) minimize their occasions for hospitalization. Achieving these two objectives would help to manage the cost to the overall healthcare system of treating patients with kidney disease.

In addition, we will continue to be a member of the secondary care support network that carries out specialized health care functions for Hawaii's people. To provide dialysis services, care team members must participate in advanced training and certification testing. We will continue and maintain these specialized training programs, provide

tuition reimbursement for staff to obtain advanced training, and sponsor staff members' attendance at national conferences such as those held by the American Nephrology Nurses' Association (ANNA), National Renal Administrators Association (NRAA), and National Association of Nephrology Technicians (NANT).

In support of the desired characteristics of a health care delivery system, we will continue with collaborative care relationships for our patients. Collaboration is the key to dialysis care -- the care of every ESRD patient is supervised by that patient's nephrologists, while that patient's dialysis treatments are administered by registered nurses and clinically trained technicians. Other aspects of patients' diseases are managed by dietitians and social workers employed in the dialysis centers.

We will maintain access to care that is reasonable in cost as is currently offered by St. Francis. In some cases, cost-effectiveness may actually improve because of our ability to access national bulk purchasing and staff training resources. We are committed to continuing solid standards of quality management and professional ethics and to utilizing clinical best practices in our programs.

Most importantly to patients, this acquisition will allow for a seamless continuity of care. The change in ownership will appear to be invisible to patients.

We agree with the statewide values of H2P2 including accountability, compassion, comprehensiveness and community. We will establish mechanisms for open communication and free flow of information to multiple health care delivery system constituents and the larger community's stakeholders about health outcomes, costs and measures of quality compared to national standards of care. Further, our services will promote the respect and caring for, and the dignity of, individuals and families with aloha in verbal and non-verbal communications. In addition, we will collaborate and coordinate our care with other appropriate health providers to address holistically the health and wellness needs of individuals and families. And finally, we will design structures and processes that respect the cultural diversity and overlapping boundaries of groups bound together by one or more ethnic, social, economic, and/or geographic factors, and which may be defined at different levels from town to island to state.

We will work towards the priorities of H2P2. We will manage our services to be as cost effective as possible for the patient and encourage prevention-focused and proactive disease management as is appropriate for a dialysis provider. In particular, we will foster care delivery systems for those with chronic kidney disease to provide effective management of their health and quality of life. Further we welcome the opportunity to participate in community health benchmark projects. We have established clinical benchmarks for the management of those with end stage renal disease and will foster culturally sensitive care.

H2P2 Chapter VI on "Diabetes and Other Chronic Disabling Diseases" does not currently contain guidelines for dialysis services. However, we welcome the opportunity to work with others who are leading efforts in the area of prevention and patient education of diabetes.

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B. Need and Accessibility:

The need for these services is evidenced and established in the already approved certificates of need (CONs) held by St. Francis for these dialysis clinics. The current service areas and thereby access to dialysis services will be maintained. The Dialysis Assets are being sold as one unit by St. Francis Medical Center. As with the administrative application submitted by Fresenius Medical Care North America in 2000 for multiple locations (CON# 00-10A), this application similarly covers dialysis clinics located at multiple addresses. These are the CONs held by St. Francis Medical Center: Liliha Campus (grandfathered), Leeward Dialysis (CON #77-28A), Waianae Dialysis (CON# 94-15A), Hilo Dialysis (grandfathered), Kona Dialysis (CON #83-32E), Kauai Dialysis (CON #76-61), West Kauai Dialysis (CON #97-18A), Maui Dialysis (grandfathered), Kahana Dialysis (CON #94-20A), Molokai Dialysis (CON #99-01A), Wailuku Dialysis (CON #03-30A).

Services will continue to be provided to the more than 1,000 ERSD patients cared for by St. Francis Medical Center. Sadly, Hawaii's high incidence of diabetes (one of the major causes of end-stage renal disease) continues and the need for dialysis services in the state is projected to nearly double in the next 10 years. Without dialysis, or a successful kidney transplant, patients with end-stage renal disease die.

St. Francis' dialysis facilities listed above provide vital treatment capacity to the communities they service. Many of the centers are approaching, or have reached, full utilization. Others were established to provide necessary access to dialysis care previously-not accessible in their community.

This acquisition will maintain access to dialysis care for patients in keeping with St. Francis' existing policies. Charity care will be provided to those who are otherwise unable to afford dialysis treatment.

The current mix of patients serviced by St. Francis Medical Center's dialysis clinics is as follows:

Medicare	76%
Medicaid	7%
Commercial Insurance	11%
Other	6%

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We believe the existing mix of patients at St. Francis Medical Center's dialysis clinics is representative of the overall population of ESRD patients in the communities served by the centers. Therefore, we do not expect to experience any material changes in patient mix after the acquisition is completed.

For these patients, the change of ownership will be invisible as timely processing of this certificate of need application will result in the seamless continuity of their care. And, because we are retaining all staff, patients will continue to enjoy service from care givers they have grown to know and trust.

We will serve all residents of the area including low income persons, racial and ethnic minorities, women, persons with disabilities and other underserved groups, and the elderly.

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C. Quality of Service/Care:

As operated by St. Francis Medical Center, the dialysis clinics are certified by Medicare. Subsequent to the acquisition by Liberty Dialysis – Hawaii, LLC, the centers’ Medicare certifications will be maintained.

Liberty Dialysis – Hawaii, LLC will not alter the scope of services presently provided at the dialysis centers. Furthermore, the clinical staff and attending physicians who care for the patients will remain unchanged, therefore ensuring continuity of service and quality of care for patients.

Liberty Dialysis – Hawaii, LLC is owned by experienced dialysis providers. St. Francis Medical Center, a member of Liberty Dialysis – Hawaii, LLC, has more than 37 years experience as a dialysis provider and is the current operator of these dialysis centers. Our company CEO, Mark Caputo, has served as CEO of more than 30 dialysis clinics during the past 15 years and has established many successful partnerships with hospitals and physicians which deliver high quality patient care. Eugene Wong, M.D., and several other experienced nephrologists serving the patients of Hawaii shall make the medical and clinical decisions on behalf of Liberty Dialysis – Hawaii LLC, and most importantly in the best interest of their patients. These physicians already care for the patients in their offices, patients’ homes, and in hospitals throughout Hawaii. It is a natural extension that these physicians continue to make the medical decisions within the dialysis clinics.

Liberty Dialysis – Hawaii, LLC will maintain the clinical quality control programs instituted by St. Francis. Elements of the St. Francis quality initiatives which will represent the platform for Liberty Dialysis – Hawaii’s quality program include:

- Physician-driven and patient-focused orientation
- Clinical outcomes measured using industry standards, such as those established by the NKF, ESRD Network and JCAHO
- Monthly monitoring of performance measures
 - hemo and peritoneal dialysis adequacy
 - anemia and iron management
 - bone metabolism
 - fistula utilization
 - hospitalization rate
 - patient survival rate
- Continuous Quality Improvement (CQI) principles applied to empower patients and their families to participate in their care and to achieve optimal clinical outcomes
- Monthly meetings of physician-led, multidisciplinary team to coordinate care and to communicate with patients and their families

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Exhibit V provides a summary of the key dialysis quality metric for centers affiliated with Mark Caputo. It also includes samples of complete quality reports generated for the affiliated centers.

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

We have the ability to maintain these services and, the revenue/cost projections listed below show that we are able to cover our operating costs. This change in ownership seeks to retain dialysis services without any closures or changes in service for dialysis patients. There is no other alternative to this proposal as Liberty Dialysis – Hawaii, LLC is the only buyer for the dialysis operations selected by St. Francis Medical Center.

Our revenue and cost projections for the first and third full year of operations appear below:

	Projected 1st Full Year of Operations	Projected 3rd Full Yr of Operations
Revenue	\$ 39,701,791	\$ 43,584,962
Labor Expense	14,243,371	15,518,211
Drugs and Medical Supplies	10,304,025	11,951,097
Rent	1,426,808	1,620,617
Depreciation and Amortization	2,496,286	2,725,727
Interest Expense	2,419,545	2,014,354
General Excise Tax	1,667,475	1,830,568
Other Operating Expenses	5,156,436	5,730,503
	<u>\$ 37,713,947</u>	<u>\$ 41,388,577</u>
Pretax Income	\$ 1,987,844	\$ 2,196,385

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Mark Caputo, CEO of Liberty Dialysis – Hawaii, has a developed successful track record of partnering with not-for-profit organizations, including the Sisters of the Third Franciscan Order. In his joint partnership with St. Joseph’s Hospital and Health System in Syracuse, New York, Mr. Caputo’s involvement led to considerable operating improvements which benefited the patients. As a result of this successful partnership, the Sisters at St. Joseph’s introduced Mr. Caputo to St. Francis to determine whether a similar relationship could be achieved.

The dialysis services currently provided by St. Francis Medical Center will remain unchanged after the completion of the acquisition. No new dialysis services are planned by Liberty Dialysis – Hawaii, LLC as a result of the transaction that would add to the capital costs of the acquisition. Upon the completion of the acquisition, we will evaluate the existing equipment used in the operations of the business with the intent of retiring and replacing existing medical equipment with their modern day equivalents. Similarly, we will evaluate the existing facilities and may perform certain renovations to improve the interior design of the clinics.

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Liberty Dialysis – Hawaii, LLC has the financial ability to maintain dialysis services for the long term. Its members have agreed to invest \$12.0 million of cash equity to fund the business. As such, Liberty shall pay for these assets in cash.

E. Relationship to the Existing Health Care System:

We will continue to provide chronic outpatient and acute dialysis services as they are currently provided by St. Francis. Because we are continuing an existing service with no change in service or staffing, there will be no effect on other providers. Over time, the general increase in the population of ESRD patients in the communities we serve will lead to a natural increase in patients expected to need care. Given that the number of patients on dialysis in Hawaii has grown by approximately 5 % per year in the past three years and that local health organizations expect the state's dialysis population to nearly double over the next 10 years, we anticipate that other dialysis centers in Hawaii will also experience an increase in patient census.

We recognize that St. Francis has a long history as a dialysis provider in Hawaii. Years ago, when no other provider would run this service, the Sisters of the Third Franciscan Order assumed the responsibility of serving dialysis patients. We will honor this history of care that the Sisters started in Hawaii and the care partnerships that they established and nurtured for the benefit of patients.

After assuming ownership of the Dialysis Assets, we will continue the collaboration with other health care providers, community and government organizations that St. Francis has successfully established since the inception of its dialysis service in 1965. These initiatives include continuing relationships with local nephrologists; the National Kidney Foundation of Hawaii; Hawaii Health Systems Corporation; Transpacific Renal Network; the GFR Alliance; HMSA; Kaiser Permanente; Amgen Inc.; Abbott Laboratories; University of Hawaii at Manoa, Hilo, Maui and Kauai; Kapiolani Community College; and the National Renal Administrators Association. Our company, affiliates and executives also support a number of other organizations throughout the United States, including the American Association of Kidney Patients (AAKP), NANT, Expedition Inspiration (sponsoring cancer research), and the Lupus Foundation of America.

Furthermore, we will utilize the relationships and expertise of Liberty Dialysis – Hawaii's executives and physicians and work closely with the nephrology community in Hawaii to develop a broad chronic kidney disease program to help enhance (i) patient education, (ii) interaction with the greater Hawaii medical community, and (iii) advanced treatment of CKD patients to forestall the onset of ESRD and better prepare them as they begin dialysis.

F. Availability of Resources:

The net book value of the assets being sold by St. Francis is approximately \$5.17 million. A portion of this amount is subject to review under the CON regulations. There are other intangible assets that are being purchased that are not included in this amount as they are not listed as CON regulated services. The \$5.17 million price is a reasonable estimate of the value of the direct care dialysis assets regulated by the

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certificate of need program. Included in this amount are fixed equipment, movable equipment and the value of assets acquired by lease and rent such as dialysis machines, related auxiliary equipment, water systems and their tanks/mixers, and the direct patient care space involved. Liberty shall pay for these assets in cash.

We have the resources necessary to complete this transaction. The \$12.0 million cash investment to be made by the members of Liberty Dialysis – Hawaii, LLC provides a sufficient capital base to acquire the CON regulated assets Dialysis Assets from St. Francis and to support its operations until it generates positive operating cash flow. See Exhibit III.

Because this acquisition includes all of the dialysis staff currently employed by St. Francis Medical Center, staffing is already in existence for this service and no additional employees are needed in the centers in order to continue serving the existing patient base.

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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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