



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number: #07-15A

Applicant: Liberty Dialysis-North Hawaii, LLC
7650 SE 27th Street, #200
Mercer Island, Washington 98040
Phone: 808 585-4600

Project Title: Acquisition of North Hawaii Community Hospital
dialysis center

Project Address: 67-1123 Mamalahoa Hwy., Kamuela, Hawaii

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- By-Laws Not applicable
- Partnership Agreements See Attachment 4 (Operating Agreement)
- Tax Key Number (project's location) 3-6-7-002-013-0000

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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 the outpatient hemodialysis clinic now owned and operated by NHCH. Upon approval of the application and consummation of the proposed change in ownership, LDNH shall continue to provide the dialysis services now being provided by NHCH.

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			

6. PROJECT COSTS AND SOURCES OF FUNDS

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A. List All Project Costs:

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AMOUNT:

1.	Land Acquisition	_____
2.	Construction Contract	_____
3.	Fixed Equipment	_____
4.	Movable Equipment	<u>\$ 82,825.00</u>
5.	Financing Costs	_____
6.	Fair Market Value of assets acquired by lease, rent, donation, etc. (2 year site lease)	<u>\$202,680.00</u>
7.	Other: _____	_____

TOTAL PROJECT COST: \$285,505.00

B. Source of Funds

1.	Cash (retained earnings)	<u>\$ 82,825.00</u>
2.	State Appropriations	_____
3.	Other Grants	_____
4.	Fund Drive	_____
5.	Debt	_____
6.	Other: <u>site lease</u>	<u>\$202,680.00</u>

TOTAL SOURCE OF FUNDS: \$285,505.00

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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 application is for the change in ownership from NHCH to LDNH of the

nine-station dialysis clinic now operated by NHCH. Reference HAR § 11-

186-5(4)(A). No new location or expansion is proposed.

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 CON approval.
- 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 CON approval.
- g) Date of commencement of operation: Within 30 days of CON approval.

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.

- 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.

Executive Summary

Project Description

LDNH seeks approval for the change in ownership of the nine-unit dialysis center now operated by NHCH at 67-1123 Mamalahoa Highway, Kamuela, Hawaii. See Attachment 5.

LDNH is a Delaware limited liability company that was established by Liberty Dialysis LLC ("LD") to acquire, own and operate the dialysis center that is now owned and operated by NHCH. LD is also a member of Liberty Dialysis-Hawaii LLC, which operates the dialysis centers formerly operated by the St. Francis Medical Center. NHCH's nine-station dialysis facility serves more than 40 dialysis patients with chronic renal disease in the North Hawaii service area, as well as domestic and foreign visitors. LDNH's change in ownership of the facility represents a substantial opportunity to extend and enhance LD's ability to serve Hawaii residents in need of dialysis services and to build on NHCH's achievements over the past ten years in serving End Stage Renal Disease ("ESRD") patients in the Waimea area and throughout the Big Island. LDNH will not only continue operation of the dialysis unit in years to come, but is also committed to make the future capital investments needed to maintain the facility and its equipment in the condition necessary for high performance. NHCH will be an equity partner in LDNH and will participate in the facility's Board of Advisors, which will monitor initiatives that impact the provision of dialysis services within the service area and offer advice and counsel regarding such initiatives.

After completion of the change in ownership, LDNH will maintain all the dialysis services now provided by NHCH and will offer employment to existing staff employed by the dialysis center. Although LDNH will be maintained as a separate entity from LD, it is anticipated that the relationship with LD will enable LDNH to achieve lower operating costs through shared vendor contracts and technical expertise. The change in ownership will enhance services to ESRD patients by (1) increasing participation of Hawaii's nephrologists in clinical decision making, thereby improving patient care, (2) augmenting staff and patient education opportunities available to the facility through LD's established network of dialysis-specific educators and training resources, (3) decreasing drug and supplies costs through access to LD's national vendor contracts, and (4) providing LD with an opportunity to leverage its investments in chronic kidney disease clinics to improve pre-ESRD care on the island of Hawaii.

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The change in ownership will be invisible to patients. Further, there will be no effect on existing providers because LDNH is not proposing any changes to the existing services.

a) Relationship to the Hawai'i Health Performance Plan (H2P2), also known as the State of Hawai'i Health Services and Facilities Plan.

Change in ownership of NHCH's dialysis units to LDNH will advance the H2P2's goals of increasing the span of life of healthy adults and achieving equitable and effective access at reasonable cost for Hawai'i's residents to health services that are responsive to the holistic needs of the community's members and its objectives of reducing the effects of chronic disease and prolonging health related quality of life and reducing morbidity and pain through timely and effective treatment.

The proposed change of ownership is also consistent with the H2P2's basic principles for a health care system because it promotes improved access to chronic disease management. It will contribute toward improving three of the five critical elements of Hawai'i's health care delivery system that are identified by the H2P2. First, it will promote equitable, effective and efficient access to dialysis services. Second, LDNH will provide quality management at the facility by monitoring its patients' response to treatment through evaluation of anemia management, bone management, adequacy of dialysis, patient satisfaction and technical management. Finally, it will improve the cost-effectiveness of Hawai'i's health care systems by facilitating outpatient treatment of ESRD. By making treatment options more available in the community, the facility will promote improved management of ESRD, slow deterioration of the health of ESRD sufferers, and make it easier for them to receive care while remaining in their homes, thereby reducing their need to seek more costly nursing home care.

The proposed change of ownership is consistent with the Statewide values and priorities identified by the H2P2 because it fosters development of care delivery for the elderly and chronically ill and will provide effective management of their health and quality of life, thereby reducing the financial and social burdens not only of those suffering from ESRD, but also of their families and the community as well.

Finally, the proposed change of ownership is consistent with the objectives established by Chapter VI of the H2P2, which addresses Hawai'i's needs for services targeted at chronic disabling conditions. ESRD often develops secondary to diabetes, and approximately 10-20% of diabetics will eventually develop kidney disease that gradually deteriorates into ESRD. As their health declines, these individuals become increasingly dependent on treatment and the help of others and less and less mobile. Consequently, their quality of life and self-esteem suffer tremendously, contributing to the high psychological cost of the disease. By making community-based dialysis services conveniently available, the facility will allow these people to maintain the maximum functioning, mobility and independence of which they are capable.

b) Need and Accessibility

The need for these services is evidenced and established by the certificate of need already held by NHCH for the services (96-21A for Lucy Henriques Medical Center). The current service area and accessibility for the target population will be maintained.

The facility currently provides, and will continue to provide, services for residents of Hawai'i. Its patients include low-income persons, racial and ethnic minorities, women, handicapped

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persons, and the elderly, who are offered services on a non-discriminatory basis. Charity care will continue to be provided to those otherwise unable to afford dialysis treatment in keeping with the facility's existing charity policy.

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The current patient mix is as follows: Medicare 65%, Medicaid 10%, Commercial 24%, Other 1%.

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LDNH believes that the current patient mix is representative of the overall population of ESRD patients in the community and does not anticipate any material changes in the patient mix after the change in ownership is completed. Patients will have seamless continuity of care and continue to enjoy service from care givers they have come to know and trust.

c) Quality of Service/Care

The facility is now certified by Medicare; Medicare certification will be maintained subsequent to the change in ownership. The facility will continue to utilize existing quality control policies and procedures. James Ireland, M.D., a Board certified nephrologist will serve as Medical Director.

LD provides the highest quality of dialysis services to its patients and is in compliance with federal and state regulations at all of its dialysis centers in Hawaii and nationally. LDNH will incorporate the same high quality standards for patient care at the LDNH location. LDNH will observe the standards set by both the CDC and CMS in the facility's operations. LDNH will also utilize LD's quality improvement program, which was developed in accordance with CMS and the National Kidney Foundation's Disease Outcomes Quality Initiative ("KDOQI") guidelines. In keeping with the LD Quality Improvement Program, LDNH will monitor the quality of care in anemia management, bone management, adequacy of dialysis, and patient satisfaction.

All LDNH nurses will be licensed in Hawaii. All nurses and hemodialysis technicians will complete a training program and/or competency examination prior to assignment to patient care duties. LDNH patient care staff will participate in regular in-service training in order to assure maintenance of the highest level of competency.

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

As shown in Section 6A of this application, the total cost of the project will be \$285,505, and will be paid from retained earnings.

The operating revenue for the first year of operation is projected at \$1.9 million and operating expenses for the same period are projected at \$1.7 million, resulting in an operating profit of \$200,000. By the third year of operation, revenue is expected to increase to \$2.0 million, with total expenses for year three projected at \$1.75 million, resulting in an operating profit of \$250,000.

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e) Relationship to the existing health care system

Because this proposal does not involve additional capacity, but rather effects a change in ownership of an existing dialysis facility, no significant impact on the existing health care system is expected.

f) Availability of Resources

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There are no financial obstacles to the project. Expenses will be paid from retained earnings.

LDNH expects to retain the current staff of the NHCH facility. To the extent that more staffing should be needed, LD engages in extensive local recruitment and conducts nurse and technician training programs to insure that its personnel are qualified to provide high quality care to its dialysis patients. LD has also partnered with local educators to provide clinical training opportunities for new nurses and technicians. LD has also expanded its in-house training efforts and has increased recruitment of mainland nurses and technicians in order to maintain a consistent supply of qualified personnel to provide patient care in its dialysis facilities.

LDNH will maintain industry standard staffing ratios at its facilities:

The facility now employs twelve staff members, including 1.0 FTE Executive Dialysis Leader, 2.0 FTE RNs, 1.0 FTE LPN, 6.0 FTE dialysis technicians, and 2.0 FTE unit secretaries. A social worker is also under contract to provide services to the facility's patients. A registered nurse is on duty when the facility is open and is assisted by one or more patient care technicians as patient volume requires. Clerical support staff is provided as needed. Additional staff will be employed and trained as needed.

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10. **Eligibility to file for Administrative Review.** This project is eligible to file for Administrative review because: (Check all applicable)

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_____ 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.

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_____ 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.

X The applicant believes it will not have a significant impact on the health care system.