



## HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

### ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number: #07-29A

Applicant: Liberty Dialysis-Hawaii, LLC  
7650 SE 27<sup>th</sup> Street, #200  
Mercer Island, Washington 98040

Phone: 808 585-4600

Project Title: Establishment of a 12 station dialysis facility  
Project Address: 25 Kaneohe Bay Drive, Kailua, Hawaii

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: \_\_\_\_\_
- O`ahu-wide: \_\_\_\_\_
- Honolulu: \_\_\_\_\_
- Windward O`ahu:   X
- 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 Attachment 1
- 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.)

Building Permit from City & County of Honolulu  
 Certificate of Occupancy from the City & County of Honolulu  
 Fire Marshall's Approval form the City & County of Honolulu Fire Department

- 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 (Articles of Organization)
  - By-Laws: Not applicable
  - Partnership Agreements: Not applicable
  - Tax Key Number: 440020420000

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					

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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:

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AMOUNT:

1.	Land Acquisition	<u>NA</u>
2.	Construction Contract	<u>\$1,200,000.00</u>
3.	Fixed Equipment	<u>\$ 200,000.00</u>
4.	Movable Equipment	<u>\$ 500,000.00</u>
5.	Financing Costs	<u>                    </u>
6.	Fair Market Value of assets acquired by lease, rent, donation, etc. <b>Site Lease</b>	<u>\$1,088,640.00</u>
7.	Other: _____	<u>                    </u>

**TOTAL PROJECT COST: \$2,988,640.00**

B. Source of Funds

1.	Cash	<u>\$1,900,000.00</u>
2.	State Appropriations	<u>                    </u>
3.	Other Grants	<u>                    </u>
4.	Fund Drive	<u>                    </u>
5.	Debt	<u>                    </u>
6.	Other: FMV of Lease	<u>\$1,088,640.00</u>

**TOTAL SOURCE OF FUNDS: 2,988,640.00**

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.

Establishment of a 12-station dialysis facility at 25 Kaneohe Bay

Drive, Kailua, Hawaii 96734. Reference HAR § 11-186-5(4)(A).

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: October 9, 2007
- b) Dates by which other government approvals/permits will be applied for and received: June 2008
- c) Dates by which financing is assured for the project: Not applicable.
- d) Date construction will commence: July 2008
- e) Length of construction period: 4 months
- f) Date of completion of the project: October 2008
- g) Date of commencement of operation: November 2008

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 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**

Liberty Dialysis-Hawaii LLC ("LDH") seeks approval to establish a 12-station dialysis center at 25 Kaneohe Bay Drive, Kailua, Hawaii 96734. See Attachment 4.

LDH is a Delaware limited liability company that was established to acquire, own and operate the dialysis centers that were formerly part of the St. Francis Healthcare System.

LDH seeks to open a new dialysis facility in order to provide improved outpatient dialysis services to Windward Oahu residents.

#### **a) Relationship to the Hawaii Health Performance Plan (H2P2), also known as the State of Hawaii Health Services and Facilities Plan.**

The opening of LDH's Windward Dialysis Facility 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 all Hawaii'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. Persons suffering from End Stage Renal Disease ("ESRD") typically must undergo dialysis treatment three times each week. They often face challenges in coordinating transportation with family members, friends, the HandiVan and other sources of public transportation. Providing dialysis centers close to their homes helps to relieve this burden, thereby reducing the effects of ESRD, improving their health related quality of life, and promoting equitable access to health care that is responsive to their physical, emotional and social needs.

The addition of the new hemodialysis center 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 Hawaii's health care delivery system that are identified by the H2P2. First,

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it will promote equitable, effective and efficient access to dialysis services by making more dialysis stations available to meet the needs of the growing number of patients with ESRD in the Kailua and Waimanalo districts of the island of Oahu. Second, the proposed facility will provide quality management by monitoring its patients' response to treatment through evaluation of anemia management, bone management, the adequacy of dialysis, patient satisfaction and technical management. Finally, it will improve the cost-effectiveness of Hawaii's health care systems by facilitating outpatient treatment of ESRD.

By making treatment options more easily available in the community, the new facility will promote improved management of ESRD, slow the deterioration of health of the ESRD sufferers, and make it easier for them to receive care in the least restrictive setting possible, thereby reducing their need to resort to more costly care due to the lack of a sufficient number of outpatient dialysis clinic options. By making it easier for them to receive care in the least restrictive setting possible, the new dialysis facility will also reduce their need for more costly inpatient care.

The proposed facility 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. The proposal is also consistent with the Honolulu Subarea's goal of increasing care services for the growing elderly population.

Finally, the proposed facility is consistent with the objectives established by Chapter VI of the H2P2, which addresses Hawaii's need for services targeted at chronic disabling conditions. The H2P2 recognizes that ESRD often develops secondary to diabetes, stating that 10-20% of all 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 an adequate number of community-based dialysis services conveniently available, the new dialysis facility will allow these people to maintain the maximum functioning, mobility and independence of which they are capable.

#### **b) Need and Accessibility**

The H2P2 states that existing dialysis facilities should be operating at 80% utilization in order to establish new dialysis services.

Currently, residents of Windward Oahu are served by a single dialysis facility operated by Bio-Medical Applications of California ("BMA"). A TransPacific Renal Network 17 analysis of patient origin by zip code conducted in December 2006 indicated that 53 dialysis patients reside in Kailua and 30 dialysis patients reside in Waimanalo. In its certificate of need application No. 06-13a, BMA stated that its Windward dialysis center

located at 45-480 Kaneohe Bay Drive is operating in excess of the H2P2 threshold at an 118% utilization rate. BMA also stated that some of its patients' treatment times end between 12 midnight and 2 am, creating difficulties in obtaining suitable transportation and diminishing the quality of life of the majority, who are diabetics, suffering from the disease's associated vision problems. Hence, there is already unmet need for dialysis services in Windward Oahu. Certificate of need application No. 06-13a states that FMC-Honolulu Dialysis Center is currently operating at a utilization rate of 99% per year. Liberty Dialysis Hawaii is operating at the following capacity:

Leeward Facility: 97%  
 Siemen- 90%  
 Renal Annex- 51% (sub-acute)  
 Sullivan-70%  
 Waianae-54%

In its certificate of need application # 06-13A Bio- Medical Applications of California, Inc. states that its FMC Pearlridge clinic, located at 98-1 005 Moanalua Road, is currently operating at 102%, Kapolei Dialysis Center located at 555 Farrington Hwy is operating at 106% capacity, the FMC Honolulu facility is operating at 99% capacity, The Aloha facility in Honolulu at 75% capacity, the Wahiawa facility is operating at 80% of capacity. The utilization calculations were calculated using the Hawaii State formula of number of stations x 3.5 x 6 x 4 or 5.

While the new BMA site, which is located in Kaneohe near Kahului, will relieve the immediate overcrowding at the current BMA site and offer improved access to patients residing near it, it is still a substantial distance to travel from it to the populations of Kailua and Waimanalo that are the target of the dialysis center proposed in this application. Further, the National Kidney Foundation of Hawaii states that the number of ESRD patients in Hawaii has historically increased by about 7% annually. The rate of growth in the number of Hawaii residents needing dialysis treatment can be expected to increase because of general increases in population, the aging of Oahu's population, and the increased life-span of ESRD patients that will result from improved treatment.

The new 12-station dialysis clinic in Kailua will strongly support improved accessibility for ESRD patients residing on the Windward side of the island, particularly those who reside in Kailua and Waimanalo. The site is easily accessible by public transportation and will offer ample parking and curbside access for the HandiVan.

While the proposed facility is targeted primarily at Windward Oahu residents, LDH currently provides, and will continue to provide, services for residents from all parts of Oahu. Its patients include low-income persons, racial and ethnic minorities, women, handicapped persons, and the elderly, all of whom are offered services on a non-discriminatory basis.

**c) Quality of Service/Care**

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LDH provides the highest quality of dialysis services to its patients and is in full compliance with applicable federal and state regulations at all of the dialysis centers it currently operates in Hawaii. It will continue to provide the same high quality care to patients at its new Windward location. LDH is CMS certified, and observes the standards set by both the CDC and CMS in its centers' operations. Copies of LDH's CMS certifications for its existing Hawaii dialysis centers are included in Attachment 5. The LDH quality improvement program was developed in accordance with CMS and the National Kidney Foundation's Disease Outcomes Quality Initiative ("KDOQI") guidelines. In keeping with the LDH Quality Improvement Program, each facility monitors quality of care in the following areas: anemia management, bone management, adequacy of dialysis, patient satisfaction, and technical management.

All LDH nurses are licensed in Hawaii. All LDH nurses and hemodialysis technicians must complete the LDH training program and/or pass a certification exam, prior to assignment to patient care duties. LDH patient care staff participates in regular in-service training in order to assure maintenance of the highest level of competency.

**d) Cost and Finances**

The total cost of the project is estimated at approximately \$2,988,640, which includes \$1.2 million for site improvements, \$200,000 for fixed equipment, \$500,000 for movable equipment, and the site lease, which is valued at \$1,088,640. The project will be financed with cash.

The operating revenue for the first year of operation is projected at \$2,745,000, and operating expenses for the same period are projected at \$2,707,000, resulting in an operating profit of \$38,000. By the third year of operation, revenue is expected to increase to \$3,200,000, with total expenses for year three projected at \$3,072,000, resulting in an operating profit of \$127,000.

**e) Relationship to the Existing Health Care System**

Because this project will add new capacity, the need for which has already been established and because current providers in the service area are operating at more than 100 percent utilization, no significant impact on the existing health care system is expected. The current facility in Windward Oahu is operating at 118% capacity with patients dialyzing late into the night due to lack of space at earlier times. There are currently no facilities to service the communities of Waimanalo and Kailua and therefore any decrease in utilization at the existing Kaneohe facility will only serve to make more choice of time and day available to the over capacity patients at the existing clinic.

**f) Availability of Resources**

There are no financial obstacles to the project. The project will be financed with retained earnings.

LDH expects to assign staffing for the proposed facility from its current pool of employees in addition to seeking new employees through local and national advertisements. LDH engages in extensive local recruitment and conducts in-house nurse and technician training programs to insure that its personnel are qualified to provide high quality care to its dialysis patients. LDH has partnered with local educators to provide clinical training opportunities for new nurses and technicians. LDH has also expanded its in-house training efforts and has increased recruitment of local dialysis nurses who have left the field and mainland nurses and technicians in order to maintain a consistent supply of qualified personnel to provide patient care in its dialysis facilities.

LDH maintains the following ratios of clinical staff to patients at all of its facilities:

Charge Nurse (RN):	1.0 FTE per 12 patients
Patient Care Technicians:	1.0 FTE per 4 patients
Registered Dietitian:	1.0 FTE per 120 patients
Social Worker:	1.0 FTE per 140 patients

Upon opening, the Windward facility will employ 2.4 FTE RNs, 7.0 FTE hemodialysis technicians, a 0.5 FTE social worker, a 0.4 FTE dietitian, and 0.5 FTE technical staff. Additional staff will be employed and trained to maintain LDH's staffing ratios as patient census increases.

A registered nurse is on duty at all times that the facility is open and is assisted by patient care technicians as patient volume requires.

**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.