HAWAI`I STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM

Application Number: # 14-01A Date of Receipt:
To be assigned by Agency

APPLICANT PROFILE

Project Title: Establishment of additional chronic renal dialysis location and services in Kapolei

Project Address: 889 Kamokila Boulevard, Kapolei, Hawaii 96707

Applicant Facility/Organization: Dialysis Newco, Inc. d/b/a DSI Renal

Name of CEO or equivalent: Craig Goguen

Title: Chief Executive Officer

Address: 424 Church Street, Suite 1900, Nashville, Tennessee 37219

Phone Number: 615-263-4530 Fax Number: 615-234-2418

Contact Person for this Application: Jay Yalowitz

Title: General Counsel

Address: 424 Church Street, Suite 1900, Nashville, Tennessee 37219

Phone Number: 615-234-0951 Fax Number: 615-234-2424

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

February 27, 2014
Date

Jay Yalowitz
Name (please type or print)

General Counsel
Title (please type or print)

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1. **TYPE OF ORGANIZATION**: (Please check all applicable)

Public	____
Private	X
Non-profit	____
For-profit	X
Individual	____
Corporation	X
Partnership	____
Limited Liability Corporation (LLC)	____
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:	X
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 A

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 and County of Honolulu
Certificate of occupancy from City and County of Honolulu
City and County of Honolulu Fire Department Fire Marshall's approval
Certification from the Centers for Medicare and Medicaid Services

C. Your governing body: list by names, titles and address/phone numbers

Robert Lefton, Director
424 Church Street, Suite 1900
Nashville, Tennessee 37219
615-777-8200

Craig Goguen, Director

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Jay Yalowitz, Director
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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 B
- By-Laws – See Attachment C
- Partnership Agreements – N/A
- Tax Key Number (project's location) (1)9-1-88-023

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
TOTAL			

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6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:

		AMOUNT:
1.	Land Acquisition	_____
2.	Construction Contract	$1,804,630
3.	Fixed Equipment	$151,742
4.	Movable Equipment	$549,544
5.	Financing Costs	_____
6.	Fair Market Value of assets acquired by lease, rent, donation, etc. (present value of 10 year lease payments)	$3,218,174
7.	Other: _____	_____
	TOTAL PROJECT COST:	**$5,724,090**

B. Source of Funds

1.	Cash	$2,505,916
2.	State Appropriations	_____
3.	Other Grants	_____
4.	Fund Drive	_____
5.	Debt	_____
6.	Other: Fair market value of lease payments (10 year lease)	$3,218,174
	TOTAL SOURCE OF FUNDS:	**$5,724,090**

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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.

Establishment of additional 24 station chronic renal dialysis location and services (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: January 31, 2014

b) Dates by which other government approvals/permits will be applied for and received:

- Building permits applied - April 2014
- Building permits received - June 2014

c) Dates by which financing is assured for the project: January 2014

d) Date construction will commence: June 2014

e) Length of construction period: 6 months

f) Date of completion of the project: December 2014

g) Date of commencement of operation: February 2015

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 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

Dialysis Newco, Inc. d/b/a DSI Renal ("DSI") seeks approval to establish an additional location for its dialysis services, located in the West Oahu community of Kapolei at 889 Kamokila Boulevard, Kapolei, Hawaii 96707 (the "Additional Location"). The Additional Location will offer a full range of dialysis services and modalities, including 24 hemodialysis stations and a home dialysis program. The establishment and operation of the Additional Location will enhance DSI's ability to continue to provide high quality and accessible dialysis services to individuals with End Stage Renal Disease ("ESRD") on Oahu, particularly in West Oahu.

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

Specific goals of the Health Services and Facilities Plan ("HSFP") reflect current issues facing Hawaii's health care environment, and include:

- Focus on increasing cost-effective access to necessary health care services. Access is distinguished from convenience.
- Promote the financial viability of the health care delivery system.
- Encourage optimization of services and expensive technology by ensuring that supply meets the need and costs are reasonable.
- Promote regionalization of services where appropriate.[1]

This development of the Additional Location furthers those goals. Dialysis services are vitally necessary to the patients who require them and, in keeping with the goals of the HSFP, DSI will strive constantly to maintain a high standard of quality care while also being focused on cost-effective access as shown in the Cost and Finances section.

[1] HSFP at page 15 (http://hawaii.gov/shpda/resources-publications/health-services-and-facilities-plan-2009).

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By improving access to quality services at a reasonable cost and providing health education to assist patients and their families in better understanding and managing their chronic disease, the application will support the general principles of the Statewide Health Coordinating Council ("SHCC") and the priorities of the West Oahu Subarea Council ("SAC").[2] DSI acknowledges and represents:

- Dialysis is a supportive service that maintains the quality of life for its patients.
- Nutrition is an important part of a dialysis patient's everyday lifestyle and our nutrition guidelines and support to patients are all based on industry standards and scientifically-based knowledge.
- We aim to be active in community engagement via partnerships with a wide array of organizations such as the National Kidney Foundation, Hawaii Health Systems Corporation, Transpacific Renal Network, the GFR Alliance, HMSA, Kaiser Permanente, the University of Hawaii, Kapi'olani Community College and the National Renal Administrators Association.
- A vital part of our patient and family services will be health education counseling and classes about dialysis care and participation in community preventive health campaigns about kidney disease and diabetes.
- The proposed project will advance the SHCC priorities of ensuring maintenance of overall access to quality health care at a reasonable cost and striving for equitable access to health care services by providing DSI patients residing in the Primary Service Area improved access to dialysis services closer to their homes. By maintaining and improving access, this proposal will encourage patients to comply with their dialysis treatment schedules and, thereby, lower health care costs associated with poor compliance.
- The proposed project will advance the West Oahu SAC priorities by improving education and increasing preventive health efforts for persons suffering from ESRD through DSI initiatives to educate its patients about how to better manage their disease and thereby prevent or delay the onset of more serious health problems.

Hawaii Revised Statute §323D-12 mandates that HSFP must include standards for utilization of health care facilities. Capacity (utilization) thresholds for certain standard categories of health care services are established to guide the initial determination of need for a service area. Prior to the establishment of a new chronic renal dialysis unit/service, HSFP provides that the minimum utilization of each existing provider in the service area should be 600 treatments per facility and the utilization of the new chronic renal dialysis unit/service should be projected to meet the minimum utilization rate by the third year of operation.[3] In addition, sub-optimum utilization may be proposed if the benefits clearly outweigh the costs to the community of duplicating or under-using services, facilities, or technologies.[4]

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[2] See HSFP at pages 33, 35-36.
[3] See HSFP at page 29.
[4] See HSFP at pages 31-32.

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The Primary Service Area for the Additional Location will encompass the West Oahu communities of Kapolei, Nanakuli, Lualualei/Maili, and perhaps Ewa Beach, Waianae and Makaha. Currently there are only three dialysis facilities servicing the Primary Service Area, DSI's existing Kapolei facility (555 Farrington Highway, Kapolei, 96707) and Liberty Dialysis' Leeward (91-2137 Fort Weaver Road, Ewa Beach, 96706) and Waianae facilities (86-080 Farrington Highway, Waianae, 96792), and all of these facilities are providing treatments in excess of the utilization threshold established by HSFP. DSI's Kapolei facility annualized treatments are currently 21,150, or 881 treatments per station. While DSI is in the process of adding 4 additional stations to its Kapolei facility, the utilization of that facility will still be in excess of 600 treatments following such addition (21,150 treatments on 28 stations translates into 755 treatments per station). Based on information provided by Liberty Dialysis in support of its recent CON Application No. 12-28A, Liberty Dialysis' Leeward facility is providing approximately 961 treatments per station and Liberty Dialysis' Waianae facility is providing approximately 651 treatments per station. The foregoing treatment numbers are further set forth in the chart below:

Facility	Treatments	Tx/station
DSI Kapolei	21,150	881
DSI Kapolei (post expansion)	21,150	755
Liberty Leeward	14,400	961
Liberty Waianae	12,000	651

The Additional Location will provide an additional dialysis option to patients residing in the Primary Service Area. This will result in a reduction in the high utilization of the existing facilities in the Primary Service Area. In addition, since the DSI Kapolei and the Liberty Dialysis Leeward facilities are at or near capacity, the additional stations in the Primary Service Area will allow residents in the Primary Service Area to obtain dialysis closer to their homes without having to travel to Waipahu or Honolulu, the next closest areas with facilities. As dialysis patients receive treatment three times per week, having a close, updated and convenient dialysis facility is beneficial to the lives of these patients. Moreover, the majority of those next closest facilities, including Liberty Dialysis' Waipahu facility (94-450 Mokuola Street, Waipahu, 96797) and DSI's Pearlridge facility (98-1005 Moanalua Road, Aiea, 96701) are operating far in excess of 600 treatments per station.

In approving CON Application No. 12-28A, SHPDA found that "Island wide, only two dialysis centers are not performing at or above the HSFP threshold utilization level," those clinics being located outside of the Primary Service Area on the Windward side of Oahu.[5] SHPDA further noted testimony that "the utilization at DSI Honolulu (zip code 96817) is 557 treatments per station per year and DSI Kapahulu (zip code 96816) is

[5] See letter dated March 19, 2013 from SHPDA to Liberty ("LETTER") at section 10, page 2 - http://hawaii.gov/shpda/certificate-of-need/applications-and-decisions/decisions/shd1228a.

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527 treatments per station per year."[6] Irrespective of the actual number and locations of Oahu dialysis facilities outside of the Primary Service Area which are operating below the 600 treatments per station per year threshold, SHPDA has recognized that sub-optimum utilization outside of the Primary Service Area is particularly appropriate with respect to dialysis facilities and services since the benefits of improved access, patient compliance with treatment regimen, quality of care, best clinical practice, hospital discharge to outpatient modalities and cost-reduction are so significant.[7] Simply put, no responsible physician would willingly refer a West Oahu patient for treatment three times per week to Kapahulu.

DSI projects that the utilization of the Additional Location will meet HSFP's minimum utilization of 600 treatments per station by the third year of operation. DSI anticipates that some of the individuals currently utilizing DSI's Kapolei facility will transfer to the Additional Location once it becomes operational. Even if we assume as many as 20 patients transfer, DSI's existing Kapolei facility will still be operating in excess of HSFP utilization thresholds. The decrease of 20 patients translates into 3,000 fewer treatments than the current 21,450 treatments per year. At 18,450 treatments using 28 stations, DSI Kapolei's utilization will still be 659 treatments per year once the Additional Location is operating. DSI expects patients to transfer to the Additional Location from other facilities in the Primary Service Area as well, but given the number of treatments per station currently being provided at those other facilities, DSI is confident that none of those other facilities will fall below the minimum utilization threshold, even assuming no additional patients are added. However, as discussed below, the population growth in the Primary Service Area and the prevalence of diabetes in that population are expected to lead to a significant increase in the need for dialysis services. DSI projects a year 1 ending census at the Additional Location of 30 (translating into 188 treatments per station) and a year 3 ending census of 96 (translating into 600 treatments per station). As such, HSFP utilization threshold levels are met by this project.

b) Need and Accessibility

As is discussed above, the Additional Location will meet the utilization thresholds as required by HSFP. In addition, as evidenced by the utilization of the other facilities in the Primary Service Area, there is need for the Additional Location.

Although the Additional Location primarily is intended to serve the dialysis needs of residents residing in the Primary Service Area, DSI will make its services available to all individuals with ESRD Oahu-wide, including low-income individuals, racial and ethnic minorities, women, individuals with disabilities, other underserved groups and the elderly. DSI has a commitment to providing care to individuals, regardless of their ability to pay.

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[6] LETTER at section 11, page 3.
[7] See LETTER at sections 10, 12-13 and 18-19, pages 2-4.

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The West Oahu Primary Service Area, particularly Kapolei, is expected to experience population growth. The resident population of the City and County of Honolulu is projected to increase at an annual rate of 0.4 percent from 2010 to 2040.[8] The population for the entire State of Hawaii is expected to increase by 5 percent between 2010 and 2015, while the City and County of Honolulu is projected to increase by 3.2 percent during the same time period; along with these trends, the West O'ahu region is expected to grow by over 4 percent between the year 2011 and 2016; and Kapolei's population is expected to increase the most during this time period, expanding by over 8.5 percent over the five year span.[9]

Diabetes is one of the most serious, common, and costly diseases in Hawaii. It is a significant leading cause of death in Hawaii and the prevalence of adult diabetes has been increasing.[10] The Hawaii Department of Health has indicated that the highest rates of diabetes may be occurring in the Nanakuli/Waianae area followed by Waipahu/Kapolei/Ewa.[11]

c) Quality of Service/Care

DSI is a leading dialysis provider in the United States. DSI is the fifth largest for profit dialysis provider in the United States and owns and operates eighty-five dialysis facilities in 22 states. DSI provides dialysis services to over 6,600 individuals with ESRD. DSI's standards of patient care are established through medical protocol guidelines developed and monitored by DSI's Medical Advisory Board. These protocols are established using the best practices across DSI's network of affiliated nephrologists.

DSI's parallel priorities are to achieve optimal patient outcomes and ensure patient satisfaction. DSI is committed to quality care, benefitting patients' quality of life and longevity, and contributing to the company's financial strength. This commitment results in higher survival rates and reduced hospital stays.

The Chairman of DSI's Medical Advisory Board is actively involved in the operations of DSI's dialysis facilities, from training and protocol development to purchasing and costs management opportunities. The substantial involvement of the Chairman and the other members of the Medical Advisory Board, each of whom is a prominent nephrologist, has been a significant factor in: (1) attracting new medical directors; and (2) maintaining strong relationships with existing attending physicians. DSI's physician leadership also allows it to achieve physician consensus among the

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[8] See Population and Economic Projections for the State of Hawaii to 2040 at page 1 - http://files.hawaii.gov/dbedt/economic/data_reports/2040-long-range-forecast/2040-long-range-forecast.pdf.

[9]. See Identification and Quantification of Economic Development Opportunities in West O'ahu at page 17 http://www.westoahu.org/images/West_Oahu_Economic_Development_Opportunities_12072011_FINAL.pdf.

[10] See Hawaii Diabetes Data at http://health.hawaii.gov/diabetes/home/hawaii-data/

[11] See Hawaii Diabetes Report 2010 - http://www.hawaiihealthmatters.org/javascript/htmleditor/uploads/DOH_DiabetesReport2010_Lo.pdf at page 15.

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facilities, which enhances the ability to achieve a high level of standardization among DSI's facilities. DSI measures clinical outcomes using industry standards developed by the National Kidney Foundation and the CMS ESRD Network Program.

DSI provides training for all members of its clinical care team and nurses and patient care technicians must be licensed or certified, as applicable. DSI maintains a robust education department which offers continual educational and training opportunities for employees. DSI maintains patient/staff ratios consistent with those in the dialysis industry in general.

Registered Nurses	1 per 12 patients
Patient Care Tech	1 per 4 patients
Dietician	1 per 100 patients
Social Worker	1 per 100 patients

DSI provides quality dialysis services to its patients and is in full compliance with all applicable federal and state regulations at all of its dialysis centers in Hawaii. All DSI Hawaii dialysis facilities are CMS certified, and observe the standards set by both the CDC and CMS in their operations. DSI's quality improvement program was developed in accordance with CMS and the National Kidney Foundation's Disease Outcomes Quality Initiative guidelines.

All DSI nurses are licensed in Hawaii and all patient care technicians are nationally certified as required by CMS.

DSI operates nine other dialysis facilities on Oahu. The Additional Location will utilize the same clinical policies, procedures and protocols as are utilized in DSI's other facilities. In addition, the physicians of Nada, Ono & Ka'anehe, LLP will serve as medical directors of the Additional Location. This physician practice group already serves as medical directors for six of DSI's facilities on Oahu, thereby assuring the same level of clinical oversight as is provided in many of DSI's other facilities.

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d) Cost and Finances

The total cost of developing the Additional Location will be approximately $5,724,090. Of this amount, $3,218,174 will be allocated to the ten (10) year site lease, $549,544 for movable equipment, $151,742 for fixed equipment and $1,804,630 for leasehold improvements to the site. The Additional Location project will be financed with DSI's cash on hand. The estimated revenue and cost projections for the first and third full years of operation are:

	Projected 1st Full Year of Operations	Projected 3rd Full Year of Operations
Revenue	**$779,628**	**$5,033,417**
Bad Debt	$36,000	$251,671
NET REVENUE	**$743,765**	**$4,781,746**
Labor Expense	$311,105	$1,706,719
Drug Expense	$133,829	$985,807
Other Operating Expenses	$769,646	$790,486
TOTAL EXPENSES	**$1,214,580**	**$3,483,012**
Depreciation	$203,000	$203,000
NET INCOME	**($673,815)**	**$1,095,734**

e) Relationship to the Existing Health Care System

As the existing dialysis facilities in the Primary Service Area are each operating in excess of the thresholds established by HSFP, the establishment of the Additional Location will positively impact the health care system on Oahu by providing additional dialysis capacity and options for individuals with ESRD. DSI will collaborate with other providers, community groups and government organizations in the Primary Service Area to ensure quality care for our mutual patients and in support of our shared health goals.

DSI has been a part of Kapolei/West Oahu since 2012 and looks forward to continuing to provide services that address the community's current and future needs.

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f) Availability of Resources

DSI will fund the Additional Location with cash on hand.

As DSI already operates nine dialysis facilities on Oahu, DSI anticipates filling a portion of the staffing positions for the Additional Location from its existing labor force, and the remainder through recruiting efforts in Hawaii through job fairs, advertising and open houses. In addition, DSI maintains relationships with several national recruiting firms who help identify and/or supply nurses, patient care technicians and other personnel for DSI's other outpatient dialysis facilities throughout the country.

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.

___X___ 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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