



# STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

NEIL ABERCROMBIE  
GOVERNOR OF HAWAII

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May 11, 2012

## CERTIFIED MAIL, RETURN RECEIPT REQUESTED

Craig Goguen  
CEO  
Dialysis Newco, Inc. d.b.a. DSI Renal  
424 Church Street, Suite 1900  
Nashville TN 37219

Dear Mr. Goguen:

The State Health Planning and Development Agency (the "Agency") has evaluated Certificate of Need application #12-07A from Dialysis Newco, Inc. d.b.a. DSI Renal (the "applicant"), for the acquisition of the Chronic Renal dialysis facilities located at: 98-1005 Moanalua Rd., Suite 420, Aiea, HI, 1520 Liliha Street, Honolulu, HI, 750 Palani Avenue, Honolulu, HI, 226 North Kuakini Street, 2nd Floor, Honolulu, HI, 45-480 Kaneohe Bay Drive, #D09, Kaneohe, HI, 47-388 Hui Iwa Street, Kaneohe, HI, 555 Farrington Highway, Kapolei, HI, 850 Kilani Avenue, Wahiawa, HI and 94-862 Kahuaiani Street, Waipahu, HI, wholly-owned by Fresenius Medical Care Holdings, Inc. subsidiaries, Bio-Medical Applications of California, Inc. (Bio Medical) and Integrated Renal Care of the Pacific, LLC (IRCP), at a total capital cost of \$17,500,532.74.

1. Pursuant to Title 11, Chapter 186 of the Hawaii Administrative Rules (HAR), the Agency has determined that this proposal is eligible for administrative review as it meets the criterion in Subsection 11-186-99.1(b)(6).
2. The applicant states that "This application consists of existing dialysis facilities on Oahu. Dialysis services are vitally necessary to its patients and, in keeping with the goals of the HSFP, we 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 of our application. By doing so, we believe we contribute to the financial viability of the healthcare delivery system. Our service will be regionalized on Oahu, which will help optimize the use of services and equipment in a manner that closely matches the current and future dialysis needs of the people of Oahu."
3. The applicant states that "This application addressed all general principles of the SHCC. By maintaining an existing family of dialysis facilities, this application continues and supports the long-term viability of the healthcare system. We anticipate retaining the existing workforce and will provide ongoing training for them."

4. The applicant states that “As all of our facilities already exist and were approved by SHPDA in the past, all facilities continue to abide by the requirements of those CONs by maintaining access to care and appropriate quality assurance policies. Further, our services include health education, nutrition education and care education for patients and their families.”
5. The applicant states that “This application addressed the pertinent priorities of the Oahu SACs.
  - 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.
  - By continuing the operation of existing facilities, we maintain access to dialysis specialty care on Oahu.
  - 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, Kapiolani 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.”
6. The applicant states that “The need for these services is evidenced and established in the already approved Certificates of Need ("CONs") held by the FMC subsidiary (Bio-Medical or IRCP)...”
7. The applicant states that “Access to dialysis services in the current service areas will be maintained. The centers will continue to provide service for all of their current ESRD patients throughout Hawaii, who would die without dialysis or a successful kidney transplant. Charity care will continue to be provided to those who are otherwise unable to afford dialysis treatment.”
8. The applicant states that “The centers will continue to serve all Hawaii residents including low income persons, racial and ethnic minorities, women, persons with disabilities and other underserved groups, and the elderly. For FMC's patients, the change of ownership will be invisible as timely processing of this certificate of need application will result in seamless continuity of care and patients will continue to enjoy services from caregivers they have grown to know and trust.”

9. The applicant states that "The centers are and will continue to be Medicare certified. The divestiture of the centers to DSI Renal is not intended to alter the scope of services provided at the centers, nor do we anticipate any changes to the clinical staff and attending physicians, thereby ensuring the continuity and quality of care."
10. The applicant states that "DSI Renal's standards of patient care are established through its medical protocol guidelines developed and monitored by its Medical Advisory Board. These protocols are established using the best practices across DSI Renal's network of affiliated nephrologists."
11. The applicant states that "DSI Renal's Chief Medical Officer will be actively involved in the operations, from training and protocol development to purchasing and cost management opportunities. The substantial involvement of the Chief Medical Officer and Medical Advisory Board, which consists of prominent nephrologists, has been a significant factor in: (1) attracting new medical directors; and (2) maintaining strong relationships with existing attending physicians. DSI Renal's physician leadership also allows it to achieve physician consensus among the dialysis centers, which enhances the ability to achieve a high level of standardization among the clinics. Clinical outcomes will be measured using industry standards developed by the National Kidney Foundation and the ESRD Network."
12. The applicant projects the estimated revenue for the first and third years of operation to be \$61,043,150 and \$67,371,416.00, respectively, and projects the operating expenses for the first and third years of operation to be \$59,279.579 and \$65,776.247, respectively.
13. The applicant states that "The centers will continue to provide chronic outpatient dialysis services as they are currently provided by FMC. Because the centers will continue an existing service, with no anticipated change in scope of service or staffing, the sale of the centers is not expected to have any effect on patients or other providers. DSI Renal will collaborate with other providers, community groups and government organizations to ensure solid care for our mutual patients and health goals."
14. The applicant states that "The project will be financed by cash obtained from DSI's equity owners, which include Frazier Healthcare and New Enterprise Associates, Inc., both of whom have existing investments in multiple health care enterprises and providers. The cash to pay for the project is currently in escrow to be disbursed upon CON approval."
15. The applicant states that "Because this transaction is not intended to result in any anticipated change in the staff currently employed by the clinics, no additional employees will be required to continue serving the existing patient base."

Pursuant to Title 11, Chapter 186, HAR, the Agency has determined that:

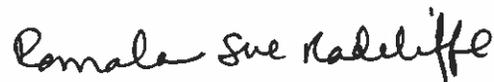
- (a) The proposal is eligible for administrative review as it meets the criterion in HAR 11-186-99.1(b)(6) "Any proposal which is determined by the agency not to have a significant impact on the health care system."
- (b) The applicant, Dialysis Newco, Inc. d.b.a. DSI Renal, has proven by a preponderance of the evidence that its proposal meets the Certificate of Need criteria in HAR 11-186-15.
- (c) There is no compelling public interest which will be served by requiring the application to go through the standard review process.

As required under Section 323D-43(b), Hawai'i Revised Statutes (HRS), the Agency finds that:

1. There is a public need for this proposal.
2. The cost of this proposal will not be unreasonable in light of the benefits it will provide and its impact on health care costs.

Accordingly, the State Health Planning and Development Agency hereby APPROVES and ISSUES a Certificate of Need to Dialysis Newco, Inc. d.b.a. DSI Renal for the proposal described in Certificate of Need application #12-07A. The maximum capital expenditure allowed under this approval is \$17,500,532.74.

Please be advised that pursuant to Section 323D-47, HRS and Section 11-186-99.1(g) HAR, any person may, for good cause shown, request in writing a public hearing for reconsideration of the Agency's decision within ten working days from the date of this decision. Accordingly, if no person makes such a timely request for reconsideration, this decision shall become final immediately after the deadline for making such a request has expired.



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Romala Sue Radcliffe  
Administrator