



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 06-24A

Applicant:

Liberty Dialysis-Hawaii, LLC
3820 East Mercer Way
Mercer Island, Washington 98040
808-585-4600

Project Title:

Relocation of four hemodialysis stations from Sullivan Dialysis (2230 Liliha Street, Honolulu, Hawaii) to 3638 Waialae Avenue, Honolulu, Hawaii, and the addition of eight new hemodialysis stations

Project Address:

3638 Waialae Avenue, Honolulu, Hawaii

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

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- 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: X
- 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 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 the 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
 Medicare Certification from the State of Hawaii, Department of Health

- 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
 - Tax Key Number (project's location) 3-3-008-011

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

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A. List All Project Costs:		'06 NOV -1 P 3 :49	AMOUNT:
1.	Land Acquisition	ST. HLTH. PLNG. & DEV. AGENCY	_____
2.	Construction Contract		<u>\$1,700,000</u>
3.	Fixed Equipment		<u>\$ 170,000</u>
4.	Movable Equipment		<u>\$ 250,000</u>
5.	Financing Costs		_____
6.	Fair Market Value of assets acquired by lease, rent, donation, etc. (site lease)		<u>\$1,003,200</u>
7.	Other: _____		_____
TOTAL PROJECT COST:			<u>\$3,123,200</u>

B. Source of Funds

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1.	Cash (retained earnings)		<u>\$2,120,000</u>
2.	State Appropriations		_____
3.	Other Grants		_____
4.	Fund Drive		_____
5.	Debt		_____
6.	Other: <u>(site lease)</u> _____		<u>\$1,003,200</u>
TOTAL SOURCE OF FUNDS:			<u>\$3,123,200</u>

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.

Relocation of 4 hemodialysis stations from the Sullivan Dialysis Center to 3638 Waiialae Avenue (the addition of a new location of an existing service) and addition of 8 new hemodialysis stations at the Waiialae Avenue location.

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: March 2006
- b) Dates by which other government approvals/permits will be applied for and received:
 - Submit: December 1, 2006
 - Received March 15, 2007
- c) Dates by which financing is assured for the project: June 2006
- d) Date construction will commence: April 1, 2007
- e) Length of construction period: 3 months
- f) Date of completion of the project: July 1, 2007
- g) Date of commencement of operation: August 1, 2007 (pending CMS survey visit)

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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.

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- 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 relocate 4 of its existing hemodialysis stations from their current location at the Sullivan Dialysis Center ("SDC") on the campus of St. Francis Hospital in Liliha ("St. Francis Liliha") to the site of the former Goodwill Store Building at 3638 Waialae Avenue, Honolulu, Hawaii, and establish 8 new hemodialysis stations at the Waialae Avenue location. 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 Hospitals system. SDC is one of three dialysis centers operated by LDH at St. Francis Liliha. SDC consists of 21 dialysis stations. The remaining two St. Francis Liliha dialysis centers, Siemsen Dialysis Center and the Renal Annex, consist of 48 stations and 5 stations, respectively. Historically, utilization of the SDC has been consistently low. Although it has risen somewhat in recent months, SDC's utilization still averages only about 30%. A table showing utilization at each of LDH's dialysis centers at St. Francis Liliha is included in Attachment 5.

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In order to encourage better utilization of its dialysis facilities and improve patient care, LDH seeks to relocate eight dialysis stations from SDC to Waialae Avenue in East Honolulu. In addition, LDH seeks to add 8 new hemodialysis stations at the Waialae Avenue location. Transfer of some of SDC's excess capacity to this site will provide LDH patients residing in East Oahu a shorter commute to their dialysis treatment. The additional capacity provided by the 8 new stations is needed to address the current shortage of outpatient dialysis stations on Oahu and to provide outpatient dialysis to wait-listed patients, many of whom are now being treated in inpatient hospital setting longer than is medically necessary because no outpatient dialysis facility can accept them for treatment.

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

The relocation of excess dialysis capacity from SDC to Waialae Avenue 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 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

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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 face challenges in coordinating transportation with family members, friends, the HandiVan and other sources of public transportation. Shortening their commute by providing dialysis centers closer to the 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.

Moreover, recent testimony submitted to SHPDA by Josephine G. Rejante, Manager, Queen's Medical Center ("QMC"), Case Management, Social Work and Nursing Home, and by June Williamson, Director of Case Management, Kapiolani Medical Center at Pali Momi ("Pali Momi"), indicated that both hospitals have experienced challenges in placing inpatients into outpatient hemodialysis slots, and that both facilities are waitlisting patients who are at a lower level of care than an acute care setting and are waiting for outpatient hemodialysis slots to become available. LDH, the new owner and operator of the dialysis facilities formerly operated by the St. Francis Medical Center, anticipates developing good working relationships with Oahu's other hospitals and looks forward to improving its centers' referral network with QMC and Pali Momi in order to find appropriate outpatient dialysis placements for all of the patients who are now wait-listed. The addition of new dialysis capacity will allow these patients to begin receiving outpatient treatment and move from acute hospital beds to nursing home or residential settings that are more appropriate for the patients' needs, thereby making hospital beds available for persons genuinely in need of acute care and reducing the overall cost of health care in Hawaii by insuring more appropriate utilization of hospital beds.

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The proposed relocation and addition of hemodialysis units 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, it will promote equitable, effective and efficient access to dialysis services. Second, the proposed facility will provide quality management 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 Hawaii's health care systems by facilitating outpatient treatment of ESRD and reallocate currently underutilized services at SDC to an area where those services will be better utilized by Honolulu's ESRD patients. By making treatment options more easily available in the community, the relocated facility will promote improved management of ESRD, slow deterioration of the health of 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 institutional care due to the lack of a sufficient number of outpatient treatment openings.

The proposed relocated 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 relocation 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 relocated and the additional new hemodialysis units will allow these people to maintain the maximum functioning, mobility and independence of which they are capable.

b) Need and Accessibility

In order to determine where the excess capacity from SDC could best be redistributed, LDH surveyed its existing patient base in order to identify areas with a substantial population of LDH patients. By analysis of patients' zip codes, LDH determined that, currently, 70 patients living in East Oahu were located more closely to the Waialae Avenue site than to their existing dialysis facility at St. Francis Liliha. The proposed relocation is expected to positively impact these 70 patients by reducing the transportation burden associated with obtaining dialysis treatment. The relocation is not expected to have negative impact on any of the patients who continue treatment at the St. Francis Liliha campus, because adequate capacity will be retained there to meet those patients' treatment needs.

Moreover, in its October 10, 2006, decision on certificate of need application 05-19A by Bio-Medical Applications of California, Inc. (the "October 2006 Decision"), the agency found that utilization of currently available dialysis facilities is as follows:

Fresenius Medical Care ("FMC") Honolulu – 87%
FMC Aloha – 65%
FMC Windward – 105%
FMS Kapolei – 114%
FMS Pearl Ridge – 101%
FMS Wahiawa – 73%
Liberty Dialysis Hawaii (at St. Francis Liliha campus) – 70%

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The H2P2 states that existing dialysis facilities should be operating at 80% utilization in order to establish new dialysis services. In the October 2006 Decision, SHPDA stated that, of the seven dialysis facilities now in the designated service area, three are operating near the H2P2 threshold level and four have utilization levels above the H2P2 threshold. Four facilities have utilization exceeding 100%. In addition, the agency determined that there are now 33 wait-listed patients on Oahu, who need, but cannot obtain, outpatient dialysis services due to the over-utilization of existing units. Hence, there is an unmet need for dialysis services on Oahu. Moreover, the need for dialysis services 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 proposed site is easily accessible by public transportation and offers ample parking.

While the proposed facility is targeted primarily at East Oahu residents, LDH currently provides, and will continue to provide, services for all residents 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

LDH provides the highest quality of dialysis services to its patients and is in full compliance with all federal and state regulations at all of the 12 dialysis centers currently operated by LDH in Hawaii. It will continue to provide the same high quality care to patients at the proposed new 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 6. 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 the 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 nurses and hemodialysis technicians must complete the LDH training program prior to assignment to patient care duties. All LDH patient care staff 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)

The total cost of the project is estimated at approximately \$3,123,200 which includes \$1,700,000 for site improvements, \$170,000 for fixed equipment, \$250,000 for movable equipment, and \$1,003,200 for acquisition of the site pursuant to a 66 month lease. The costs will be financed from retained earning and no debt financing will be used.

The operating revenue for the first year of operation is projected at \$2,090,240, and operating expenses for the same period are projected at \$1,890,554, resulting in an operating profit of \$199,686. By the third year of operation, revenue is expected to increase to \$2,587,124, with total expenses for year three projected at \$2,206,044, resulting in an operating profit of \$381,080.

e) Relationship to the existing health care system

Because this project will add new capacity, the need for which has already been established and re-deploy existing, unused capacity to a readily accessible East Oahu location where it will better serve LDH's existing patient population, no significant impact on the existing health care system is expected.

f) Availability of Resources

There are no financial obstacles to the project. All expenses will be paid from retained earnings, and there will be no debt financing.

LDH expects to assign staffing for the proposed facility from its current pool of employees. LDH 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. LDH has also 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

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recruitment of 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 150 patients
Social Worker:	1.0 FTE per 120 patients

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A total of six staff members will be employed at the proposed Waialae Avenue facility. A registered nurse will be on duty at all times that the facility is open and will be assisted by one or more patient care technicians as patient volume requires. Clerical support staff will be provided as needed.

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.