

HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

STANDARD APPLICATION - CERTIFICATE OF NEED PROGRAM

Application Number: _____ Date of Receipt: _____
To be assigned by Agency

APPLICANT PROFILE

Project Title: Establishment of Outpatient Chronic Renal Dialysis Facilities (2) at the (a) Kaiser Permanente Wailuku Clinic and the (b) Lahaina Gateway Plaza Shopping Center.

Project Address: (a) 80 Mahalani Street, Wailuku, HI and (b) 305 Keawe Street, Lahaina, HI

Applicant Facility/Organization: Rainbow Dialysis, LLC, a Delaware limited liability company - a wholly owned affiliate of Kaiser Foundation Health Plan, Inc.

Name of CEO or equivalent: Janet Liang

Title: Regional President, Kaiser Foundation Health Plan, Inc. - Hawaii Region

Address: 2828 Paa Street, Honolulu, HI 96819

Phone Number: (808) 432-5850 Fax Number: _____

Contact Person for this Application: Joan Danieley

Title: Vice President Health Plan Service and Administration, Hawaii Region

Address: 711 Kapiolani Blvd, Honolulu, HI 96813

Phone Number: (808) 432-5430 Fax Number: (808) 432-5495

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

Janet Liang
Name (please type or print)

Date

Regional President, Hawaii Region
Title (please type or print)

1. TYPE OR 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: _____

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: _____
- Maui County: X (a) Central Maui (Wailuku) and (b) West Maui (Lahaina)
- 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)
County webpage – Wailuku Clinic and Letter of Intent for Lahaina site–Attachments A,B
- 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.) **For both proposed facilities:**
Building Permits – County of Maui, Dept of Public Works Development Services Admin
Certificate of Occupancy – County of Maui, Dept of Public Works DSA
Fire Marshall's Approval – County of Maui, Fire Prevention Bureau
CMS Medicare Certification – State of Hawaii, Department of Health
- C. Your governing body: list by names, titles and address/phone numbers
Kaiser Foundation Health Plan, Inc – sole member – Attachment C
- D. If you have filed a Certification of Need Application this current calendar year, you may skip the four items listed below. All others, please provide the following:
 - Articles of Incorporation **Attachment D**
 - By-Laws **N/A**
 - Partnership Agreements **N/A**
 - Tax Key Number (project's location) **3-8-46:8(Wailuku)&4-5-11:8(Lahaina)**

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 ownership	Change in service/ establish new service/facility	Change in Beds
Inpatient Facility						
Outpatient Facility					X	

5. **TOTAL CAPITAL COST: \$1,657,706 (Wailuku) and \$851,646 (Lahaina) = \$2,509,352**

6. **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. **N/A**

Type of Bed	Current Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
TOTAL			

7. **CHANGE IN 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 consult 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.

Applicant is proposing establishing two new hemodialysis facilities on Maui described as follows: (a) an outpatient facility with ten (10) hemodialysis stations plus one (1) isolation station within Kaiser's Wailuku clinic developed in two phases commencing with 8 stations (plus the single isolation station) in Aug-2010 and adding the other 2 stations in Oct 2011, and (b) an outpatient dialysis facility with five (5) hemodialysis stations plus one (1) isolation station within a stand-alone clinic located within the Lahaina Gateway Plaza Shopping Center in Lahaina, West Maui.

8. PROJECT COSTS AND SOURCES OF FUNDS (For Capital Items Only)

A. List All Project Costs:

	Wailuku	AMOUNT:	
		Lahaina	Combined
1. Land Acquisition	_____	_____	
2. Construction Contract	<u>1,259,922</u>	<u>578,870</u>	<u>1,838,792</u>
3. Fixed Equipment	_____	_____	
4. Movable Equipment	<u>397,784</u>	<u>272,776</u>	<u>670,560</u>
5. Financing Costs	_____	_____	
6. Fair Market Value of assets acquired by lease, rent, donation, etc.	_____	<u>1,100,000</u>	<u>1,100,000</u>
7. Other: _____	_____	_____	
TOTAL PROJECT COST:	<u>1,657,706</u>	<u>1,951,646</u>	<u>3,609,352</u>

B. Source and Method of Estimation

Describe how the cost estimates in Item "A" were made, including information and methods used: Contractors' and Vendors' Estimates.

C. Source of Funds

	AMOUNT:
1. Cash	<u>2,509,352</u>
2. State Appropriations	_____
3. Other Grants	_____
4. Fund Drive	_____
5. Debt	_____
6. Other: FMV of Lahaina to be paid as lease payments	<u>1,100,000</u>
TOTAL SOURCE OF FUNDS:	<u>\$3,609,352</u>

9. 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, **N/A (Wailuku) and (b) January 2009 (Lahaina)**
- b) Dates by which other government approvals/permits will be applied for and received: **December 2008/January 2010 (Wailuku Phase 1); November 2009/February 2010 (Lahaina); December 2010/March 2011 (Wailuku Phase 2)**
- c) Dates by which financing is assured for the project, **September 2009 (Wailuku & Lahaina)**
- d) Date construction will commence, **February 2010 (Wailuku Phase 1); March 2010 (Lahaina); March 2011 (Wailuku Phase 2)**
- e) Length of construction period, **5 months (Wailuku – both phases & Lahaina)**
- f) Date of completion of the project, and : **July 2010 (Wailuku Phase 1); August 2010 (Lahaina); September 2011 (Wailuku Phase 2)**
- g) Date of commencement of operation. **August 2010 (Wailuku Phase 1); September 2010 (Lahaina); October 2011 (Wailuku Phase 2)**

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.

10. 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 location map for the proposed (a) Wailuku outpatient dialysis facility within the existing Kaiser Wailuku Clinic and (b) Lahaina outpatient dialysis facility at the Lahaina Gateway Plaza Shopping Center is attached as Attachment E.**

- 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

INSTRUCTIONS TO THE APPLICANT APPLICATION NARRATIVE

General Information

Please remember that the responsibility and burden of proof for justifying a proposed project or change rests with the applicant. The application must provide information that demonstrates that a proposal meets the certificate of need criteria established under Section 323D-43 (c), Hawai'i Revised Statutes, and the Certificate of Need rules Section 11-186-15.

To assure a comprehensive and timely review, please be sure that the application is complete before submitting it to SHPDA. By statute, SHPDA shall not accept, review, or act upon an application that does not contain complete information and supporting documentation. Falsifying of information shall be grounds for denial of an application.

Section 11-186-25 of the Hawai'i Administration Rules establishes a fee for each Certificate of Need application. The filing fee, paid in full, must accompany each application.

General Instructions

In addition to the summary forms, each applicant is required to submit a narrative presenting a detailed description and justification of the proposal. The narrative for an application for Standard Review consists of six (6) sections. These sections address the certificate of need criteria as follows:

1. Relationship to State Plan Criterion
2. Need/Accessibility Criteria
3. Quality Criteria
4. Cost and Financial Criteria
5. Relationship to the Existing Health Care System Criterion
6. Availability of Resources Criterion

To assist in completing the application, instructions for each section, and statement of related criteria from the certificate of need rules, appear on the appropriate pages of the application form that follows.

Executive Summary

Kaiser Foundation Health Plan, Inc. (Kaiser or Kaiser Permanente), through Rainbow Dialysis, LLC, its wholly-owned limited liability company, is submitting this certificate of need (CON) application to expand our renal care program to include the provision of outpatient dialysis services to end stage renal disease (ESRD) patients. Rainbow Dialysis services will be provided at two locations in Central and West Maui. Kaiser is requesting approval to establish a 10 hemodialysis station Rainbow Dialysis center plus one isolation station¹ within its existing clinic in Wailuku and to add a 5 hemodialysis station facility plus one isolation station in close proximity to Kaiser Permanente's existing clinic in Lahaina.

Kaiser Foundation Health Plan members prepay their medical care through monthly Health Plan premiums. Under this arrangement, Kaiser Permanente is obligated to provide needed services within a "fixed" budget, which serves as an incentive to manage costs. Kaiser Permanente strives to provide the right care at the right time at the right place to control costs and has effectively accomplished this through our integrated systems while continuing to provide high quality medical care. Our focus is on preventive care and through this we aim to help our communities thrive.

With responsibility for providing comprehensive health care to almost 40% of Maui's residents, Kaiser Permanente has long been committed to providing the Maui community improved access to high quality and cost-effective services. Kaiser's services are patient focused, prevention based and outcome oriented, and Kaiser's integrated service delivery model provides comprehensive services to ESRD patients who often have several medical complications to manage across multiple specialty providers. Kaiser has direct access to specialty providers and seeks to maximize the timeliness and completeness of patients' medical information relevant to patient care. The internalization of dialysis services within Kaiser's comprehensive and integrated health care system offers a great deal of promise in improving management of the complex conditions faced by ESRD patients, and these benefits are important for the growing yet isolated West Maui community.²

A second significant benefit associated with the internalization pertains to the lack of competition faced by Liberty Dialysis, the sole outpatient dialysis provider serving these communities today. In this environment, Maui has borne increasingly higher costs than Oahu since 2005, when St. Francis Healthcare operated Maui dialysis facilities. Liberty Dialysis pledged that they would control costs as the Sisters of St. Francis Healthcare had on Maui, but in effect the cost differences borne by the health system have grown increasingly inequitable across the Hawaiian Islands since Liberty assumed operations of the facilities at the end of 2005. The Rainbow Dialysis project will bring new competition to Maui as Kaiser will retain DaVita Inc to manage the dialysis facilities. The introduction of DaVita as a second strongly competitive dialysis service manager on Maui introduces an experienced and leading national provider of dialysis services and an industry leader in quality³ into the management of the Rainbow Dialysis centers on Maui.

Since Liberty assumed operation of the Maui facilities from St. Francis Healthcare, dialysis expenditures by Kaiser Permanente have increased 3.5 times on Maui, which has produced an average cost today that is 2.5 times what is paid on Oahu; this has clearly resulted in costs to the health system and community that are not sustainable. As Kaiser internalizes dialysis services, it can realize over \$4.5 million dollars in cost savings in the first full year of operations. In addition, improved management of chronic conditions associated with the internalization of dialysis services also work to reduce hospitalization rates in ESRD patients which will improve patient outcomes and also lower health care costs.

The organization of Rainbow Dialysis is unique. Kaiser will purchase dialysis services from Rainbow Dialysis and the centers will be managed by DaVita. Since Rainbow Dialysis is a newly created entity, it will not experience savings but will be providing services to Kaiser. Since Kaiser is currently purchasing dialysis services from Liberty and will change to purchasing services from Rainbow Dialysis, it will be Kaiser that will incur savings from the change. As a not-for-profit entity, Kaiser uses savings and efficiencies gleaned from projects such as this to support its mission. The savings from this project equates to about one-half a

¹ Both facilities will comply with the Feb 2009 CMS regulation regarding the provision of an additional isolation station. See Attachment F for information.

² West Maui is 30 miles distant from the island's commercial and political center.

³ DaVita®, a FORTUNE500® company, is a leading provider of kidney care services in the United States with strong quality rankings. DaVita provides dialysis services to more than 114,000 patients in over 1,475 facilities across the country and has partnered with many prestigious institutions such as UCLA, and USC Medical Centers, Emory University Hospital and Johns Hopkins. See Attachment G for additional information on DaVita.

percentage point reduction in premium and will help keep premiums down, improve patient care infrastructure, improve service to members and advance its mission.

Since the savings generated will support the mission, it is important to note that Kaiser serves 42% of Maui's QUEST patients. The savings realized through approval of this CON will allow Kaiser to maintain service levels for QUEST members and will allow them to continue to receive services that are more robust than those that are covered by QUEST alone. Moreover, Kaiser is a contributor to the Maui Food Bank/Maui Farm Bureau, the Maui United Way, Special Olympics of Maui, Maui Economic Concerns of the Community (MECC), Hospice of Maui, Imua Family Services, Maui YMCA, Community Clinic of Maui, and others, contributing over \$60,000 year-to-date to these important community agencies. In fact, Kaiser Foundation Health Plan is committed to returning three percent of its revenue to the community through its community benefit program. The efficiencies developed through the approval of the CON will allow Kaiser to continue to provide quality care at a reasonable premium price and will allow Kaiser to continue to support the Maui community through its community benefit program and through contributions like those noted above.

Approval of the CON will also advance Kaiser's role as a partner with the Maui community through many "in kind" avenues. Kaiser provides an extensive schedule of education programs on Maui to members and nonmembers alike. Kaiser also donates medical equipment for the Community Clinic of Maui, staffs the Maui Marathon, participates in nursing students' clinical rotations, provides a venue for radiology technician clinical rotations, allows the homeless shelter to staff the clinic's parking lot during the county fair to generate funds, provides physician hospital care for Maui Memorial Medical Center, and provides many other services to the Maui community. As a not-for-profit entity, savings gained by the approval of this CON will flow back to the community through these many, and varied, streams of community partnership.

Relation to State Plan Criterion

1. Capacity Thresholds

This application meets the State Health Services and Facilities Plan (HSFP) capacity threshold for a new chronic renal dialysis service. The first utilization threshold is met by the existing utilization of the two facilities operated by Liberty Dialysis - Hawaii ("Liberty") according to the February 2009 patient census reported by Liberty.⁴ The Liberty dialysis facility in Wailuku was approved in 2004 for a total capacity of 48 stations, and Liberty also operates a dialysis facility in Kahana with an approved capacity of 7 stations. The minimum annual utilization of the stations in both facilities was exceeded in the patient census reported by Liberty as noted in Table 1.⁵

Table 1: Existing Demand, Capacity and Utilization of Maui Dialysis Facilities

	Stations	Wailuku	Kahana
Wailuku Patient Census		182	188
West Maui Patient Census		36	37
Wailuku Annual Treatment Demand	48	28,392	29,328
West Maui Annual Treatment Demand	7	5,616	5,772
Annual Utilization per Station			
Wailuku Annual Utilization per Station		592	611
West Maui Annual Utilization per Station		802	825
Annual Utilization Threshold Target		600	600

The minimum annual utilization for each existing Liberty dialysis station must be at least 600 annual dialysis treatments, and the current annual utilization rate per station is obtained when you divide the total annual treatment demand by the number of stations. Utilization rates of 611 annual treatments per station in Wailuku and 825 annual treatments per station in Kahana both exceed the 600 annual treatments per station threshold at the existing Liberty Dialysis facilities on Maui when estimated from the February 2009 patient census levels.

Although the HSFP utilization thresholds are clearly met in this proposal, sub-optimization of existing facilities in some service areas is permitted pursuant to the HSFP under certain circumstances, which are clearly present

⁴ In a letter dated February 12, 2009 to SHPPA Administrator Ron Terry, Liberty's attorney stated at page 3 that Liberty's Wailuku facility had 180 dialysis patients and its Kahana clinic had 37 dialysis patients at that time. A copy of the February 12, 2009 letter is attached as Attachment H.

⁵ In Kahana, 37 patients generate an estimated annual treatment demand of 5,772 treatments (37 patient census X 3 treatments weekly X 52 weeks). Similarly, the 188 patient census generates an estimated demand for 29,328 treatments in Wailuku.

in the instant case. The benefits provided by this proposal, given the significant reduction in the costs for dialysis services and improved access to the comprehensive and integrated renal care program where patients' health can be more closely monitored, clearly outweigh the community cost of under-utilizing the full capacity authorized for Liberty's Maui facilities, especially for its Wailuku clinic where it appears that 16 of the 48 stations may not be currently used or operational.⁶

This application meets the second utilization threshold of the HSFP. Both Rainbow facilities are projected to reach the minimum utilization threshold of 600 treatments per station by the third full year of operation as shown in Table 2 below. The projected utilization for the two Rainbow Dialysis facilities was based on the anticipated start date for each facility as well as the number of stations at each – August 2010 for Wailuku Phase 1 (8 stations), October 2011 for Wailuku Phase II (10 stations), and September 2010 for Lahaina.

Table 2: Projected Patient Census and Capacity Utilization at Rainbow Dialysis Facilities

	Stations	Start (2010)	2010	2011	2012
Rainbow Wailuku Patients		45	47	50	53
Rainbow Lahaina Patients		23	25	26	28
Rainbow Wailuku Min. Capacity	8/10	2,000 treatments (600x8sta x3/52x21.7wks)	5,100 (to 10 station)	6,000 (10 stations)	6,000 (10 stations)
Rainbow Lahaina Min. Capacity	5	750 treatments (600x5sta x3/52 x17.3wks)	3,000 (5 stations)	3,000 (5 stations)	3,000 (5 stations)
Wailuku Utilization		4,050 treatments	7,332	7,800	8,268
Lahaina Utilization		1,794 treatments	3,900	4,056	4,368
Wailuku Utilization per station			737	779	823
Lahaina Utilization per station			780	818	864
Utilization Threshold (per station)			600	600	600

2. Statewide and Regional Priorities

Kaiser's proposal to internalize dialysis services through the Rainbow Wailuku and Lahaina facilities addresses a number of statewide and regional priorities and principles of the HSFP. Health education, promotion and prevention initiatives are at the core of Kaiser's integrated health care system and philosophy, and this project will be no different. Kaiser is continually striving for better management of, and improved outcomes for, patients with chronic conditions such as chronic kidney disease. Allowing Kaiser to integrate dialysis services will allow its physicians to better manage kidney disease through systematic and informed use of electronic medical record information and technology as well as care coordination uniquely available through Kaiser's integrated system. Vertical integration allows for greater coordination with the multiple Kaiser specialists required to manage ESRD patient care and it also allows for the sharing of information that isn't possible with a more segregated primary and specialty care provider system.

Integrated and systematic disease management across providers through Kaiser's comprehensive electronic medical record system allows for chronic kidney disease patients to be closely monitored and managed to delay and avoid progression to kidney failure. Increased monitoring by specialist physicians through electronic health information positively impacted care coordination and improved the timeliness of intervention for patients at-risk of ESRD amongst Kaiser Hawaii chronic kidney disease patients over the last five years.

Patients who consult with a nephrologist well before the onset of kidney failure are less likely to be hospitalized and more likely to transition to dialysis successfully as an outpatient⁷. Earlier intervention also allows for

⁶ See Attachments J and K for affidavits from Dr. Alan Lau and Dr. Susana Medoza on observed facility utilization levels during site visits at the Liberty Dialysis Wailuku clinic as of April/May 2009.

⁷ Lee, Brian J. and Ken Forbes, "The Role of Specialists in Managing the Health of Populations with Chronic Illness: the example of Chronic Kidney Disease", BMJ 2009; 339:b2395. The article is contained in Attachment O.

In the project, Kaiser Nephrologists reviewed the electronic health records of more than 10,000 kidney patients who were not yet referred to a specialist by their risk for kidney failure. They monitored the patients by their risk of kidney failure to ensure the members were getting care in line with evidence-based treatment recommendations and pro-actively consulted with primary care doctors to help manage patients at risk for ESRD. The study showed that increased monitoring resulted in increased early intervention for high-risk patients and reduced the number of late referrals to nephrologists by two-thirds.

increased usage of fistulas and an informed selection of dialysis modalities. Studies have shown that practices such as increased monitoring, enhanced disease management, continuing quality improvements and timely intervention can result in better outcomes and decreased hospitalizations for ESRD patients⁸. ESRD patients typically require management by multiple specialists for which more complete and accessible electronic medical information can be beneficial in care management. In addition, significant cost savings to the health care system can be realized where these integrated practices result in lower hospital utilization for communities where both incidence and prevalence of the disease is high.

In addition, access to kidney disease education and patient awareness will also be provided through both Kaiser and DaVita and coordinated within the clinics. Our goal is to advance preventive education and better disease management for those with chronic conditions to both Kaiser members and across the community. A host of DaVita programs, resources and initiatives aimed at kidney care, education and disease prevention will be made available to the community. To list a few examples, DaVita KEY Connections is a national program for kidney education that will be available to the community. DaVita's website, www.davita.com, is the premier online resource for information on dialysis and chronic kidney disease. DaVita Patient Citizens is dedicated to improving the quality of life for people with chronic kidney disease and those on dialysis. In October 2008, DaVita launched a vaccination-awareness campaign in every DaVita hemodialysis facility nationwide to educate patients about the benefits of immunization. In this program, over 90,000 patients in more than 1400 dialysis facilities received vaccination education. The percentage of patients receiving seasonal influenza vaccination rose to 88.6% by the end of the 2008 influenza season, which is more than 20% higher than the 2008 national average.

Need and Accessibility Criteria

As shown in the prior section, there is a need for new chronic renal dialysis services in the area as both Liberty Dialysis facilities are currently operating above the HSFP capacity threshold.

The area-wide demand for dialysis services will continue to grow over time as the ESRD population on Maui continues to grow, and the annual growth rate for ESRD on Maui has been 5.7% over the last five years⁹. Using these recent growth trends, the projected demand for dialysis stations in the service areas are shown in Table 3 below. The ten additional stations proposed for the Rainbow Dialysis Wailuku facility, when aggregated with existing Liberty capacity, will meet the minimum capacity threshold in 2012, and the five additional stations proposed for the Rainbow Dialysis Lahaina facility, when combined with Liberty capacity in Kahana, reach the combined minimum capacity threshold by 2013, also within three years of the capacity expansion in the community.

Table 3: Area-wide Demand, Capacity and Utilization in Central and West Maui

	2008	2009	2010	2011	2012	2013
Central Maui (Wailuku) Patient Census	182	192	203	215	227	239
No. of Treatments ⁽¹⁾	28,392	29,935	31,632	33,484	35,336	37,342
Stations Needed ⁽²⁾	47	50	53	56	59	62
Number of Stations ⁽³⁾	48	48	56	58	58	58
West Maui (Kahana/Lahaina) Patient Census	36	38	40	42	44	47
Treatments	5,616	5,928	6,240	6,552	6,864	7,332
Stations Needed	9	10	10	11	11	12
Number of Stations	7	7	12	12	12	12

⁸ Hospital Utilization among Chronic Dialysis Patients, J Am Soc Nephrol 11:740-746, 2000. It is interesting to note that this study found that the total cost of ESRD care nearly tripled between 1992 and 2000, \$7.2 billion vs. an estimated \$20 billion was driven in large part by increases in hospital utilization.

⁹ There is a current 5.7% annual growth rate in Maui County ESRD patient census between 12/31/2003-6/30/2008. This is calculated from the Maui ESRD patient census reported through Network 17

Given current highway access and the relative locations of established and growing development areas on Maui, Wailuku and Lahaina are the population centers on the island that minimize patient travel times for a two-center service delivery model as well as maximize patient access to existing clinics. Maui residents with ESRD need regular dialysis treatment or a kidney transplant to survive. With responsibility for providing quality and affordable health care to almost 40% of Maui's residents, Kaiser's proposal to internalize dialysis within its integrated health care delivery system will enhance access for a large part of the island's community. Although the proposed facilities are intended primarily for Kaiser members, non-members residing or visiting the service area, including the elderly, low income persons, racial and ethnic minorities, women, persons with disabilities, and other underserved groups, will have access to these services on an as-available basis.

Quality Criteria

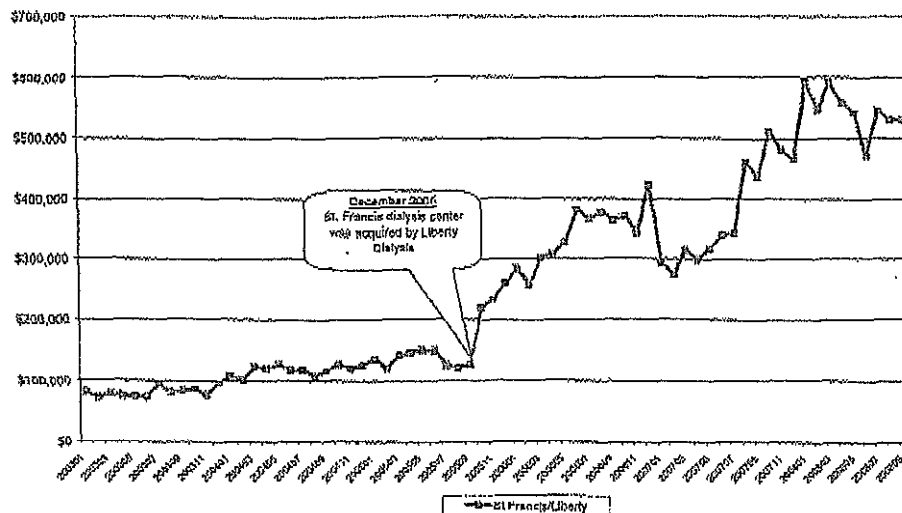
ESRD patients will receive high quality dialysis services delivered by two leading healthcare providers Kaiser and DaVita. Kaiser has chosen DaVita, a national organization, to be an integral part of a comprehensive renal care program with the goals of improving quality of care and services, treatment modality choice, physician access, and clinical outcomes at a reasonable cost. DaVita, a recognized leader within the dialysis community provides patient centric programs, life-style/nutrition education, and compassionate care, proven quality treatments and continues to set benchmarks for high quality clinical outcomes.

Quality Assurance Programs, Disease Management Programs, and accreditation by The Joint Commission and the National Committee for Quality Assurance ensures that high quality, cost effective care is being provided in accordance with approved guidelines. Both organizations emphasize use of a (CQI) Continuous Quality Improvement programs, impacting daily care management at Kaiser Clinics. Uncompromising quality goals utilized by both organizations are not only to ensure the appropriate structure and process of care, but to improve outcomes on an ongoing, continuous basis. Further, the Department of Health surveys dialysis centers to ensure compliance with federal and state laws and are Medicare-CMS certified.

Cost and Financial Criteria

This proposal would also provide a cost-effective alternative to the sole dialysis provider on Maui, whose costs continue to rise due to the lack of competition; which in turn undermines Kaiser's ability to keep insurance premiums reasonable for participating Maui residents and employers. This proposal promotes the long-term viability of the health care system by allowing Kaiser to control the current inflationary costs of dialysis services on Maui. Today, the only dialysis provider on Maui is Liberty, and in the three and one half years since Liberty acquired its Maui dialysis facilities from St. Francis Healthcare, Kaiser's costs for dialysis services for Maui members are 3.5 times the total spending in 2005, as illustrated in Chart 1. The continual above average increases have produced an inequitable spending level on Maui; Kaiser currently spends 2.5 times more on average for dialysis treatments for its Maui patients than it does for its Oahu patients.

Chart 1: Monthly Maui Dialysis Spending by Kaiser Permanente (2003-2008)



Relationship to the Existing Health Care System Criterion

When Kaiser Permanente opens Rainbow Dialysis facilities in the second half of 2010 in Wailuku and Lahaina, it expects the total annual costs to decline by over \$4.5 million dollars in the first full year of operations, allowing Kaiser Permanente to minimize future premium increases, expand services and benefits, and invest in medical facilities and technology. Loss of the anticipated cost savings would cause Kaiser Permanente to reduce these investments or raise premiums to cover the shortfall.

For a number of reasons, we anticipate Liberty's profitable operations will continue when Rainbow facilities are opened in the second half of 2010. First, Liberty has already demonstrated that it does not need to operate at high utilization levels in Maui to operate profitably.¹⁰ At the Wailuku and Kahana facilities combined, Kaiser patients represented only 25% and 24% of Liberty's Maui in-center hemodialysis patient census as of 12/31/2007 and 12/31/2008, respectively. Given the projected annual growth rate for new ESRD patients on Maui, the loss of Kaiser patients will quickly be replaced in four years based on the annual growth in ESRD patient census on the island, and Liberty's Maui facilities should be operating at their 2009 utilization levels in aggregate by 2013¹¹. Liberty's 2007 financials show it was making sizable profits in 2007 across Hawaii with the Maui facilities at utilization levels close to what would be experienced if this CON were approved. There is no convincing case for irreparable harm to Liberty Dialysis associated with Kaiser's program to internalize member's dialysis treatments.

This project's construction costs of \$2.5M will be financed with cash from retained earnings of Rainbow Dialysis' parent company, Kaiser Foundation Health Plan, Inc. No new debt will be required for the proposed project.

Availability of Resources Criterion

The combined patient care staff needed at the Wailuku and Lahaina facilities is a total of 15 full-time employees, as described more fully below:

Security Guard	0.50 FTE
RN	4.00 FTE
Patient Care	5.83 FTE
Reuse	0.58 FTE
Facility Administrator	1.20 FTE

¹⁰ In financial statements previously filed with SHPDA, Liberty reported approximately \$2.2 million in net income for the year ended December 31, 2007, while the Liberty Wailuku facility was operating at less than 600 treatments per station utilization.

¹¹ Patient census doubles every 12.5 years based on the 5.7% annual growth rate in Maui County ESRD patient census.

Admin Assistant	1.05 FTE
Dietician	0.70 FTE
Social Worker	0.70 FTE
Biomed	0.43 FTE
Total	14.99 FTE

Both Kaiser and DaVita have significant human resources to hire or train from within to staff the Rainbow Dialysis facilities. The staffing needs for these projects will be met through:

- Maui Community College has a nursing degree program that graduated 61 nurses and 70 LPNs in 2008, and is expected to graduate 50 nurses in 2009.
- Kaiser Permanente is an existing provider in the community with a pool of nurses, including 42 full-time registered nurses on Maui, and 781 full-time registered nurses in the State of Hawaii. Three of the Kaiser registered nurses on Maui are already dialysis trained.
- DaVita has a training program for dialysis nurses involving 400 hours of training over a three (3) month period.
- DaVita has a well-established national corporate recruitment program, if required, but the desire in these tough economic times is to recruit and train nurses on Maui.

Kaiser Permanente requests approval of this application because it meets all of the CON criteria as summarized above and as more fully described in the body of the CON. Allowing us to internalize a medical service such as dialysis is in line with our philosophy, our history and our integrated health care delivery system. We offer an all-encompassing continuum of care that can improve lives and outcomes in our patient-friendly setting for our ESRD patient-members. Failure to control the cost of such services undermines Kaiser's ability to keep coverage affordable and premiums reasonable for participating Maui residents and employers. Approval of this CON will have a community-wide benefit by reducing the average cost of dialysis services on Maui through the introduction of competition, and by introducing a level of coordinated care for patients with kidney disease that can improve disease management and outcomes. The Maui community is better served when two providers can compete in care delivery.

NOTE: Throughout this application, Kaiser Permanente will generally reference the two dialysis facilities it proposes to add at its existing Wailuku clinic and in close proximity to its Lahaina clinic as a combined operation except where the criteria requires a separate analysis or where distinguishing the two would be deemed more appropriate under the specific circumstances or subject matter.