

STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

NEIL ABERCROMBIE
GOVERNOR OF HAWAII

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June 25, 2014

CERTIFIED MAIL, RETURN RECEIPT REQUESTED

Craig Goguen
Chief Executive Officer
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 #14-01A from Dialysis Newco, Inc. d/b/a DSI Renal (the "applicant") for the establishment of Chronic Renal Dialysis services at 889 Kamokila Boulevard, Kapolei, HI, at a capital cost of \$5,724,090 (the "Proposal").

1. Pursuant to Title 11, Chapter 186 of the Hawaii Administrative Rules (HAR), the Agency has determined that the Proposal is eligible for administrative review as it meets the criterion in Subsection 11-186-99.1(b) (5), HAR, i.e.: "An additional location of an existing service or facility."
2. The applicant states that "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."
3. The applicant states that "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."
4. The applicant states that "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."
5. The applicant states that "All DSI nurses are licensed in Hawaii and all patient care technicians are nationally certified as required by CMS."

6. The applicant states that “DSI maintains a robust education department which offers continual educational and training opportunities for employees.”
7. In written testimony dated May 13, 2014, Paula Yoshioka, Senior Vice President of Corporate Development at The Queen’s Health Systems, states:

“According to the 2010 U.S. Census, West Oahu is the fastest growing region on the island and is home to 356,000 (42%) of Oahu’s residents... By 2030, it is expected to grow to 50% of Oahu’s population with over 600,000 residents... The West Oahu region is home to the largest concentration of Native Hawaiians in the State. According to the State of Hawaii Department of Health, Native Hawaiians have the poorest health status and lowest life expectancy among Hawaii’s major ethnic groups. Also, according to the State of Hawaii Department of Health’s Behavioral Risk Factor Surveillance System (BRFSS), Native Hawaiians had the highest incidence of diabetes among Hawaii’s major ethnic groups in 2010, followed closely by Filipinos. Many patients with diabetes can deteriorate to kidney failure, thereby requiring hemodialysis (HD). As an inpatient hospital, The Queen’s Medical Center (QMC) experiences delays in discharge processing, especially for new patients, for dialysis treatment in a clinic. The most prominent cause for this delay is that existing facilities are filled to capacity, unable to accommodate new referrals. At QMC, there is an average of four to six new hemodialysis patients per week that need to find placement in an outpatient facility. A patient remains hospitalized until outpatient services are secured, unnecessarily utilizing critical bed space and adding to the overall cost of healthcare... Given the severe shortage of facilities and services, the location of the proposed project is very positive in its accessibility to provide services that it will provide to that community.”
8. Chapter 2 of The State of Hawaii Health Services and Facilities Plan (the “HSFP”) states that “Capacity (utilization) thresholds for certain standard categories of health care services are established to guide the initial determination of need for a service area.”
9. The HSFP provides that the capacity threshold for Chronic Renal Dialysis services is as follows:

“For a new unit/service, the minimum annual utilization for each provider in the service area is 600 treatments per unit, and the utilization of the new unit/service is projected to meet the minimum utilization rate by the third year of operation.”
10. The HSFP further provides that:

“It is recognized that some service areas may not meet the required threshold for a health care service. Sub-optimum utilization may be proposed if the benefits clearly outweigh the costs to the community of duplicate or under-utilized services, facilities, or technologies. Benefits are defined as the form of improved access for the service area(s) population combined with significant improvement in quality and/or significant reduction in cost to the public. In addition, beyond regional factors, thresholds may be modified to:

 - Incorporate current and best clinical practices;
 - Allow for the cost-effective transition and capital investment in moving traditional inpatient services to outpatient modalities;
 - Allow for the cost-effective introduction of modern technology to replace existing technology;
 - Address the documented needs of an actual population rather than on statistical generalizations;
 - Create opportunities for cost reduction through competition, without sacrificing quality or cost-effectiveness of care; and
 - Encourage innovation in improving health care services that contribute to enhancing a community’s health status.”

11. The applicant states that DSI's existing Kapolei facility (555 Farrington Highway, Kapolei), DSI's Pearlridge facility (98-1005 Moanalua Road, Aiea), Liberty Dialysis' Leeward facility (91-2137 Fort Weaver Road, Ewa Beach,), Liberty Dialysis' Waianae facility (86-080 Farrington Highway, Waianae) and Liberty Dialysis' Waipahu facility (94-450 Mokuola Street, Waipahu) are providing treatments in excess of the utilization threshold established by the HSFP.
12. Liberty Dialysis' Mililani facility, proposed to be located at TMK No. (1) 9-5-049-085 (space adjacent to 95-1091 Aina Makua Drive, in Mililani) and Liberty Dialysis' Salt Lake facility, proposed to be located at 4380 Lawehana Street, Suites #101-111, in Honolulu, are not yet treating patients and therefore have no utilization for the purposes of the utilization threshold established by the HSFP.
13. The applicant states that its Waipahu facility (94-862 Kahuailani Street, Waipahu) has a current patient census of 43 patients and projects that it will have seventy-three (73) patients dialyzing by the end of 2014 and utilization of 600 treatments per station per year by the end of 2015.
14. The applicant states that "...SHPDA has recognized that sub-optimum utilization... 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."
15. The applicant states "The proposed patient target group for the Application primarily resides in west Oahu. Thirty percent (30%) of DSI Kapolei's current patient census resides in the Kapolei 96707 zip code; twenty-four percent (24%) resides in the Ewa Beach 96706 zip code, and thirty-three percent (33%) resides in the Waianae 96792 zip code. DSI projects that the additional facility proposed in the Application will draw a similar percentage of its patients from these areas."
16. With respect to the travel times for the applicant's proposed patient target group to and from the Liberty Dialysis facilities proposed for Mililani and Salt Lake, the applicant states "Very few dialysis patients drive themselves to treatment, but rather rely either on household members and friends for rides or utilize a transportation service like Handivan. Approximately forty percent (40%) of the patients currently dialyzing at DSI Kapolei utilize Handivan or similar transportation services. Based on information obtained from Handivan, it would require from nine (9) to ten (10) hours a day, three (3) days a week, for a patient residing in Kapolei and dialyzing in either Mililani or Salt Lake, depending on their shift."
17. The applicant states that "Studies have shown that after only fifteen (15) minutes of travel time, morbidity and mortality rates increase, and health related quality of life and treatment adherence decrease. One such study reported in the American Journal of Kidney Disease in 2008 used a sample of twenty thousand nine hundred ninety four (20,994) hemodialysis patients from the Dialysis Outcomes and Practices Patterns Study ("DOPPS")."

18. The applicant states that "After adjustment for the factors listed in Table 1 of the DOPPS study, patients traveling more than sixty (60) minutes to their dialysis treatment had a twenty percent (20%) greater risk of death compared with those traveling fifteen (15) minutes or less. The patient care issues associated with patients living in Kapolei having to travel to Salt Lake or Mililani to receive their dialysis treatment are significantly negative in the areas of HR-QOL (Health Related Quality of Life) and patient mortality."
19. With respect to the travel times for the applicant's proposed patient target group to and from DSI's Waipahu facility, the applicant states "A patient in Kapolei who had to travel to Waipahu to receive dialysis treatment would have a travel time of well-over the fifteen (15) minute travel time associated with optimum patient care in the DOPPS study, even if they were able to drive themselves to treatment. Utilizing a transportation service such as Handivan for travel between Kapolei and Waipahu would involve less travel time than would be involved for travel to Mililani or Salt Lake, but the total travel time would still be significant. Handivan's first scheduled pick-up is not until 6:00 a.m., so a 1st shift treatment in Waipahu would not be possible. Because it is a ride-share service and given traffic congestion, Handivan estimates a one (1) hour travel time between Kapolei and Waipahu. Although Handivan does have pick-up times on the hour, in order to arrive at the clinic in time for a 2nd shift treatment (11:00 a.m.) or 3rd shift treatment (4:00 p.m.), the patient would likely need to be picked up at 9:00 a.m. or 2:00 p.m., respectively. Those patients would return home at approximately 5:00 p.m. or 10:00 p.m., respectively, an eight (8) hour day for each treatment, three (3) days a week."
20. The applicant states that "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."
21. In her written testimony dated May 13, 2014, Ms. Yoshioka, states that "The proposed project will have a positive impact on the State's existing healthcare system because it will help fill the gap between the current availability of hemodialysis services and the increasing need for more services. As QHS anticipates the opening of The Queen's Medical Center-West O'ahu in 2014, this proposed project will also have a positive impact to the capacity to discharge patients from that hospital facility as well."
22. The applicant states that "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."
23. The applicant projects that for the first full year of operations, revenue will be \$779,628 and net income will be (\$673,815). The applicant projects that for the third full year of operations, revenue will be \$5,033,417 and net income will be \$1,095,734.

24. The applicant states that "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."
25. The applicant states that "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."
26. The applicant states that "...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."

Conclusions and Order

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

- (a) The Proposal is eligible for administrative review as it meets one or more of the criteria in HAR 11-186-99.1(b).
- (b) The applicant, Dialysis Newco, Inc. d/b/a DSI Renal, has proven by a preponderance of the evidence that the Proposal meets the Certificate of Need criteria in HAR 11-186-15 (a).
- (c) There is no compelling public interest which will be served by requiring the application to go through the standard review process.

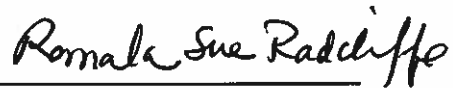
As required under Subsection 323D-43(b), HRS, the Agency finds that:

1. There is a public need for the Proposal.
2. The cost of the 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 the and ISSUES a Certificate of Need to Dialysis Newco, Inc. d/b/a DSI Renal for the Proposal described in Certificate of Need Application #14-01A. The maximum capital expenditure allowed under this approval is \$5,724,090.

#14-01A, Administrative Review Decision
June 25, 2014
Page 6

Please be advised that pursuant to Section 323D-47, HRS, 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.



Romala Sue Radcliffe
Administrator