



ORIGINAL

**ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM**

Application Number: #15-15A Date of Receipt:  
To be assigned by Agency

**APPLICANT PROFILE**

Project Title: Acquisition of Dialysis Holdco, LLC

Project Address: 1520 Liliha Street, Honolulu, Hawai'i 96817  
226 N. Kuakini Street, Honolulu, Hawai'i 96817  
750 Palani Avenue, Honolulu, Hawai'i 96816  
555 Farrington Highway, Kapolei, Hawai'i 96707  
47-388 Hui Iwa Street, Kaneohe, Hawai'i 96744  
98-1005 Moanalua Road, Aiea, Hawai'i 96701  
850 Kilani Avenue, Wahiawa, Hawai'i 96786  
94-862 Kahuailani Street, Waipahu, Hawai'i 96797  
45-480 Kaneohe Bay Drive, Kaneohe, Hawai'i 96744  
1908 S. Beretania Street, Honolulu, Hawai'i 96826  
889 Kamokila Boulevard, Kapolei, Hawai'i 96707

Applicant Facility/Organization: US Renal Care, Inc.

Name of CEO or equivalent: J. Christopher Brengard

Title: Chief Executive Officer

Address: 2400 Dallas Parkway, Suite 350, Plano, Texas 75093

Phone Number: 214-736-2700 Fax Number: 214-736-2701

Contact Person for this Application: Thomas L. Weinberg

Title: Executive Vice President, General Counsel

Address: 2400 Dallas Parkway, Suite 350, Plano, Texas 75093

Phone Number: 214-736-2700 Fax Number: 214-736-2701

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

8/31/2015  
\_\_\_\_\_  
Date

Thomas L. Weinberg  
\_\_\_\_\_  
Name (please type or print)

Executive Vice President, General Counsel  
\_\_\_\_\_  
Title (please type or print)

**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:  X   
Honolulu: \_\_\_\_\_  
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)

Attachment 1 is an Abstract of the Contribution Agreement by and between Ranger Renal Holdings LP and Dialysis Parent, LLC dated August 21, 2015

**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.)

Hart-Scott-Rodino filing with the Federal Trade Commission and the Anti-trust Division of the United States Department of Justice

**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
- By-Laws: See Attachment 4

- Partnership Agreements: Not Applicable
- Tax Key Number (project's location): See Below

DSI PearlrIDGE Dialysis, 98-1005 Moanalua Road, Suite 420, Aiea, Hawai'i 96701 – TMK No. 1-9-08-016-049

DSI Aloha Dialysis, 1520 Liliha Street, Honolulu, Hawai'i 96817 - TMK No. 1-1-7-033-005

DSI Kapahulu Dialysis, 750 Palani Avenue, Honolulu, Hawai'i 96816 – TMK No. 1-2-7-034-022

DSI Honolulu Dialysis, 226 North Kuakini Street, 2<sup>nd</sup> Floor, Honolulu, Hawai'i 96817 – TMK No. 1-1-7-014-042

DSI Windard Dialysis, 45-480 Kaneohe Bay Drive, #D09, Kaneohe, Hawai'i 96744 – TMK No. 1-4-5-060-061

DSI Ko'oalu Dialysis, 47-388 Hui Iwa Street, Kaneohe, Hawai'i 96744 – TMK No. 1-4-7-004-025

DSI Kapolei Dialysis, 555 Farrington Highway, Kapolei, Hawai'i 96707 – TMK No. 1-9-106-002

DSI Wahiawa Dialysis, 850 Kilani Avenue, Wahiawa, Hawai'i 96786 – TMK No. 1-7-4-005-001

DSI Waipahu Dialysis, 94-862 Kahuailani Street, Waipahu, Hawai'i 96797 – TMK No. 1-9-4-013-004

DSI West Oahu Dialysis, 889 Kamokila Boulevard, Kapolei, Hawai'i 96707 – TMK No. 1-9-1-88-023

DSI Beretania Dialysis, 1908 South Beretania Street, Honolulu, Hawai'i 96826 – TMK No. 1-2-8-10-0007

**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 of Ownership	Change in Beds
Inpatient Facility					
Outpatient Facility				X	
Private Practice					

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
<b>TOTAL</b>			

**6. PROJECT COSTS AND SOURCES OF FUNDS**

<b>A. List All Project Costs:</b>	<b>AMOUNT:</b>
1. Land Acquisition	_____
2. Construction Contract	_____
3. Fixed Equipment	<u>\$7,636,299</u>
4. Movable Equipment	<u>\$3,109,601</u>
5. Financing Costs	_____
6. Fair Market Value of assets acquired by lease, rent, donation, etc. (monthly/annual rent)	<u>\$13,465,107</u>
7. Other: _____	_____
<b>TOTAL PROJECT COST:</b>	<b>\$24,211,007</b>

**B. Source of Funds**

1. Cash	_____
2. State Appropriations	_____
3. Other Grants	_____
4. Fund Drive	_____
5. Debt	_____
6. Other: Partnership units <u>in USRC's Parent</u>	<u>\$24,211,007</u>
<b>TOTAL SOURCE OF FUNDS:</b>	<b><u>\$24,211,007*</u></b>

\* This is a non-cash transaction. The "Total Project Cost" is the value of the assets in Hawaii, and the "Total Source of Funds" is an equivalent value of Rangers Renal Holdings LP partnership units to be received by Dialysis Parent, LLC in exchange for its contribution of the equity interests of Dialysis Holdco, LLC.

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.

This Application by U.S. Renal Care, Inc. is for the acquisition by merger of Dialysis Holdco, LLC. Dialysis Holdco, LLC. owns 100% of Dialysis Newco, Inc. Dialysis Newco, Inc. owns ten (10) of the dialysis clinics listed on page 1 of this Application (two of which are under construction) and holds an 82.5% ownership interest in the dialysis clinic owned by DSI Waipahu, LLC. This service category is per HAR § 11-186-5(4)(A). No new locations or expansions are proposed in this Application. The ownership interests of the other equity holders in DSI Waipahu, LLC's clinic will be unaffected by the planned merger.

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:

- Date of site control for the proposed project, Upon closing of the merger, which the parties seek to be as soon as all regulatory approvals are received, which is estimated to occur in November or December, 2015
- Dates by which other government approvals/permits will be applied for and received, USRC intends to make a Hart-Scott-Rodino filing with the Federal Trade Commission and the Anti-Trust Division of the Department of Justice on or about August 28, 2015. USRC anticipates that such approval will be received in November or December 2015.
- Dates by which financing is assured for the project, Not applicable, this is a non-cash transaction
- Date construction will commence, Not applicable
- Length of construction period, Not applicable

- Date of completion of the project, Upon closing of the merger
- Date of commencement of operation, Upon closing of the merger

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.

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.

- Relationship to the State of Hawai'i Health Services and Facilities Plan.
- Need and Accessibility
- Quality of Service/Care
- Cost and Finances (include revenue/cost projections for the first and third year of operation)
- Relationship to the existing health care system
- Availability of Resources.

#### EXECUTIVE SUMMARY

This Application is the result of the acquisition by merger of Dialysis Holdco, LLC, the parent of Dialysis Newco, Inc. ("DSI"), by US Renal Care, Inc. ("USRC"). As a result of the merger and the resulting corporate restructurings, DSI and Dialysis Holdco LLC will become subsidiaries of USRC. Dialysis Parent, LLC, the parent of Dialysis Holdco, LLC, will remain independent of USRC following the transaction. The resulting combined entity will be better positioned to provide dialysis services to individuals with End Stage Renal Disease.

DSI currently operates eight (8) outpatient dialysis facilities on Oahu and has another two (2) facilities under construction. DSI is also the majority owner of DSI Waipahu, LLC ("DSIW") which operates one (1) outpatient dialysis facility on Oahu. Following the merger, DSI's and DSIW's facilities will become part of the network of dialysis facilities operated by USRC throughout the United States and the Territory of Guam.

The merger is not intended to change the scope of services now provided at DSI and DSIW's facilities or change the staff employed at these facilities. The merger is expected to result in lower annual operating costs for the facilities by reason of the economies of scale that will be realized from the combination of DSI and USRC. The current medical directors of the facilities will continue in their existing capacities following the acquisition.



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

Specific goals of the current edition 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.

This application furthers those goals. This application consists of existing dialysis facilities on Oahu. Dialysis services are vitally necessary to the patients who require them and, in keeping with the goals of the HSFP, following the merger USRC 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 of this application. By maintaining the operation of existing dialysis facilities, this application continues and supports the long term viability of the healthcare system on Oahu. 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.

The HSFP includes Statewide Health Coordinating Council ("SHCC") Priorities and General Principles. For ease of reference they are listed here:

**General Principles**

1. *Promote and support the long-term viability of the health care delivery system*
2. *Expand and retain the health care workforce to enable access to the appropriate level of care in a timely manner*
3. *Ensure that any proposed service will at least maintain overall access to quality health care at a reasonable cost*
4. *Strive for equitable access to health care services (i.e., remove financial barriers, increase availability of physicians)*
5. *Ensure all projects are appropriate for the regional and statewide continuum of care*
6. *Encourage and support health education, promotion, and prevention initiatives*
7. *Expand awareness of available human, financial, programmatic resources*

**Specific Health Areas of Concern**

1. *Ensure capacity and access to a continuum of long-term care services*
2. *Establish a statewide emergency and trauma system*
3. *Ensure capacity and access to primary care services*

4. *Increase and improve access to mental health programs, services, and education*
5. *Increase and improve access to substance abuse programs, services, and education*

This application addresses 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. USRC anticipates retaining the existing workforce currently providing services for the facilities and will provide ongoing training for them.

The dialysis facilities which are the subject of this application were approved by SHPDA previously and will continue to abide by the requirements of those CONs by maintaining access to care and appropriate quality assurance policies. Further, the services provided by the facilities will include health education, nutrition education and care education for patients and their families.

None of SHCC's specific health areas of concern directly address dialysis facilities. Oahu has three Subarea Councils (SACs). They are: Honolulu ("HONSAC"), West Oahu SAC, and Windward SAC. For ease of reference their priorities are listed below:

#### *HONOLULU (HONSAC) PRIORITIES*

1. *Increase the availability of long-term care services and other supportive services.*
  - *Long-term care services include nursing homes, assisted living facilities, skilled nursing facilities, home and community-based services and hospice services.*
  - *Supportive services help maintain the quality of life and include housing, transportation, nutrition, and social support for independent living.*
2. *Support efforts to promote scientifically-based nutritional health knowledge within the community for the development of healthy living lifestyles for all.*
3. *Identify and address workforce shortages in the health care industry with particular emphasis on senior care services.*
4. *Control escalating costs in the senior care industry and other needed services. For example, reduce the need for institutionalized care.*

#### *WEST OAHU SAC PRIORITIES*

1. *IMPROVE AND INCREASE ACCESS*
  - *Acute care*
  - *Critical care*
  - *Specialty care*
  - *Emergency care options*
  - *Routine outpatient diagnostic services (i.e., blood pressure, urinalysis)*
  - *Geriatric services (home and community based) to keep older adults out of institutions*
  - *Nursing home beds*

- *Mental health services*
- *Substance abuse services*
- *Services for uninsured and underinsured*
- *Telemedicine*

## **2. INCREASE COMMUNITY ENGAGEMENT**

- *Raise dialog of health issues in the community (neighborhood boards, businesses, providers, schools)*
- *Develop partnerships between various organizations in the community to support health care activities (University of Hawaii-West Oahu / Leeward, neighborhood boards, community associations, focal points) and increase utilization*

## **3. IMPROVE EDUCATION AND INCREASE PREVENTIVE MEDICINE**

- *Health education for chronic disease (i. e., hypertension, diabetes, asthma) to ensure cost savings*
- *Community preventive health campaigns (obesity/chronic disease, screenings, nutrition)*
- *Establish preventive care programs at John A. Burns School of Medicine and other institutions that can be taken out into community (i.e., kidney screenings, diabetic screenings)*

## **WINDWARD SAC PRIORITIES**

**1. IMPROVE BED AVAILABILITY:** *Improve the hospital bed availability through timely transfer of ready patients to appropriate levels of care.*

- *Examples include the transfer of an acute care patient to a long term care facility or for specialized continued treatment.*

**2. HAVE ADEQUATE ACCESS:** *Have adequate access to and from the facilities of care or to medical information using emerging technologies.*

- *Examples of emerging technologies include telemedicine, remote monitoring, online medical information or similar technology solutions.*

**3. EDUCATION AND PREVENTION:** *Through collaborative partnerships, improve health with easily accessible education and prevention.*

- *Example of disease areas should include obesity, diabetes, cancer, dental and mental health.*
- *Examples of easily accessible education include partnering to provide the end user with an easy navigation of the health care system. The end user includes the patient, advocates, facilities or physicians.*

By maintaining and 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, this application will support 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.
- USRC aims 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 and the National Renal Administrators Association.
- A vital part of USRC's 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.

b) Need and Accessibility

The need for these services is evidenced and established in the already approved Certificates of Need ("CONs") held by DSI and DSIW for these dialysis facilities. Access to dialysis services in the current service areas will be maintained following the consummation of this project. All of the stock of DSI is being transferred to USRC by reason of the merger transaction. The project does not involve the transfer or acquisition of any of the assets of DSI or DSIW's dialysis facilities, but rather involves the contribution of the equity interests of DSI's parent.

The facilities will continue to provide services for all of their approximately 1,500 ESRD patients on Oahu, who would die without dialysis or a successful kidney transplant. The facilities will continue their charity care policies currently in effect.

The current payor mix at DSI's dialysis facilities is as follows:

Medicare	76.3%
Medicaid	2.9%
Commercial	20.8%

The current payor mix at DSIW's dialysis facility is as follows:

Medicare	64.9%
Medicaid	8.0%
Commercial	27.1%

DSI and USRC believe that the facilities' payer mix is representative of the overall population of ESRD patients in the communities that the facilities serve. No material change in the payor mix is expected after the merger.

The facilities will continue to serve all Hawai'i residents including low income persons, racial and ethnic minorities, women, persons with disabilities and other underserved groups and the elderly.

For DSI's patients, the change of ownership will be invisible as timely processing of this Application will result in seamless continuity of care and patients will continue to enjoy services from the caregivers they have grown to know and trust.

c) Quality of Service/Care

The facilities are, and will continue to be, Medicare certified. The merger is not intended to alter the scope of services provided at the facilities, nor change the clinical staff or attending physicians, thereby ensuring continuity and quality of care.

USRC, based in Plano, Texas, was founded in 2000. USRC has a proven record of effective management and ownership of dialysis clinics throughout the United States. USRC currently operates 196 in-center dialysis facilities and 74 home dialysis programs across 20 states and the Territory of Guam. USRC provides services to almost 16,000 individuals with ESRD.

USRC maintains high standards of patient care through its protocols that are established and periodically reviewed by its Chief Medical Officer and Medical Advisory Board. The protocols are also based on the best practices identified over time by USRC's Medical Directors and its other credentialed physicians.

USRC monitors a complete range of clinical outcomes across all facilities monthly and documents the improvement taking place in an objective scored manner. Emphasis is placed on those outcomes now accepted by the industry that drive reduction of mortality and morbidity, especially hospitalizations and re-hospitalizations through specific monitoring of outcomes related to infection, fluid management, nutrition, missed treatments, and catheter utilization. This effort is supported by a group of dedicated clinical specialists working closely with both the Chief Operating Officer and Chief Medical Officer to drive improved performance in all of these critical areas.

USRC's clinical results typically exceed the national averages. As DSI has outlined in the past, it has employed an active and effective quality management strategy, and USRC's company-wide strategy is complementary to what is already in place at DSI's dialysis facilities in Hawaii. The clinics will continue to enjoy strong management following the transaction. We expect a smooth and effective transition, and to continue to high level of care provided to the facilities' patients.

d) Cost and Finances

USRC does not anticipate that the proposed merger will have a significant impact on the overall costs of health care services to the community. The rates for renal dialysis services are largely set by third-party payors, primarily Medicare and Medicaid. Nor does USRC believe its costs and charges for providing health care services in the community will be significantly different from the costs and charges of DSI and DSIW for providing the same services.

The proposed merger is financially feasible, both immediately and in the longer term. The merger of Dialysis Holdco, LLC into USRC will be a non-cash transaction. Based on the balance sheets of the facilities, the project would represent a value of \$24,211,007. Of this amount, \$7,636,299 would be attributable to DSI and DSIW's fixed equipment and leasehold improvements, \$3,109,601 would be attributable to movable equipment and \$13,465,107 would be attributable to the value of the leased premises in which the facilities are located.

The estimated revenue and cost projections for USRC's Oahu facilities for the first and third full years of operation following the merger are show below:

	<b>Projected 1st Full Year of Operations</b>	<b>Projected 3rd Full Year of Operations</b>
<b>Revenue</b>	<b>\$77,857,091</b>	<b>\$93,523,131</b>
<b>Labor Expense</b>	<b>\$25,599,681</b>	<b>\$29,910,880</b>
<b>Depreciation</b>	<b>\$3,072,387</b>	<b>\$3,072,387</b>
<b>Bad Debt</b>	<b>\$778,571</b>	<b>\$935,231</b>
<b>Other Operating Expenses</b>	<b>\$28,754,645</b>	<b>\$31,639,951</b>
<b>Total Expenses</b>	<b>\$58,205,284</b>	<b>\$65,558,450</b>
<b>Net Income</b>	<b>\$19,651,807</b>	<b>\$27,964,681</b>

The estimated revenue and cost projections for DSIW's facility for the first and third full years of operation following the merger are show below:

	<b>Projected 1st Full Year of Operations</b>	<b>Projected 3rd Full Year of Operations</b>
<b>Revenue</b>	<b>\$7,434,040</b>	<b>\$8,367,077</b>
<b>Labor Expense</b>	<b>\$2,100,699</b>	<b>\$2,318,669</b>
<b>Depreciation</b>	<b>\$265,686</b>	<b>\$265,686</b>
<b>Bad Debt</b>	<b>\$74,340</b>	<b>\$83,671</b>
<b>Other Operating Expenses</b>	<b>\$2,719,394</b>	<b>\$2,887,138</b>
<b>Total Expenses</b>	<b>\$5,160,120</b>	<b>\$5,555,163</b>
<b>Net Income</b>	<b>\$2,273,920</b>	<b>\$2,811,914</b>

e) Relationship to the Existing Health Care System

The USRC facilities will continue to provide chronic outpatient dialysis services as they are currently provided by DSI and DSIW. Because the facilities will continue an existing service, with no anticipated change in scope of service or staffing, the merger is not expected to have any significant effect on the existing health care system on Oahu or on other providers or patients. USRC will continue to collaborate with other providers, community groups and government organizations to ensure quality care for our mutual patients and health goals.

f) Availability of Resources

The merger is a non-cash transaction.

Because the merger is not intended to result in any change of staff currently providing services at the facilities, no additional employees will be required to continue to serving the existing patient base.

**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.