

HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM

Application Number: #16-09A Date of Receipt:
To be assigned by Agency

APPLICANT PROFILE

Project Title: Acquisition of outpatient dialysis clinic owned by Dialysis Newco, Inc.

Project Address: 889 Kamokila Boulevard, Kapolei, HI 96707

Applicant Facility/Organization: USRC West Oahu, LLC

Name of CEO or equivalent: Chris Brengard

Title: Chief Executive Officer

Address: 5851 Legacy Circle, Suite #900, Plano, Texas 75024

Phone Number: 214-736-2704 Fax Number: 214-736-2701

Contact Person for this Application: Tom Weinberg

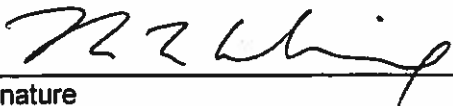
Title: Chairman

Address: 5851 Legacy Circle, Suite #900, Plano, Texas 75024

Phone Number: 214-736-2730 Fax Number: 214-736-2731

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

9/1/2014
Date

Tom Weinberg
Name (please type or print)

Chairman
Title (please type or print)

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1. TYPE OF 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: _____

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STATE HEALTH & GEN. AGENCY

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: X
- 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)

Contribution Agreement by and between Dialysis Newco, Inc. and USRC West Oahu, LLC. (Exhibit "A")

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.)

A CMS-855A Enrollment Application for Institutional Providers will be submitted to document the change of ownership of the clinic.

C. Your governing body: list by names, titles and address/phone numbers

USRC West Oahu, LLC is a manager-managed limited liability company with one (1) manager:

Dialysis Newco, Inc.
 5851 Legacy Circle, Suite #900
 Plano, Texas 75024
 214-736-2700

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USRC West Oahu, LLC's officers include:

Stephen Pirri, President
 5851 Legacy Circle, Suite #900
 Plano, Texas 75024
 214-736-2706

STATE OF HAWAII
 & DEV. AGENCY

Jim Shelton, Vice President and Treasurer
 5851 Legacy Circle, Suite #900
 Plano, Texas 75024
 214-736-2740

Tom Weinberg, Chairman
 5851 Legacy Circle, Suite #900
 Plano, Texas 75024
 214-736-2731

David Eldridge, Secretary
 5851 Legacy Circle, Suite #900
 Plano, Texas 75024
 214-736-2742

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: Certificate of Formation (Exhibit "B")
- By-Laws: Operating Agreement (Exhibit "C")
- Partnership Agreements (N/A)
- Tax Key Number (project's location): TMK No. 1-9-1-88-023

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 Change in Ownership	
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
TOTAL			

6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:	AMOUNT:
1. Land Acquisition	_____
2. Construction Contract	_____
3. Fixed Equipment	<u>\$2,080,000</u>
4. Movable Equipment	<u>\$768,000</u>
5. Financing Costs	_____
6. Fair Market Value of assets acquired by lease, rent, donation, etc. (present value of remaining facility lease obligations)	<u>\$4,216,000</u>
7. Other: _____	_____
TOTAL PROJECT COST:	<u>\$7,064,000</u>

B. Source of Funds

1. Cash	<u>\$2,848,000</u>
2. State Appropriations	_____
3. Other Grants	_____
4. Fund Drive	_____
5. Debt	_____
6. Other: Fair market value of remaining lease payments	<u>\$4,216,000</u>
TOTAL SOURCE OF FUNDS:	<u>\$7,064,000</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.

This application is for the change of ownership of the clinic identified on page 1 of this application from Dialysis Newco, Inc., a wholly owned subsidiary of U.S. Renal Care, Inc., to USRC West Oahu, LLC. The service category is per H.A.R. § 186-5(4)(a). No new locations or expansions are proposed in this application.

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: The acquisition will occur promptly following the approval of this CON.
- b) Dates by which other government approvals/permits will be applied for and received: A CMS-855A Enrollment Application for Institutional Providers will be submitted for the clinic following the closing to document the change of ownership.
- c) Dates by which financing is assured for the project: Not applicable, this is a cash transaction.
- d) Date construction will commence: Not applicable.
- e) Length of construction period: Not applicable.
- f) Date of completion of the project: Upon closing of the acquisition.
- g) Date of commencement of operation: Upon closing of the acquisition.

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.

- 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.

Executive Summary

This application is for the acquisition by USRC West Oahu, LLC ("USRC West Oahu") of the outpatient dialysis clinic owned by Dialysis Newco, Inc. ("DSI") located at 889 Kamokila Boulevard, Kapolei, HI 96707. USRC West Oahu will be a joint venture between DSI and Drs. Aaron Nada, David Ono, and Noah Solomon, nephrologists practicing on Oahu. DSI will own the majority of the interests in USRC West Oahu and will manage the dialysis clinic through a Management Agreement with its parent company, U.S. Renal Care, Inc. ("USRC").

The clinic will continue to be operated in a manner similar to DSI's other outpatient dialysis clinics on Oahu. Similarly, the Clinic will continue to utilize DSI's existing clinical policies, procedures and systems. The medical director of the clinic will be one of the practicing physicians within Nada, Ono, Ka'anehe & Solomon, LLP.

a) Relationship to 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. Dialysis services are vitally necessary to the patients who require them and, in keeping with the goals of the HSFP, USRC West Oahu 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 our application. By maintaining the operation of an existing dialysis clinic, this application continues and supports the long term viability of the healthcare system on Oahu. USRC

West Oahu anticipates retaining the existing workforce currently providing services for the clinic and will provide ongoing training for them.

As the dialysis clinic which is the subject of this application is already in operation and was approved by SHPDA previously, the facility will continue to abide by the requirements of that CON by maintaining access to care and appropriate quality assurance policies. Further, the services provided by the clinic will include health education, nutrition education and care education for patients and their families. 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, the application will support the general principles of the Statewide Health Coordinating Council ("SHCC") and the priorities of the West Oahu Subarea Council ("SAC"). USRC West Oahu acknowledges and represents:

- 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 an existing facility, we maintain access to dialysis specialty care on Oahu.
- We aim to be active in community engagement via partnerships with a wide array of organizations such as the National Kidney Foundation, Hawaii Health Systems Corporation, Transpacific Renal Network, the GFR Alliance, HMSA, Kaiser Permanente, the University of Hawaii, Kapiolani Community College and the National Renal Administrators Association.
- A vital part of our patient and family services will be health education counseling and classes about dialysis care and participation in community preventive health campaigns about kidney disease and diabetes.

b) Need and Accessibility

The need for the services provided by the clinic is evidenced and established in the already approved certificate of need for the clinic (CON #14-01A). Patient access to dialysis services in the clinic's current service area will be maintained following the acquisition. The clinic will continue to provide service for all of its current ESRD patients, who would die without dialysis or successful kidney transplant.

The clinic will serve all Hawaii residents including low income persons, racial and ethnic minorities, women, persons with disabilities and the elderly. The change of ownership will be invisible for the clinic's patients as USRC will continue to be the majority owner of the clinic and all of USRC's policies, procedures and protocols will remain in place. Also, all of the current staff will be retained.

c) Quality of Service/Care

USRC is a leading dialysis provider in the United States. USRC is the third (3rd) largest for profit dialysis provider and owns and operates over three-hundred (300) dialysis facilities in twenty-three (23) states and the U.S. Territory of Guam. USRC also provides dialysis services to over twenty-four thousand (24,000) individuals with End Stage Renal Disease. USRC's standards of patient care are established through medical protocol guidelines developed and monitored by USRC's Medical Advisory Board. These protocols are established using the best practices across our network of affiliated nephrologists. USRC is committed to quality care, benefitting patients' quality of life and longevity which results in higher survival rates and reduced hospital stays.

Stan Lindenfeld, MD, USRC Chief Medical Officer, is actively involved in the training and protocol development of USRC's dialysis facilities. Dr. Lindenfeld has been a board certified nephrologist since 1976. Over the course of his career, Dr. Lindenfeld has served in various roles as Chief Medical Officer, including serving as Senior Vice-President and Chief Medical Officer of DaVita (formerly Total Renal Care).

The involvement of Dr. Lindenfeld and other nephrology members of the USRC Medical Advisory Board, has been a significant factor in: (1) attracting new medical directors and (2) maintaining strong relationships with existing physicians. USRC's physician leadership also allows it to achieve physician consensus among the facilities, which enhances the ability to achieve a high level of standardization among our facilities. USRC measures clinical outcomes using industry standards developed by the National Kidney Foundation and the ESRD Network.

USRC, through its wholly owned subsidiary, DSI, will be the majority owner of USRC West Oahu and will manage the clinic's day to day operations. As a result, the clinic will continue to be operated under the same USRC policies, procedures and protocols as are currently utilized at the other DSI clinics on Oahu. The medical director of the clinic will continue to be one of the practicing nephrologist physicians within the medical practice group of Nada, Ono, Ka'anehe & Solomon, LLP following the acquisition.

d) Cost and Finances

The total cost for this project will be approximately \$7,064,000. Of this amount, there will be \$2,848,000 attributed to fixed and moveable equipment and another \$4,216,000 related to the fair market value of remaining lease payments. The estimated revenue and cost projections for the first and third full years of operation following the change of ownership are below:

	Projected 1st Full Year of Operations	Projected 3rd Full Year of Operations
REVENUE	\$765,765	\$4,925,198
Labor Expense	\$311,105	\$1,706,719
Depreciation	\$204,000	\$194,000
Bad Debt	\$44,000	\$143,452
Other Operating Expenses	\$699,475	\$1,582,293
<u>TOTAL EXPENSES</u>	<u>\$1,236,580</u>	<u>\$3,626,464</u>
EBITDA	(\$470,815)	\$1,298,734

e) Relationship to the Existing Health Care System

USRC West Oahu will continue the services provided by USRC at the clinic with no anticipated change in services or staffing. Because the clinic will continue an existing service, with no anticipated change in scope of service or staffing, the transfer of the clinic from DSI to USRC West Oahu is not expected to have any effect on patients or other providers. USRC West Oahu will 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 price to be paid by USRC West Oahu for the clinic is \$2,848,000 and USRC West Oahu will assume the remaining obligations under DSI's lease for the clinic. This project will be financed with cash provided by USRC West Oahu's owners.

USRC West Oahu does not anticipate any needs for additional staffing as a result of the transaction.

g) 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.