



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

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ADMINISTRATIVE APPLICATION - CERTIFICATE OF NEED PROGRAM

Application Number: # 19-04A Date of Receipt:
To be assigned by Agency

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APPLICANT PROFILE

Project Title: Acquisition of Rangers Renal Intermediate Holdings, Inc., Parent Company of U.S. Renal Care, Inc.

Project Address: 1520 Liliha Street, 1st Floor, Honolulu, HI 96817

226 N. Kuakini Street, 2nd Floor, Honolulu, HI 96817

750 Palani Avenue, Honolulu, HI 96816

555 Farrington Highway, Kapolei, HI 96707

47-388 Hui Iwa Street, 2nd Floor, Kaneohe, HI 96744

98-1005 Moanalua Rd SPC 420, Aiea HI 96701-4702

850 Kilani Avenue, Wahiawa, HI 96786

45-480 Kaneohe Bay Dr., #D09, Kaneohe, HI 96744

1908 S. Beretania Street, Suite No. 1, Honolulu, HI 96826

94-862 Kahuailani Street, Waipahu, HI 96797-3341

889 Kamokila Blvd., Kapolei, HI 96707

91-919 Ft. Weaver Road, Suite Nos. 110, 111, & 116, Ewa Beach, HI 96706

86-120 Farrington Hwy., Suite Nos. B211 & B212, Waianae, HI 96792

94-1042 Ka Uka Blvd., Suite Nos. 100-105 & 205, Waipahu, HI 96797

Applicant Facility/Organization: BCPE Cycle Buyer, Inc.

Name of CEO or equivalent: Andrew Kaplan

Title: Treasurer and Secretary

Address: c/o Bain Capital Private Equity, LP, 200 Clarendon Street, Boston, MA 02116

Phone Number: 617-516-2000 Fax Number: 617-516-2010

Contact Person for this Application: Thomas L. Weinberg

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Title: Executive Vice President/General Counsel, U.S. Renal Care, Inc.

Address: 5851 Legacy Circle, Ste 900, Plano, Texas 75024-5982

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Phone Number: 214-736-2700

Fax Number: 214-975-2435

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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

3/29/19

Date

Andrew Kaplan

Name (please type or print)

Treasurer and Secretary

Title (please type or print)

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

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- Public _____
- Private X
- Non-profit _____
- For-profit X
- Individual _____
- Corporation X
- Partnership _____
- Limited Liability Corporation (LLC) _____
- Limited Liability Partnership (LLP) _____
- Other: _____

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2. PROJECT LOCATION INFORMATION

A. Primary Service Area(s) of Project: (please check all applicable)

- Statewide: _____
- O`ahu-wide: 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 Merger Agreement by and among Rangers Renal Holdings LP, Rangers Renal Intermediate Holdings, Inc., Rangers Renal Intermediate, Inc., U.S. Renal Care, Inc., BCPE Cycle Buyer, Inc., BCPE Cycle Merger Sub I, Inc. and BCPE Cycle Merger Sub II, Inc. dated February 10, 2019.

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:

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- Articles of Incorporation: See Attachment 3
- By-Laws: See Attachment 4
- Partnership Agreements: Not Applicable
- Tax Key Number (project's location) See Below

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Dialysis Newco, Inc. d/b/a U.S. Renal Care Aloha Dialysis, 1520 Liliha Street, 1st Floor, Honolulu, HI 96817 TMK No. 1-1-7-033-005

Dialysis Newco, Inc. d/b/a U.S. Renal Care Honolulu Dialysis, 226 N. Kuakini Street, 2nd Floor, Honolulu, HI 96817 TMK No. 1-1-7-014-042

Dialysis Newco, Inc. d/b/a U.S. Renal Care Kapahulu Dialysis, 750 Palani Avenue, Honolulu, HI 96816 TMK No. 1-2-7-034-022

Dialysis Newco, Inc. d/b/a U.S. Renal Care Kapolei Dialysis, 555 Farrington Highway, Kapolei, HI 96707 TMK No. 1-9-106-002

Dialysis Newco, Inc. d/b/a U.S. Renal Care Ko'olau Dialysis, 47-388 Hui Iwa Street, 2nd Floor, Kaneohe, HI 96744 TMK No. 1-4-7-004-025

Dialysis Newco, Inc. d/b/a U.S. Renal Care Pearlridge Dialysis, 98-1005 Moanalua Rd. SPC 420, Aiea HI 96701 TMK No. 1-9-08-016-049

Dialysis Newco, Inc. d/b/a U.S. Renal Care Wahiawa Dialysis, 850 Kilani Avenue, Wahiawa, HI 96786 TMK No. 1-7-4-005-001

Dialysis Newco, Inc. d/b/a U.S. Renal Care Windward Dialysis, 45-480 Kaneohe Bay Dr., #D09, Kaneohe, HI 96744 TMK No. 1-4-5-060-061

USRC Beretania, LLC d/b/a U.S. Renal Care Beretania Dialysis 1908 S. Beretania Street Suite No. 1, Honolulu, HI 96826 TMK No. 1-2-8-10-0007

DSI Waipahu, LLC d/b/a U.S. Renal Care Waipahu Dialysis 94-862 Kahuaailani Street, Waipahu, HI 96797-3341 TMK No. 1-9-4-013-004

USRC West Oahu, LLC d/b/a U.S. Renal Care West Oahu Dialysis 889 Kamokila Blvd., Kapolei, HI 96707 TMK No. 1-9-1-88-023

USRC Ewa Beach, LLC 91-919 Ft Weaver Road, Suite Nos. 110, 111, & 116, Ewa Beach, HI 96706 TMK No. 1-9-1-115-012 (portion of)

USRC Waianae, LLC 86-120 Farrington Hwy Suite Nos. B211 & B212, Waianae, HI 96792 TMK No. 1-8-6-001-050

USRC Waipio, LLC 94-1042 Ka Uka Blvd, Suite Nos. 100-105 & 205, Waipahu, HI 96797 TMK No. 1-9-4-099-041

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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 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
TOTAL			

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6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:

AMOUNT:

1.	Land Acquisition	ST HLTH PLNG & DEV. AGENCY	_____
2.	Construction Contract		_____
3.	Fixed Equipment		<u>\$5,166,018</u>
4.	Movable Equipment		<u>\$3,542,913</u>
5.	Financing Costs		_____
6.	Fair Market Value of assets acquired by lease, rent, donation, etc.		<u>\$21,503,507</u>
7.	Other: _____		_____

TOTAL PROJECT COST: \$30,212,438

B. Source of Funds

1.	Cash	_____
2.	State Appropriations	_____
3.	Other Grants	_____
4.	Fund Drive	_____
5.	Debt	_____
6.	Other: <u>Merger Consideration Value</u>	<u>\$30,212,438</u>

TOTAL SOURCE OF FUNDS: \$30,212,438*

*With respect to USRC and the operating entities, this is a non-cash transaction and no amount has been specifically allocated to the facilities described in this Application. The "Total Project Cost" is the value of USRC's assets in Hawaii (inclusive of its pro rata share of the value of any assets in entities in which it does not own 100% of the interests), and the "Total Source of Funds" is an equivalent value of the consideration received by reason of the merger transaction.

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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 BCPE Cycle Buyer, Inc. is for the acquisition by merger of Rangers Renal Intermediate Holdings, Inc. ("RRHI"). RRHI owns 100% of Rangers Renal Intermediate, Inc., which owns 100% of U.S. Renal Care, Inc. ("USRC"), which owns 100% of Dialysis HoldCo, LLC, which owns 100% of Dialysis Newco, Inc. ("DSI"). USRC through DSI owns the following outpatient dialysis clinics that are described in this Application:

U.S. Renal Care Aloha Dialysis
U.S. Renal Care Honolulu Dialysis
U.S. Renal Care Kapahulu Dialysis
U.S. Renal Care Kapolei Dialysis
U.S. Renal Care Ko'olau Dialysis
U.S. Renal Care Pearlridge Dialysis
U.S. Renal Care Wahiawa Dialysis
U.S. Renal Care Windward Dialysis

In addition, USRC through DSI owns the majority or all of the ownership interests in the following entities that own outpatient dialysis facilities that are described in this Application or have recently received CON approval for the establishment of new dialysis facilities:

USRC Beretania, LLC ("Beretania") (70%) - U.S. Renal Care Beretania Dialysis
DSI Waipahu, LLC ("Waipahu") (82.5%) - U.S. Renal Care Waipahu Dialysis
USRC West Oahu, LLC ("West Oahu") (76.15%) - U.S. Renal Care West Oahu Dialysis
USRC Ewa Beach, LLC ("Ewa Beach") (100%) - CON approved, facility not yet in operation

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USRC Waianae, LLC ("Waianae") (100%) – CON approved, facility not yet in operation

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USRC Waipio, LLC ("Waipio") (100%) – CON approved, facility not yet in operation

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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 the Beretania, Waipahu and West Oahu facilities will be unaffected by this transaction.

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, Upon closing of the merger, which the parties seek to be as soon as possible after all regulatory approvals are received, which is estimated to occur in the second or third quarter of 2019
- b) Dates by which other government approvals/permits will be applied for and received, USRC made a Hart-Scott-Rodino filing with the Federal Trade Commission and the Antitrust Division of the Department of Justice on February 15, 2019. Early termination of the applicable waiting period with respect to this filing was granted February 26, 2019.
- c) Dates by which financing is assured for the project, Upon receipt of all State regulatory approvals, expected to be in the Second or Third Quarter of 2019.
- 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 merger
- g) 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.

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9. **EXECUTIVE SUMMARY:** Please present a brief summary of your project. In addition, provide a description of how your project meets each of the certificate of need criteria listed below. If a new location is proposed, please attach an easy to read map that shows your project site.

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- a) Relationship to the 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 the result of the merger involving Rangers Renal Intermediate Holdings, Inc. ("RRIH"), a parent entity of Dialysis Newco, Inc. ("DSI") and U.S. Renal Care, Inc. ("USRC"), as a result of which RRIH will be owned by BCPE Cycle Buyer, Inc. As a result of the merger, RRIH will be owned by a new entity. A pre- and post-merger organizational chart reflecting the ownership structure of DSI and USRC is attached hereto as Attachment 5. No corporate restructurings of DSI, USRC or any of the operating entities that hold the CON will occur by reason of the merger. The merger is merely a substitution of the indirect owners of USRC and will allow USRC to be better positioned to provide dialysis services to individuals with End Stage Renal Disease.

USRC through DSI currently operates eight (8) outpatient dialysis facilities and is the majority owner of three (3) other entities currently operating dialysis facilities on Oahu – USRC Beretania, LLC ("Beretania"), DSI Waipahu, LLC ("Waipahu") and USRC West Oahu ("West Oahu"). USRC/DSI is also the sole owner of three (3) entities which hold recently approved CONs to establish dialysis facilities on Oahu – USRC Ewa Beach ("Ewa Beach"), USRC Waianae, LLC ("Waianae") and USRC Waipio, LLC ("Waipio").

This merger is an opportunity for USRC to continue as a leading healthcare provider in the dialysis industry. In partnership with new investors, USRC expects to further its pursuit of clinical and operational excellence, to invest in new resources across its organization, and continue to expand its presence throughout the United States. USRC's new partners are experienced investors in healthcare and specifically in the dialysis industry.

USRC will continue to operate as it does today and will continue to provide the same excellent care to patients as it does every day. USRC's responsibilities to its patients will not change. USRC will continue to support its physician partners and medical directors in the care they provide to patients every day. The merger is not intended to change the scope of services provided or change the staff employed at these facilities. The current medical directors of the facilities will continue in their existing capacities following the merger.

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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 these goals. 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 continue to 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*

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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. **ST. BETH REHABILITATION & RECOVERY AGENCY** By retaining 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

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

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2. INCREASE COMMUNITY ENGAGEMENT

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- *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:

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- 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 USRC's nutrition guidelines and support to patients are all based on industry standards and scientifically-based knowledge.
- By continuing the operation of existing facilities, USRC maintains 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") for these dialysis facilities. Access to dialysis services in the current service areas will be maintained following the consummation of this project. The project does not involve the transfer or acquisition of any of the assets of USRC or DSI or the dialysis facilities referenced in this Application, but rather only involves the ownership interests in one of USRC's parent entities.

The facilities will continue to provide services for all of their approximately 1,660 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 USRC/DSI's dialysis facilities is as follows:

Medicare	75%
Medicaid	9%
Commercial	13%
VA	2%
Self-Pay	1%

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

Medicare	72%
Medicaid	11%
Commercial	15%
VA	1%
Self-Pay	1%

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

Medicare	73%
Medicaid	7%
Commercial	20%

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

Medicare	70%
Medicaid	6%
Commercial	20%
VA	4%

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USRC believes 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 transaction.

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 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 currently in operation are, and will continue to be, Medicare certified. The facilities with recently approved CONs will also be Medicare certified. The transaction 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 facilities throughout the United States. USRC is the third (3rd) largest for profit dialysis provider and currently operates three hundred and thirty five (335) dialysis facilities in thirty two (32) states and the Territory of Guam. USRC provides services to approximately 25,000 individuals with ESRD.

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 USRC's 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, M.D., USRC's acting Chief Medical Officer, is actively involved in the training and protocol development of USRC's dialysis facilities. The involvement of Dr. Lindenfeld and other nephrology members of USRC's Medical Advisory Board has been a significant factor in: (1) attracting new medical directors and (2) maintaining a

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strong relationship 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 amount USRC's facilities. USRC measures clinical outcomes using industry standards developed by the National Kidney Foundation and the ESRD Network.

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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.

USRC provides training for all members of its clinical care team and maintains a robust education department which offers continual educational and training opportunities for employees. USRC maintains patient/staff ratios consistent with those in the dialysis industry in general:

Registered Nurses	1 per 12 patients
Patient Care Tech	1 per 4 patients
Dietician	1 per 100 patients
Social Worker	1 per 100 patients

USRC provides quality dialysis services to its patients and is in full compliance with all applicable federal and state regulations at all of its dialysis facilities in Hawaii. All of USRC's dialysis facilities in Hawaii are CMS certified, and observe the standards set by both the CDC and CMS in their operations. USRC's quality improvement program was developed in accordance with CMS and the National Kidney Foundation's Disease Outcomes Quality Initiative Guidelines.

All USRC nurses are licensed in Hawaii and all patient care technicians are nationally certified as required by CMS.

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, and USRC does not anticipate changing any of these rates by reason of the merger.

The proposed merger is financially feasible, both immediately and in the longer term. The merger will be a non-cash transaction with respect to USRC. Based on the balance sheets of the facilities, the project would represent a value of \$30,212,438. Of

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this amount, \$5,166,018 would be attributable to fixed equipment and leasehold improvements, \$3,542,913 would be attributable to movable equipment and \$21,503,507 would be attributable to the value of the leased premises in which the facilities are located.

The estimated revenue and cost projections for USRC/DSO facilities for the first and third full years of operation following the merger are shown below.

	Projected 1st Full Year of Operations	Projected 3rd Full Year of Operations
Revenue	\$94,317,224	\$100,061,143
Bad Debt	(\$2,426,633)	(\$2,574,415)
NET REVENUE	\$91,890,591	\$97,486,728
Labor Expense	\$28,257,905	\$29,978,811
Medical Supplies/Medications	\$13,749,827	\$14,587,191
Other Expenses	\$24,725,586	\$26,231,374
TOTAL FACILITY EXPENSES	\$66,733,318	\$70,797,376
FACILITY EBITDA	\$24,725,586	\$26,689,352
Depreciation	(\$2,396,146)	(\$2,542,071)
NET INCOME	\$22,761,127	\$24,147,281

The estimated revenue and cost projections for the Beretania facility for the first and third full years of operation following the merger are shown below:

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	Projected 1st Full Year of Operations	Projected 3rd Full Year of Operations
Revenue	\$3,002,822	\$3,185,694
Bad Debt	(\$85,580)	(\$90,792)
NET REVENUE	\$2,917,242	\$3,094,902
Labor Expense	\$1,119,837	\$1,272,907
Medical Supplies/Medications	\$245,839	\$260,811
Other Expenses	\$879,837	\$933,419
TOTAL FACILITY EXPENSES	\$2,325,513	\$2,467,137
FACILITY EBITDA	\$523,569	\$545,454
Interest Expense	(\$289,897)	(\$307,552)
Depreciation	(\$441,851)	(\$468,760)
NET INCOME	(\$140,021)	(\$148,546)

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The estimated revenue and cost projections for the Waipahu facility for the first and third full years of operation following the merger are shown below:

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	Projected 1st Full Year of Operations	Projected 3rd Full Year of Operations
Revenue	\$8,700,387	\$9,230,240
Bad Debt	(\$246,709)	(\$261,734)
NET REVENUE	\$8,453,678	\$8,968,506
Labor Expense	\$2,727,677	\$2,893,793
Medical Supplies/Medications	\$1,024,887	\$1,087,303
Other Expenses	\$2,746,210	\$2,913,455
TOTAL FACILITY EXPENSES	\$6,498,774	\$6,894,551
FACILITY EBITDA	\$1,954,904	\$2,073,955
Depreciation	(\$238,604)	(\$253,135)
NET INCOME	\$1,716,300	\$1,820,820

The estimated revenue and cost projections for the West Oahu facility for the first and third full years of operation following the merger are shown below:

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	Projected 1st Full Year of Operations	Projected 3rd Full Year of Operations
Revenue	\$5,742,942	\$6,092,887
Bad Debt	(\$163,674)	(\$173,642)
NET REVENUE	\$5,579,268	\$5,919,045
Labor Expense	\$2,048,310	\$2,173,052
Medical Supplies/Medications	\$835,802	\$886,702
Other Expenses	\$2,036,492	\$2,160,514
TOTAL FACILITY EXPENSES	\$4,920,604	\$5,220,268
FACILITY EBITDA	\$658,664	\$698,777
Interest Expense	(\$37,370)	(\$39,646)
Depreciation	(\$455,420)	(\$483,155)
NET INCOME	\$165,872	\$175,976

Consistent with the projections set forth in its CON Application, the estimated revenue and cost projections for the Ewa Beach facility for the first and third full years of operation following the merger are shown below:

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	Projected 1st Full Year of Operations	Projected 3rd Full Year of Operations
Revenue	\$1,145,100	\$4,380,480
Bad Debt	(\$34,353)	(\$131,414)
NET REVENUE	\$1,110,747	\$4,249,066
Labor Expense	\$313,500	\$1,350,000
Medical Supplies/Medications	\$163,020	\$704,314
Other Expenses	\$835,253	\$1,176,720
TOTAL FACILITY EXPENSES	\$1,311,773	\$3,231,034
FACILITY EBITDA	(\$201,025)	\$1,018,032
Interest Expense	(\$122,937)	(\$193,975)
Depreciation	(\$643,905)	(\$658,905)
NET INCOME	(\$967,867)	\$165,151

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Consistent with the projections set forth in its CON Application, the estimated revenue and cost projections for the Waipio facility for the first and third full years of operation following the merger are shown below:

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	Projected 1st Full Year of Operations	Projected 3rd Full Year of Operations
Revenue	\$785,820	\$4,173,120
Bad Debt	(\$23,575)	(\$125,194)
NET REVENUE	\$762,245	\$4,047,926
Labor Expense	\$210,000	\$1,296,000
Medical Supplies/Medications	\$109,200	\$676,143
Other Expenses	\$717,035	\$1,191,830
TOTAL FACILITY EXPENSES	\$1,036,235	\$3,163,973
FACILITY EBITDA	(\$273,990)	\$883,953
Interest Expense	(\$83,589)	(\$131,890)
Depreciation	(\$437,811)	(\$452,811)
NET INCOME	(\$795,390)	\$299,252

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Consistent with the projections set forth in its CON Application, the estimated revenue and cost projections for the Waianae facility for the first and third full years of operation following the merger are shown below:

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	Projected 1st Full Year of Operations	Projected 3rd Full Year of Operations
Revenue	\$906,900	\$3,932,280
Bad Debt	(\$27,207)	(\$117,968)
NET REVENUE	\$879,693	\$3,814,312
Labor Expense	\$268,500	\$3,814,312
Medical Supplies/Medications	\$103,104	\$492,389
Other Expenses	\$737,089	\$1,208,728
TOTAL FACILITY EXPENSES	\$1,108,693	\$2,979,117
FACILITY EBITDA	(\$229,000)	\$835,195
Interest Expense	(\$112,766)	(\$177,928)
Depreciation	(\$590,636)	(\$605,636)
NET INCOME	(\$932,402)	\$51,631

e) Relationship to the Existing Health Care System

The facilities covered by this Application will continue to provide chronic outpatient dialysis services as they are currently provided. 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 with respect to USRC. Financing for the merger transaction is assured upon receipt of all regulatory approvals, anticipated to be in the Second or Third Quarters of 2019.

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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 serving the existing patient base.

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10. **Eligibility to file for Administrative Review.** This project is eligible to file for Administrative review because: (Check all applicable)

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- 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.