

**EVALUATION OF THE CERTIFICATE OF NEED AMENDMENT APPLICATION
SUBMITTED ON BEHALF OF INLAND NORTHWEST - RENAL CARE GROUP
PROPOSING TO AMEND CN# 1371 DUE TO AN MODIFICATION OF TERMS
PLACED UPON THE CERTIFICATE OF NEED**

PROJECT DESCRIPTION

Fresenius Medical Care Holdings, Inc. is the parent corporation of the following five subsidiaries:

QualiCenters Inc.	Pacific Northwest Renal Services
Inland Northwest Renal Care Group, LLC	Renal Care Group, Inc.
National Medical Care, Inc.	

Under the four of the five subsidiaries listed above, Fresenius Medical Care Holdings, Inc. (Fresenius) operates dialysis centers in 45 states, the District of Columbia, and Puerto Rico.¹ In Washington State, Fresenius or one of its subsidiaries owns, operates, or manages sixteen kidney dialysis facilities in twelve separate counties. Below is a listing of the sixteen facilities in Washington.² [CN historical files; Amendment Application, p1]

Benton County

Columbia Basin Dialysis Center

Stevens County

Colville Dialysis Center

Clark County

Fresenius Fort Vancouver Dialysis Facility
Fresenius Salmon Creek Dialysis Facility

Lewis County

Fresenius Chehalis Facility

Grant County

Fresenius Moses Lake Dialysis Facility

Mason County

Fresenius Shelton Dialysis Facility

Gray Harbor County

Fresenius Aberdeen Dialysis Facility

Okanogan County

Fresenius Omak Dialysis Facility

Spokane County

Fresenius Northpointe Dialysis Facility
Fresenius Spokane Kidney Center
Fresenius Valley Dialysis Facility

Thurston County

Fresenius Hawks Prairie Facility
Fresenius Lacey Dialysis Facility

Cowlitz County

Fresenius Longview

Walla Walla County

QualiCenters Walla Walla

¹ The National Medical Care, Inc. subsidiary does not operate any dialysis facilities.

² Three facilities—Colville, Hawks Prairie and Longview—were recently approved by the department and are not yet operational.

On November 30, 2007, Inland Northwest – Renal Care Group (IN-RCG) submitted its Certificate of Need application to establish a four station dialysis facility to be known as the Othello Dialysis Center, to serve the patients residing in Adams County. The new location will be called the Othello Dialysis Center.

On May 13, 2008, the Department released its evaluation approving IN-RCG’s proposal to establish the new facility. The evaluation identified capital costs equaling \$923,681. The evaluation also provided details regarding the use of cash reserves to fund the facility’s construction.

In the initial application, IN-RCG provided a draft lease agreement with KLM Othello, LLC (the Lessor) that outlined the costs and terms for the proposed location of the new dialysis facility. The details of the draft lease reflected IN-RCG’s commitment to pay for the necessary tenant improvements planned for installation after the Lessor’s construction of the new core building. A condition was placed upon the issued Certificate of Need (CN) to provide an executed copy of the lease which was consistent with the draft agreement provided in the application.

With this application, IN-RCG proposes to amend CN# 1371. In the development of a final lease, the parties included an amendment which added language obligating the Lessor to take responsibility for completion of the necessary tenant improvements. In response to the Lessor accepting these additional costs, IN-RCG accepted terms increasing the monthly rent for the facility. The amendment included with the executed lease would not be consistent with the draft lease originally submitted. According to WAC 246-310-570(1)(d), any modification to a condition placed upon a CN requires the application for an amended certificate. [Amendment Application, Exhibit 3]

The CN approved a capital expenditure of \$923,681. The changes in the lease agreement have had no effect upon the total capital costs of the project. Under WAC 246-310-280, capital expenditures are to include building owner tenant improvements. Though the party responsible for the costs has shifted, the dollar amount of tenant improvements have not changed. IN-RCG has continued to proceed with the project as approved and anticipates commencement of services by June 2009. Under this timeline, year 2010 would continue be the facility’s first full year of operation. [Amendment Application, p12; Quarterly Progress Reports]

A review of the revised estimated capital expenditure shows that 69% is related to the Lessors construction of the facility and necessary upgrades, the applicant remains responsible for costs related to equipment and professional services. The complete figures are cited as follows. [February 5, 2009 Supplemental Information, p1]

Evaluation Breakdown Of ECE	Total	% of Total
Leasehold Improvements w/ tax	\$ 639,744	69%
Fixed & Moveable Equipment w/tax	\$ 239,437	26%
Professional Fees	\$ 44,500	5%
Total Estimated Capital Costs	\$ 923,681	100.00%

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to review under WAC 246-310-570(1)(d) because of the modification of a condition placed on a certificate of need.

APPLICATION CHRONOLOGY

December 2, 2008	Amendment Application Submitted
December 3, 2008, through February 11, 2009	Department's Pre-Review Activities <ul style="list-style-type: none">• 1st screening activities and responses
February 12, 2009	Department's Begins Review of Application
April 8, 2009	Department's Anticipated Decision Date
March 31, 2009	Department's Actual Decision Date

AFFECTED PERSONS

Throughout the review of this project, no entities sought or received affected person status as defined in WAC 246-310-010.

SOURCE INFORMATION REVIEWED

- IN-RCG Application for the Othello Dialysis Center received November 30, 2007
- Program evaluation of IN-RCG application for the Othello facility released May 13, 2008
- IN-RCG Certificate of Need Amendment Application received December 2, 2008
- IN-RCG Supplemental Information dated February 5, 2008
- Certificate of Need Historical files

CRITERIA EVALUATION

The review for an amendment project is limited to only those criteria that would be affected by the amendment, provided that the amendment does not alter the basic justification for the initial approval. Based on information presented in this amendment application, the change in lease does not alter the initial justification for the project. Therefore, to obtain CN approval for this project, IN-RCG must demonstrate compliance with the relevant criteria found in WAC 246-310-220 (financial feasibility) and WAC 246-310-240 (cost containment).

CONCLUSION

For the reasons stated in this evaluation, IN-RCG application requesting to modify the lease and the related condition attached to Certificate of Need #1371 is consistent with applicable criteria of the Certificate of Need Program.

The approved capital expenditure for this project remains \$923,681

A. Need (WAC 246-310-210)

Based on the source information reviewed, the Department determines that the applicant has met the applicable need criteria in WAC 246-310-210 and the kidney disease treatment standards in WAC 246-310-284.

- (1) The population served or to be served has need for the project and other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need.
- (2) All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.

In its May 13, 2007, initial evaluation, the Department concluded that the project met the need and accessibility criteria outlined in WAC 246-310-210 and WAC 246-310-284. There was no additional information provided during this review that would change the Department's conclusion regarding the need criteria; therefore, these sub-criteria remain met.

B. Financial Feasibility (WAC 246-310-220)

Based on the source information reviewed, the Department determines that the applicant has met the financial feasibility criteria in WAC 246-310-220.

- (1) The immediate and long-range capital and operating costs of the project can be met.

For financial review of applications, the Department requests data for the first three full years following project completion. In its May 13, 2007 evaluation supporting the issuance of CN #1371, the Department concluded that this sub-criterion was met based on projected patient utilization as a 4-station dialysis center. The initial application included proposed revenues, expenses, and a net profit for IN-RCG in years 2010 through 2012. Within the amended application, IN-RCG has updated the pro forma revenue and expense statement to account for the increase in the facility's rent and a decrease in the allowable depreciation. [Amendment Application, p11, Exhibit 4]

IN-RCG anticipated the facility to be open in June 2009. Under this timeline, year 2010 would continue to be the facility's first full year of operation for the Othello Dialysis Center. Using the financial information provided in the amendment application, Table 1 illustrates the projected revenue, expenses, and net income for fiscal years 2010-2012 for the Othello Dialysis Center. [Amendment Application, p11, Exhibit 4, Quarterly Status Reports]

**Table 1
Amended Revenue and Expenses
Proposed Othello Dialysis Center**

	Year 1 - 2010	Year 2 - 2011	Year 3 - 2012
# of stations	4	4	4
# of Treatments	2,232	2,376	2,520
# of Patients	16	17	18
Utilization Rate	4.00	4.25	4.50
Net Patient Revenue	\$ 951,874	\$ 1,100,954	\$ 1,250,033
Total Operating Expense	\$ 859,232	\$ 932,885	\$ 1,006,538
Net Profit or (Loss)	\$ 92,642	\$ 168,069	\$ 243,495
Net Patient Revenue/Treatment	\$ 388.84	\$ 402.40	\$ 413.37
Total Operating Exp./Treatment	\$ 350.99	\$ 340.97	\$ 332.85
Net Profit per Treatment	\$ 37.84	\$ 61.43	\$ 80.52

[1] includes both in-center and home dialysis patients; [2] in-center patients only;

[3] includes deductions for bad debt, charity care and allocated costs

As shown in Table 1, at the projected volumes identified in the application, Othello Dialysis Center would continue to be operating at a profit as a 4-station facility throughout the three years following completion of the project.

Based on the information above, the Department concludes this sub-criterion remains met.

(2) *The costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services.*

The approved capital expenditure associated with CN #1371 equals \$923,681. The majority of the costs were associated with construction, tenant improvements, and fixed/moveable equipment. After the lease revision, the capital costs remain unchanged. [Amendment Application, p18, February 5, 2009 Supplemental Information, p1]

**Table 2
Capital Cost Breakout by Payor**

Evaluation Breakdown Of ECE	Total	% of Total	Payor
Leasehold Improvements w/ tax	\$ 639,744	69%	Lessor
Fixed & Moveable Equipment w/tax	\$ 239,437	26%	IN-RCG
Professional Fees	\$ 44,500	5%	IN-RCG
Total Estimated Capital Costs	\$ 923,681	100.00%	

This sub-criterion considers the impact of the expenditure on the cost and charges for health services in the initial application. The Department stated in the May 13, 2007 evaluation that the project would not have an unreasonable on the costs and charges. Nothing within the amended application, or the Department's analysis, would change this conclusion.

Based on the information above, the Department concludes this sub-criterion remains met.

(3) The project can be appropriately financed.

In its May 13, 2007 evaluation supporting the issuance of CN #1371, the Department concluded that this sub-criterion was met. IN-RCG's proposed to fund the construction of the facility with existing cash reserves.

As described above, the amendment to the lease provide for a decrease in the in the initial outlay of cash reserves by IN-RCG. The costs are shifted to an increase of \$63,974 in the annual rent of the facility. As shown in the detail of projected revenues above, the service level appears to adequately fund the additional rent expense.

Based on the information provided above, the Department concludes this sub-criterion remains met.

C. Structure and Process (Quality) of Care (WAC 246-310-230)

Based on the source information reviewed, the Department determines that the applicant has met the structure and process (quality) of care criteria in WAC 246-310-230.

- (1) A sufficient supply of qualified staff for the project, including both health personnel and management personnel, are available or can be recruited.
- (2) The proposed service(s) will have an appropriate relationship, including organizational relationship, to ancillary and support services, and ancillary and support services will be sufficient to support any health services included in the proposed project.
- (3) There is reasonable assurance that the project will be in conformance with applicable state licensing requirements and, if the applicant is or plans to be certified under the Medicaid or Medicare program, with the applicable conditions of participation related to those programs.
- (4) The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area's existing health care system.
- (5) There is reasonable assurance that the services to be provided through the proposed project will be provided in a manner that ensures safe and adequate care to the public to be served and in accord with applicable federal and state laws, rules, and regulations.

In its May 13, 2007, initial evaluation, the Department concluded that the project met the structure and process of care criteria outlined in WAC 246-310-230. There was no additional information provided during this review that would change the Department's conclusion regarding the structure and process of care criteria; therefore, these sub-criteria remain met.

D. Cost Containment (WAC 246-310-240)

Based on the source information reviewed, the Department determines that the applicant has met the cost containment criteria in WAC 246-310-240.

(1) Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.

In its May 13, 2007, initial evaluation, the Department concluded that the project was the best option for the community. The result would be the establishment of a new dialysis facility to provide dialysis services to the residents of Adams County.

In consideration of the lease amendment, IN-RCG states, “In evaluating whether to enter into a turnkey versus retaining the current lease structure, we evaluated the benefits of retaining cash in the current economic environment, and concluded that the turnkey was superior to the original lease structure”. [Amendment Application, p24]

Based on the information provided in the amendment application related to the rationale for the changes in the executed lease, the Department concludes that the submission of amendment application is both prudent and appropriate. This sub-criterion is met.

(2) In the case of a project involving construction:

- a) The costs, scope, and methods of construction and energy conservation are reasonable;
- b) The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.

In its May 13, 2007, initial evaluation, the Department concluded that the project met the cost containment criteria outlined in WAC 246-310-240(2). There was no additional information provided during this review that would change the Department’s conclusion regarding the cost containment criteria; therefore, these sub-criteria remain met.