

**EVALUATION OF THE CERTIFICATE OF NEED AMENDMENT APPLICATION
SUBMITTED ON BEHALF OF NORTHWEST KIDNEY CENTERS PROPOSING TO
AMEND CN# 1360 DUE TO AN INCREASE IN CAPITAL COSTS**

PROJECT DESCRIPTION

NKC is a private, not-for-profit corporation, incorporated in the State of Washington that provides dialysis services through its facilities. Established in 1962, NKC operates as a community based dialysis program working to meet the needs of dialysis patients and their physicians.

NKC is governed by a volunteer Board of Trustees. The Board is comprised of medical, civic and business leaders from the community. An appointed Executive Committee of the Board oversees operating policies, performance and approves capital expenditures for all of its facilities.

In Washington State, NKC owns and operates a total of fourteen kidney dialysis facilities. Of these, thirteen reside within King County. Below is a listing of the NKC facilities in Washington, inclusive of the Kent Kidney Center discussed in this amendment application.

[Initial Evaluation, p4, NKC website]

King County

Auburn Kidney Center	Scribner Kidney Center
Elliot Bay Kidney Center	Seattle Kidney Center
Haviland Kidney Center	SeaTac Kidney Center
Lake City Kidney Center	Snoqualmie Ridge Kidney Center
Lake Washington Kidney Center	Totem Lake Kidney Center
Kent Kidney Center	West Seattle Kidney Center
Mount Rainier Kidney Center	

Clallam County

Port Angeles Kidney Center

On February 27, 2007, Northwest Kidney Centers (NKC) submitted its Certificate of Need application to establish a seventeen station dialysis facility to be known as the Kent Kidney Center, to serve the patients residing in King County planning area #10. The NKC proposal was reviewed under concurrent review with two other applications, both submitted by DaVita, Inc. The NKC proposal for the Kent Kidney Center was the only approved application.

On November 1, 2007, the Department released its evaluation approving NKC's proposal to establish the new facility. The evaluation identified capital costs equaling \$1,343,330. The evaluation also provided details regarding the use of Board reserves to fund the facility's construction.

In the initial application, NKC provided a line drawing of the proposed facility which was designed to accommodate 17 traditional outpatient dialysis stations equipped with recliners. These stations were distributed along one primary wall within the facility. Initial plans were to accommodate one permanently bedded isolation room. With this amendment application, NKC details the decision to modify the plans for the facility to include 7 permanently bedded stations as a Special Care section. The modification required a series of redesigns to allow for a larger station footprint, a second nursing station, equipment upgrades, and additional electrical and plumbing configurations.

By using the bedded stations rather than the traditional recliners, NKC is equipped to accommodate patients who are positive with Clostridium difficile (C-diff).¹ These stations required physical separation from the other stations within the facility. Other design changes allowed for vacuum and oxygen capacity in the headwalls and provided for an isolation area with a private restroom. As summarized by the applicant, “[the bedded stations] needed to be physically separated from the normal outpatient stations to more effectively provide appropriate care to both groups of patients”. [Amendment Application, p1]

The result of the design modifications was an increase of \$355,001 to the CN approved capital expenditure of \$1,343,330. This is a 21% increase above the approved costs. NKC originally anticipated the facility to be open in March 2008, but the design changes delayed construction and NKC did not receive facility certification until December, 2008. Even with these changes, year 2009 would continue to be the facility’s first full year of operation for the Kent Kidney Center

A review of the amended estimated capital expenditure shows that 69% is related to the Lessor’s construction of the facility and necessary upgrades, the applicant remains responsible for costs related to equipment, professional services, and taxes. The complete figures are cited in Table 1. [Application, p4 & Appendix 8]

**Table 1
Detail of Amended Capital Costs**

Evaluation Breakdown Of ECE	Total	% of Total
Construction	\$ 1,180,085	69%
Fixed Equipment	\$ 144,046	8%
Moveable Equipment	\$ 235,401	14%
Taxes	\$ 138,799	8%
Total Estimated Capital Costs	\$ 1,698,331	100.00%

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to review under WAC 246-310-570(1)(e) because of the increase in capital costs exceeds 12% or \$50,000, whichever is greater.²

¹ Clostridium difficile is a bacterium that causes diarrhea and more serious intestinal conditions which has been associated with antibiotic treatment in patients receiving dialysis.

² The Applicant is permitted to submit this amendment application after the facility received its certification under the provisions of WAC246-310-570(2)(a).

APPLICATION CHRONOLOGY

April 13, 2009	Amendment Application Submitted
April 14, 2009 through April 21, 2009	Department's Pre-Review & Screening Activities
April 22, 2009	Department's Begins Review of Application
June 17, 2009	Department's Anticipated Decision Date
June 16, 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

- NKC Application for the Kent Kidney Center received February 27, 2007
- Program evaluation of NKC application for the Kent facility released November 1, 2007
- NKC Certificate of Need Amendment Application received April 13, 2009
- NKC website (www.nwkidney.org)
- 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 capital costs does not alter the initial justification for the project. Therefore, to obtain CN approval for this project, NKC 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, NKC application requesting to amend the approved capital costs for Certificate of Need #1360 is consistent with applicable criteria of the Certificate of Need Program. The project should be approved.

The amended capital expenditure for this project is \$1,698,331

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 November 1, 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 November 1, 2007 evaluation supporting the issuance of CN #1360, the Department concluded that this sub-criterion was met based on projected patient utilization as a 17-station dialysis center. The initial application included proposed revenues, expenses, and a net profit for NKC in years 2009 through 2011. Within the amended application, NKC has updated the pro forma revenue and expense statement to account for the increase in the facility's operating expenses. [Amendment Application, Appendix 10: Original Evaluation, p15]

NKC anticipated the facility to be open in March 2008, but was delayed and actually received certification in December 2008. Under this timeline, year 2009 would continue to be the facility's first full year of operation for the Kent Kidney Center. Using the financial information provided in the amendment application, Table 2 illustrates the projected revenue, expenses, and net income for fiscal years 2009-2011 for the Kent Kidney Center. [Amendment Application, Appendix 10, Quarterly Status Reports]

**Table 2
Amended Revenue and Expenses
Kent Kidney Center**

	Year 1 - 2009	Year 2 - 2010	Year 3 - 2011
# of stations	17	17	17
# of Treatments [1]	6,552	9,672	12,792
# of Patients [1]	42	62	82
Utilization Rate	2.47	3.65	4.82
Net Patient Revenue	\$ 1,420,474	\$ 2,096,889	\$ 2,773,306
Total Operating Expense [2]	\$ 1,152,386	\$ 1,521,882	\$ 1,891,479
Net Profit or (Loss)	\$ 268,088	\$ 575,007	\$ 881,827
Net Patient Revenue/Treatment	\$ 216.80	\$ 216.80	\$ 216.80
Total Operating Exp./Treatment	\$ 175.88	\$ 157.35	\$ 147.86
Net Profit per Treatment	\$ 40.92	\$ 59.45	\$ 68.94

[1] in-center patients only; [2] includes deductions for bad debt, charity care and allocated costs

At the projected volumes carried through from the original to the amended application, the increase in expenses have produced a marginally lower (<\$1.00) profit per treatment than the original application. Kent Kidney Center would continue to be operating at a profit as a 17-station facility throughout the three years following completion of the project. [Amendment application, p16]

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 originally approved capital expenditure associated with CN #1360 equaled \$1,343,330. The majority of the costs were associated with construction and fixed/moveable equipment. Table 3 outlines the original cost estimated for this project. [Initial evaluation, p4]

**Table 3
Original Estimated Capital Expenditure**

Original Breakdown Of ECE	Total	% of Total
Construction	\$ 1,009,895	75%
Fixed & Moveable Equipment	\$ 223,650	17%
Taxes	\$ 109,785	8%
Total Estimated Capital Costs	\$ 1,343,330	100.00%

The amended application provides a similar detail of the cost breakout. As previously detailed above in Table 1, NKC has realized an increase of 5% in the cost of related equipment or approximately \$155,797. When added to the increase in construction costs of \$170,190, nearly 92% of the increased costs are accounted for. The remainder identified as additional taxes. The amended costs detailed above have been restated in Table 4.

Table 4
Amended Capital Expenditure

Amended Cost Breakdown	Total	% of Total
Construction	\$ 1,180,085	69%
Fixed Equipment	\$ 144,046	8%
Moveable Equipment	\$ 235,401	14%
Taxes	\$ 138,799	8%
Total Estimated Capital Costs	\$ 1,698,331	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 November 1, 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 November 1, 2007 evaluation supporting the issuance of CN #1360, the Department concluded that this sub-criterion was met. NKC had proposed to fund the construction of the facility with existing Board reserves.

As described above, the increase in capital costs necessary to install the equipment and station upgrades would result in an additional cash outlay from NKC Board reserves. The additional costs equate to a 21% increase in cost. The financial health of the organization indicates that there would be sufficient resources to support the necessary increase and would not negatively effect the financial standing of the organization. [Original application, Appendix 27]

Based on the information provided, 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 November 1, 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 November 1, 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 King County planning area #10.

In consideration of the improvements implemented, NKC contends, "At the current time there are approximately 25 NKC special care dialysis patients in South King County, many of whom are sequestered in long-term care facilities, who previously had to travel by cabulance or ambulance to NKC's special care unit on First Hill in Seattle. The new Special Care unit at the NKC-Kent Kidney Center offers a more convenient, and thus less timely and assuredly lower cost, opportunity for them to travel to and from dialysis three times a week". [Amendment Application, p24]

Based on the information provided in the amendment application related to the rationale for the inclusion of the bedded stations, 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 November 1, 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.