STATE OF WASHINGTON

DEPARTMENT OF HEALTH

Olympia, Washington 98504

March 6, 2018

CERTIFIED MAIL # 7014 2120 0002 7627 2124

Austin Ross, Vice President of Planning
Northwest Kidney Centers
700 Broadway
Seattle, Washington 98122-4302

CN: 17-32

Dear Mr. Ross:

We have completed review of the Certificate of Need application submitted by Northwest Kidney Centers, Inc. proposing to add 9-stations to the existing NKC Kent Kidney Center in Kent within King County ESRD #10. Enclosed is a written evaluation of the application.

For the reasons stated in the enclosed decision, the application is consistent with the applicable criteria of the Certificate of Need Program, provided Northwest Kidney Centers, Inc. agrees to the following in its entirety.

Project Description

This certificate approves the addition nine dialysis stations to NKC Kent Kidney Center. At completion of the station addition, NKC Kent Kidney Center is approved to certify and operate 27 stations. Services provided at the center include in-center hemodialysis, home peritoneal and hemodialysis training services, treatment shifts beginning after 5:00 p.m., a permanent bed station, and a dedicated isolation/private room. A breakdown of the approved 27 stations is shown below:

NKC Kent Kidney Center

Isolation Station	1
Permanent Bed Station	1
Other In-Center Stations	25
Total In-Center Stations	**27**

Condition:

1. Northwest Kidney Centers agrees with the project description as stated above. Northwest Kidney Centers further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.

Approved Costs:

The total cost of this project is $1,699,127. Of this amount, $1,530,054 is NKC's approved cost. The remaining $169,073 is the amount the landlord will incur.

Please notify the Department of Health within 20 days of the date of this letter whether you accept the above project description, conditions, and capital costs for your project. If you accept these in their entirety, your application will be approved and a Certificate of Need sent to you.

If you reject any of the above provisions, your application will be denied. The department will send you a letter denying your application and provide you information about your appeal rights.

Send your written response to the Certificate of Need Program, at one of the following addresses.

Mailing Address:
Department of Health
Certificate of Need Program
Mail Stop 47852
Olympia, WA 98504-7852

Physical Address:
Department of Health
Certificate of Need Program
111 Israel Road SE
Tumwater, WA 98501

If you have any questions, or would like to arrange for a meeting to discuss our decision, please contact Janis Sigman with the Certificate of Need Program at (360) 236-2955.

Sincerely,

Nancy Tyson, Executive Director
Health Facilities and Certificate of Need

Enclosure

EVALUATION DATED MARCH 6, 2018, FOR THE CERTIFICATE OF NEED APPLICATION SUBMITTED BY NORTHWEST KIDNEY CENTERS PROPOSING TO ADD 9 STATIONS TO THE EXISTING 18 STATION NORTHWEST KIDNEY CENTERS d/b/a NKC KENT KIDNEY CENTER IN KING COUNTY END STAGE RENAL DISEASE PLANNING AREA #10

APPLICANT DESCRIPTION

Northwest Kidney Center's (NKC) is a private, not-for-profit corporation, incorporated in the state of Washington. NKC provides dialysis services through its facilities located in King and Clallam counties. Established in 1962, NKC operates a community based dialysis program working to meet the needs of dialysis patients and their physicians. A volunteer board of trustees governs NKC. 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. [Source: Application, pages 2-3, Exhibit 2, and Exhibit 3]

In Washington State, NKC is approved to operate the 17 kidney dialysis facilities listed below. NKC does not own or operate any healthcare facilities outside of Washington State. [Source: Application, Exhibit 4]

King County

Auburn Kidney Center
Broadway Kidney Center
Elliot Bay Kidney Center
Enumclaw Kidney Center
Kent Kidney Center
Kirkland Kidney Center
Lake City Kidney Center
Federal Way Kidney Center
Lake Washington Kidney Center
Renton Kidney Center
Scribner Kidney Center
Seattle Kidney Center
SeaTac Kidney Center
Snoqualmie Ridge Kidney Center
West Seattle Kidney Center

Clallam County

Port Angeles Kidney Center

Pierce County

NKC Fife Kidney Center[1]

PROJECT DESCRIPTION

Northwest Kidney Centers proposes to expand its existing 18-station NKC Kent Kidney Center by an additional 9 stations for a facility total of 27 stations. The facility is located at 25316 74th Avenue South, Suite 101 in the city of Kent within King County ESRD planning area #10. Services provided include in-center hemodialysis and home peritoneal and hemodialysis training. The facility will offer evening treatments beginning after 5:00 p.m., a permanent bed station, and a dedicated isolation/private room. [Source: Application, pages 7 and 8, and Exhibit 9]

The total capital expenditure associated with the 9-station addition project is $1,699,127. The property owner is responsible for $169,073 of this amount. NKC's portion of the cost is $1,530,054. Of that amount 68% is related to building construction; 13% for fixed and moveable equipment; and the remaining 19% is related to taxes and fees. [Source: Screening responses received May 15, 2017, page 2]

[1] Recently approved CN App #17-31

If this project is approved, NKC anticipates the nine new stations would be operational by May 2018. Under this timeline, FYE year 2019 would be the facility's first full year of operation as a 27-station facility, and FYE 2021 would be year three. [Source: Application, Page 10]

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to Certificate of Need (CN) review because it increases the number of dialysis stations at an existing kidney disease treatment facility under the provisions of Revised Code of Washington (RCW) 70.38.105(4)(h) and Washington Administrative Code (WAC) 246-310-020(1)(e).

EVALUATION CRITERIA

WAC 246-310-200(1)(a)-(d) identifies the four determinations that the department must make for each application. WAC 246-310-200(2) provides additional direction in how the department is to make its determinations. It states:

"Criteria contained in this section and in WAC 246-310-210, 246-310-220, 246-310-230, and 246-310-240 shall be used by the department in making the required determinations.

(a) In the use of criteria for making the required determinations, the department shall consider:

(i) The consistency of the proposed project with service or facility standards contained in this chapter;

(ii) In the event the standards contained in this chapter do not address in sufficient detail for a required determination the services or facilities for health services proposed, the department may consider standards not in conflict with those standards in accordance with subsection (2)(b) of this section; and

(iii) The relationship of the proposed project to the long-range plan (if any) of the person proposing the project."

In the event WAC 246-310 does not contain service or facility standards in sufficient detail to make the required determinations, WAC 246-310-200(2)(b) identifies the types of standards the department may consider in making its required determinations. Specifically WAC 246-310-200(2)(b) states:

"The department may consider any of the following in its use of criteria for making the required determinations:

(i) Nationally recognized standards from professional organizations;

(ii) Standards developed by professional organizations in Washington State;

(iii) Federal Medicare and Medicaid certification requirements;

(iv) State licensing requirements;

(v) Applicable standards developed by other individuals, groups, or organizations with recognized expertise related to a proposed undertaking; and

(vi) The written findings and recommendations of individuals, groups, or organizations with recognized expertise related to a proposed undertaking, with whom the department consults during the review of an application."

WAC 246-310-280 through 289 contain service or facility specific criteria for dialysis projects and must be used to make the required determinations.

To obtain Certificate of Need approval, an applicant must demonstrate compliance with the applicable criteria found in WAC 246-310-210 (need); 246-310-220 (financial feasibility); 246-310-230 (structure and process of care); and 246-310-240 (cost containment). For this project, NKC must demonstrate compliance with applicable kidney disease treatment center criteria outlined in WAC 246-310-280 (definitions); WAC 246-310-282 (concurrent review cycle); and WAC 246-310-284 (methodology).

TYPE OF REVIEW

As directed under WAC 246-310-282(1) the department accepted this project under the Kidney Disease Treatment Centers-Concurrent Review Cycle #1. On February 28, 2017, DaVita Healthcare Partners, Inc. also submitted an application to add either 11 or 9 station facility within the same planning area. DaVita's application was returned because the department determined the application as submitted was significantly different than that proposed in the letter of intent[2]. Because DaVita's application was returned, as allowed under WAC 246-310-282(5), NKC's application was the only application submitted for the planning area, as a result NKC's application was converted to regular review.

APPLICATION CHRONOLOGY

Action	Northwest Kidney Centers
Letter of Intent Submitted	January 31, 2017
Application Submitted	February 28, 2017
Department's Pre-review Activities including • DOH 1st Screening Letter • Applicant's Responses Received • DOH 2nd Screening Letter • Applicant's Responses Received	 March 31, 2017 May 15, 2017 N/A[3] N/A
Beginning of Review	June 6, 2017
End of Public Comment • Public comments accepted through	 July 19, 2017
• Public hearing conducted[4] • Rebuttal Comments Received	N/A N/A
Department Declares Pivotal Unresolved Issue (PUI)[5]	October 13, 2017
End Public Comments on PUI Documents[6]	N/A
Rebuttal Comments Submitted for PUI Document[7]	N/A
Department Anticipated Decision Date	January 15, 2018
Department Actual Decision Date	March 6, 2018

[2] Under WAC 246-310-080(5) (a), DaVita was required "to submit a letter of intent according to the applicable schedule [in WAC 246-310-282]. The "significant change" meant that under WAC 246-310-080(3) the application became the letter of intent. Accordingly, the letter of intent failed to meet the requirement in WAC 246-310-282 that letters of intent be submitted through the last working day of January in order to qualify for consideration during the year's first concurrent review cycle.

[3] NKC waived a second screening, and instead requested that the department begin review, regardless of whether the information was complete

[4] The department did not conduct a public hearing.

[5] On October 13, 2017, the department declared a PUI because NKC application did not provide the assumptions used to prepare patients volume, and the pro forma financial statement and the department failed to request the information in screening.

[6] The department did not receive any PUI public comment.

[7] Because the department did not receive any PUI public comment, NKC did not provide PUI rebuttal comment.

AFFECTED PERSONS

Washington Administrative Code 246-310-010(2) defines "affected person as:

"...an "interested person" who:

(a) Is located or resides in the applicant's health service area;

(b) Testified at a public hearing or submitted written evidence; and

(c) Requested in writing to be informed of the department's decision."

WAC 246-310-010(2) requires an affected person to first meet the definition of an "interested person." WAC 246-310-010(34) defines "interested person" as:

(a) The applicant;

(b) Health care facilities and health maintenance organizations providing services similar to the services under review and located in the health service area;

(c) Third-party payers reimbursing health care facilities in the health service area;

(d) Any agency establishing rates for health care facilities and health maintenance organizations in the health service area where the proposed project is to be located;

(e) Health care facilities and health maintenance organizations, which, in the twelve months prior to receipt of the application, have submitted a letter of intent to provide similar services in the same planning area;]

(f) Any person residing within the geographic area to be served by the applicant; and

(g) Any person regularly using health care facilities within the geographic area to be served by the applicant

For this application DaVita Healthcare Partners, Inc. sought "interested person" status.

DaVita HealthCare Partners, Inc.

DaVita Healthcare Partners, Inc. requested interested person status and to be informed of the department's decision. DaVita Healthcare Partners, Inc. provides kidney dialysis services in King County ESRD planning area #10 and meets the definition of an "interested person" under WAC 246-310-010(34)(b). DaVita Healthcare Partners, Inc. provided comments related to this application, and qualifies as an "affected person."

SOURCE INFORMATION REVIEWED

- Northwest Kidney Centers application received February 28, 2017
- Northwest Kidney Centers screening responses received May 15, 2017
- Years 2010 through 2015 historical kidney dialysis data obtained from the Northwest Renal Network
- 2015 Northwest Renal Network 3rd Quarter Utilization Data released November 15, 2016[8]
- Licensing and/or survey data provided by the Department of Health's Investigations and Inspections Office
- Northwest Kidney Centers website www.nwkidney.org
- Northwest Renal Network website www.nwrn.org

[8] WAC 246-310-242 states: *"....Data used to make this calculation must be from the most recent quarterly modality report or successor report from the Northwest Renal Network as of the first day of the application submission period."* The first day of the application submission period was February 1, 2017.

- Centers for Medicare and Medicaid website www.medicare.gov/dialysisfacilitycompare
- Certificate of Need historical files
- Northwest Kidney Centers PUI response received on October 20, 2017.

CONCLUSION

For the reasons stated in this evaluation, the application submitted by Northwest Kidney Centers proposing to add nine stations to NKC Kent Kidney Center in King County planning area #10 is consistent with applicable criteria of the Certificate of Need Program, provided Northwest Kidney Centers agree to the following in its entirety.

Project Description:

This certificate approves the addition nine dialysis stations to NKC Kent Kidney Center. At completion of the station addition, NKC Kent Kidney Center is approved to certify and operate 27 stations. Services provided at the center include in-center hemodialysis, home peritoneal and hemodialysis training services, treatment shifts beginning after 5:00 p.m., a permanent bed station, and a dedicated isolation/private room. A breakdown of the approved 27 stations is shown below:

NKC Kent Kidney Center

Private Isolation Station	1
Permanent Bed Station	1
Other In-Center Stations	25
Total In-Center Stations	**27**

Condition:

1. Northwest Kidney Centers agrees with the project description as stated above. Northwest Kidney Centers further agrees that any change to the project as described in the project description is a new project that requires a new Certificate of Need.

Approved Costs:

The total cost of this project is $1,699,127. Of this amount, $1,530,054 is NKC's approved cost. The remaining $169,073 is the amount the landlord will incur.

CRITERIA DETERMINATIONS

A. Need (WAC 246-310-210)

Based on the source information reviewed and agreement to the conditions identified in the conclusion section of this evaluation, the department concludes that Northwest Kidney Centers project has met the need criteria in WAC 246-310-210 and the applicable kidney disease treatment facility criteria in WAC 246-310-280; WAC 246-310-282; and 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.

WAC 246-310-284 requires the department to evaluate kidney disease treatment centers applications based on the population's need for the service and determine whether other services and facilities of the type proposed are not, or will not, be sufficiently available or accessible to meet that need as required in WAC 246-310-210. The kidney disease treatment center specific numeric methodology applied is detailed under WAC 246-310-284(4). WAC 246-310-210(1) criteria is also identified in WAC 246-310-284(5) and (6).

WAC 246-310-284 Kidney Disease Treatment Center Numeric Methodology

WAC 246-310-284 contains the methodology for projecting numeric need for dialysis stations within a planning area. This methodology projects the need for kidney dialysis treatment stations through a regression analysis of the historical number of dialysis patients residing in the planning area using verified utilization information obtained from the Northwest Renal Network (NWRN).[9]

The first step in the methodology calls for the determination of the type of regression analysis to be used to project resident in-center station need. [WAC 246-310-284(4)(a)] This is derived by calculating the annual growth rate in the planning area using the year-end number of resident in-center patients for each of the previous six consecutive years, concluding with the base year.[10]

In planning areas experiencing high rates of growth in the dialysis population (6% or greater growth in each of the last five annual change periods), the method uses exponential regression to project future need. In planning areas experiencing less than 6% growth in any of the last five annual change periods, linear regression is used to project need.

Once the type of regression is determined as described above, the next step in the methodology is to determine the projected number of resident in-center stations needed in the planning area based on the planning area's previous five consecutive years NWRN data, again concluding with the base year. [WAC 246-310-284(4)(b) and (c)]

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[9] NWRN was established in 1978 and is a private, not-for-profit corporation independent of any dialysis company, dialysis unit, or transplant center. It is funded by Centers for Medicare and Medicaid Services, Department of Health and Human Services. Northwest Renal Network collects and analyzes data on patients enrolled in the Medicare ESRD programs, serves as an information resource, and monitors the quality of care given to dialysis and transplant patients in the Pacific Northwest. [Source: Northwest Renal Network website]

[10] WAC 246-310-280 defines base year as the most recent calendar year for which December 31 data is available as of the first day of the application submission period from the *Northwest Renal Network's Modality Report* or successor report." For this project, the base year is 2015.

WAC 246-310-284(5) identifies that for all planning areas except Adams, Columbia, Douglas, Ferry, Garfield, Jefferson, Kittitas, Klickitat, Lincoln, Okanogan, Pacific, Pend Oreille, San Juan, Skamania, Stevens, and Wahkiakum counties, the number of projected patients is divided by 4.8 to determine the number of stations needed in the planning area. For the specific counties listed above, the number of projected patients is divided by 3.2 to determine needed stations. Additionally, the number of stations projected as needed in the target year is rounded up to the nearest whole number.

Finally, once station need has been calculated for the project years, the number of CN approved in-center stations are then subtracted from the total need, resulting in a net need for the planning area. [WAC 246-310-284(4)(d)]

WAC 246-310-280(9) identifies the 57 separate ESRD planning areas for the state. King County is broken into 12 sub-planning areas. NKC proposes to add dialysis station capacity to King County planning area # 10. The following six zip codes are included in this planning area.

Zip	City
98030	Kent
98031	Kent
98032	Kent
98038	Maple Valley
98042	Kent/Covington
98051	Ravensdale

The department calculates the numeric methodology for each of the 57 planning areas and posts the results to its website. The year 2016 numeric methodology was posted March 2016 and will be used for evaluating this project.

Northwest Kidney Centers Numeric Methodology

- *"In-center dialysis station need for the planning area was determined by applying the five step methodology set forth in WAC 246-310-284. The specific methodology as applied to King 10 is detailed below. A copy of the CN Program's methodology is included in Exhibit 10."* [Source: Application, page 16]
- *"Table 8 details the year end number of in-center hemodialysis patients in King 10. As Table 8 demonstrates, growth in each of the previous five annual change calculations has not exceeded six percent. As such, a linear regression is to be used to project station need."* [Source: Application, page 17]

Table 8 (Reproduced)King 10 Year-End In-Center Hemodialysis Patients and Annual Rate of Change 2010-2015

Year	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
Number of Patients	*124*	*138*	*155*	*167*	*166*	*180*
Rate of Change from Prior Year	*--*	*11.29%*	*12.32%*	*7.74%*	*-0.60%*	*8.43%*

- *"Table 9 details the number of projected in-center patients in King 10 in the years 2016-2019*

Table 9 (Reproduced)
Projected Year-End Resident In-Center Hemodialysis Patients
Linear Projection

Year	*2016*	*2017*	*2018*	*2019*
Number of Patients	*189.7*	*199.2*	*208.7*	*218.2*

- *"Per WAC, the projection year is 2019. For King 10, the appropriate resident in-center patient per station number is 4.8. Assuming 218 patients, 46 stations are calculated as needed in 2019."* [Source: Application, page 17]

- *"Table 10 demonstrates that there are currently 37 CN approved and/or operational stations in King 10 (at NKC Kent) which, when total projected need is subtracted, leaves a net need for nine stations in 2019*

Table 10 (Reproduced)
Analysis of Current Supply vs. Net Station Need

	Stations
Current Supply:	
NKC Kent	*18*
DaVita Kent	*19*
TOTAL SUPPLY	*37*
2019 Projected Need	*46*
Net Station Need	*9"*

[Source: Application, page 18]

Public Comments
None

Rebuttal Comments
None

Department Evaluation
NKC submitted a copy of the department's posted methodology for ESRD King #10 as part of the application. No other methodology was produced.

Based on the calculation of the annual growth rate of the planning area described above, the department used linear regression to project the need for the ESRD King #10 planning area. The department divided the projected number of patients by 4.8 to determine the number of stations needed as required under WAC 246-310-284(5). The department's methodology showed a need for nine new stations in the planning area by the end of year 2019. The department's methodology is included in this evaluation as Attachment A. The department concludes NKC **met this numeric methodology standard.**

In addition to the numeric need, the department must determine whether other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet the dialysis station need.[11] The department uses the standards in WAC 246-310-284(5) and WAC 246-310-284(6) for this determination.

WAC 246-310-284(5)

Before the department approves new in-center kidney dialysis stations, all certificate of need approved stations in the planning area must be operating at 4.8 in-center patients per station for all planning areas except Adams, Columbia, Douglas, Ferry, Garfield, Jefferson, Kittitas, Klickitat, Lincoln, Okanogan, Pacific, Pend Oreille, San Juan, Skamania, Stevens, and Wahkiakum counties. For these exception planning areas all certificate of need approved stations in the planning area must be operating at 3.2 in-center patients per station. Both resident and nonresident patients using the dialysis facility are included in this calculation. Data used to make this calculation must be from the most recent quarterly modality report or successor report from the Northwest Renal Network as of the first day of the application submission period.

For King County planning area #10, all approved stations in the planning area must be operating at 4.8 in-center patients per station before new stations can be added. The 4.8 patients per station represents 80% of the maximum number of patients that can receive dialysis per station in a facility that operates three patient shifts. If existing providers are operating either at or above the 4.8 standard, then the department considers the providers are effectively and appropriately serving the population. The 4.8 standard also means that the existing providers are approaching an occupancy level where stations are not or will not be sufficiently available to meet future need. WAC 246-310-284(5) identifies the data to be used to evaluate this sub-criterion.

Northwest Kidney Centers

"Per WAC, the required in-center patients per stations in King 10 is 4.8. Northwest Renal Network data for the quarter ending September 30, 2016, (summarized in Table 11), demonstrates that each of the two existing facilities was at or above 4.8 patients per station on that date

Table 11 (Reproduced)
Operating Ration/Standard of Use as Applied to King 10 Dialysis Planning Area Providers

Facility	*Number of stations*	*9/30/2016 Number of Patient per Quarterly In-Center Data*	*9/30/2016 Patients /station*
NKC Kent	*18*	*111*	*6.17*
DaVita Kent	*19*	*98*	*5.16"*

[Source: Application, page 19]

Public Comments

Public comments provided by NKC in support of its application stated, *"As documented in our application, NKC Kent's occupancy has consistently been in excess of 93% and has been over 100% since June 2015".* [Source NKC public comments received June 19, 2017, page 1]

[11] WAC 246-310-210(1)(b)

In addition to the comments submitted by NKC, the department received letters of supports for the nine station addition project. Excerpts from some of the letters related to this sub criterion from are summarized below.

- *"I have no problem getting in to Kent but trouble getting the time I wanted. I have seen the waiting times... increased without expansion I know staffing will need to increase".[Baker, Raymond]*

- *I am the medical director of the Kent unit of the Northwest Kidney Center, and a nephrologist who care for many dialysis patients in this area. The growing dialysis population in Kent has exceeded capacity of the two dialysis units in this city (Northwest Kidney Center and DaVita). I have patients who reside in Kent but dialyze as far away as Enumclaw and downtown Seattle because there are no local spots available. Expansion would bring much needed relief to my patients who are on waiting list for a local dialysis opportunity. A shorter commute improves their quality of life. It also improves access to medical care because it allows local nephrologists to see their patients who dialyze in Kent with greater frequency". [Andrew Brockenbrough, MD]*

- *"I am writing in support of the Northwest Kidney Centers request for 9 additional dialysis stations at the Kent Kidney Center. My understanding is there are currently over two dozen patients awaiting a slot to dialyze at this unit. For these 24 patients the Kent unit is significantly closer to their homes than where they are currently dialyzing. Opening these 9 stations in an already existing unit is cost effective, time efficient, and would allow another 54 patients precious hours to spend at home". [Katy Wilkens, MS, RD, FNKF]*

- *"I am requesting approval of an additional 9 dialysis stations to northwest Kidney Centers (KKC). This clinic operates at 100-104% capacity and has since 2015. Functioning at this level compromises the ability to meet the needs of our patients and the community we are here to serve". [Debra Marcella, RN, BSN, Clinical Director]*

- *I recently dialyzed at the RKC & and did not realize that there's a KKC which is close to home & work & which makes it convenient to my needs. I feel it's necessary for expansion at this time due to the fact there are more people on the pending waiting list". [Mark Ramirez]* [Source: July 19, 2017, Letters of support]

Rebuttal Comments
None

Department Evaluation
As shown by the excerpt statements from some of the letters received by the department, it appears that the addition of nine new dialysis stations to NKC Kent may relive patients waiting times and provide access to services at the facility. The patient letters show that additional stations are needed.

WAC 246-310-284(5) requires the department use the most recent quarterly modality report, as of the first day of the application submission period, from the NWRN to calculate the number of patients per station at each of the planning area's dialysis facilities. This application was submitted

during the 2017 ESRD concurrent review Cycle 1. The first day of the application submittal period was February 1, 2017. The most recent quarterly modality report as of February 1, 2017, was September 30, 2016 (3rd Quarter) posted by the NWRN on November 7, 2016. DaVita and NKC operate the only two facilities in ESRD King #10. The department and NKC's number of patients per station are the same as shown in the reproduced Table 11 above. The department concludes **this criterion is met**.

WAC 246-310-284(6)

By the third full year of operation, new in-center kidney dialysis stations must reasonably project to be operating at:

(a) 4.8 in-center patients per station for those facilities required to operate at 4.8 in-center patients as identified in subsection (5) of this section; or

(b) 3.2 in-center patients per station for those facilities required to operate at 3.2 in-center patients as identified in subsection (5) of this section.

For King County, the requirement is 4.8 in-center patients per approved station. [WAC 246-310-284(6)(a)]

Northwest Kidney Centers

"As table 12 demonstrates, with the 9 additional stations, a total of 27 stations, and our estimated volume, NKC Kent will operate in excess of 4.8 in-center patients per station by the 3rd full year of operation.

Table 12 (Reproduced)
Projected NKC Kent Occupancy, FYE2018-FYE2021

Year	*Full or Partial Year*	*27 Stations*	
		Projected Patients	*Patients/ Station*
2018	*Partial*	*115*	*4.26*
2019	*Full*	*122*	*4.52*
2020	*Full*	*129*	*4.78*
2021	*Full*	*136*	*5.04"*

[Source: Application Page 19]

Public Comments
None

Rebuttal Comments
None

Department Evaluation

The patients per station standard for ESRD King #10 is 4.8 in-center patients per approved station. The third full year for the NKC Kent Kidney Center is FYE 2021. NKC projected the facility would have 5.04 patients per station by that time. The department concludes that **this standard is met.**

(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.*

To evaluate this sub-criterion, the department evaluates an applicant's admission policies, willingness to serve Medicare and Medicaid patients, and to serve patients that cannot afford to pay for services.

The admission policy provides the overall guiding principles of the facility as to the types of patients that are appropriate candidates to use the facility and assurances regarding access to treatment. The admission policy must also include language to ensure all residents of the planning area would have access to the proposed services. This is accomplished by providing an admission policy that states patients would be admitted without regard to race, ethnicity, national origin, age, sex, pre-existing condition, physical, or mental status.

Medicare certification is a measure of an agency's willingness to serve the elderly. With limited exceptions, Medicare is coverage for individuals age 65 and over. It is also well recognized that women live longer than men and therefore more likely to be on Medicare longer. One of the exceptions is Medicare coverage for patients with permanent kidney failure. Patients of any age with permanent kidney failure are eligible for Medicare.

Medicaid certification is a measure of an agency's willingness to serve low income persons and may include individuals with disabilities.

Charity care shows a willingness of a provider to provide services to individuals who do not have private insurance, do not qualify for Medicare, do not qualify for Medicaid, or are under insured. With the passage of the Affordable Care Act in 2010, the amount of charity care decreased over time. However, with recent federal legislative changes affecting the ACA, it is uncertain whether this trend will continue.

Northwest Kidney Centers

"NKC has a long established history of developing and providing services that meet the healthcare needs of the communities it serves. NKC Kent, as with all other facilities, is committed to providing services to all patients regardless of race, color, religious belief, sex, age or lack of ability to pay.

Copies of the admission policies and procedures and the charity care policy for the existing NKC Kent are included in Exhibit 11". [Source: Application Page 20]

"The existing and proposed sources of revenue, by payer, for NKC Kent are:" [Source: Application, page 29]

Payer	*% Patients*	*% Net Revenue*
Medicare	*71.2%*	*44.6%*
Medicaid	*16.4%*	*10.2%*
Other	*12.4%*	*45.2%*
Total	***100.0%***	***100.0%"***

Public Comments
None

Rebuttal Comments
None

Department Evaluation
The Admission Policy provided by NKC outlines the current process/criteria used to admit patients for treatment and ensures that patients will receive appropriate care at any of its dialysis centers. NKC's Admission Policy also states that any patient with end stage renal disease needing chronic hemodialysis will be accepted for treatment at the facility without regard to race, color religion, sex, national origin, or age. This Admission Policy is currently in use at the NKC Kent facility.

NKC currently provides dialysis services to Medicare and Medicaid eligible patients at its dialysis centers. NKC intends to continue to maintain this status for patients receiving treatment at the NKC Kent Kidney Center. NKC projects that 87.6% of the patients receiving treatments at the facility will be on Medicare or Medicaid. A review of the anticipated revenue shows the facility expects to receive 54.8 % of its revenue from Medicare and Medicaid reimbursements. [Source: Screening responses received May 15, 2017, Attachment 2]

NKC submitted its "Financial Services-Patient Funding Sources Policy" or charity care policy used by all of the dialysis centers owned, operated, or managed by NKC. This same policy is used at the NKC Kent facility. The policy outlines the process a patient would use to access services when they do not have the financial resources to pay for required treatments. In addition, the pro forma operating statement for the NKC Kent Kidney Center includes a 'charity care' line item.

Based on the source information reviewed, the department concludes that all residents of the service area would have access to the healthcare services provided at NKC Kent Kidney Center. **This sub-criterion is met.**

(3) The applicant has substantiated any of the following special needs and circumstances the proposed project is to serve.
(a) The special needs and circumstances of entities such as medical and other health professions schools, multidisciplinary clinics and specialty centers providing a substantial portion of their services or resources, or both, to individuals not residing in the health service areas in which the entities are located or in adjacent health service areas.

Department Evaluation
This criterion is not applicable to this application.

(b) The special needs and circumstances of biomedical and behavioral research projects designed to meet a national need and for which local conditions offer special advantages.

Department Evaluation
This criterion is not applicable to this application.
(c) The special needs and circumstances of osteopathic hospitals and non-allopathic services.

Department Evaluation
This criterion is not applicable to this application.

(4) The project will not have an adverse effect on health professional schools and training programs. The assessment of the conformance of a project with this criterion shall include consideration of:
(a) The effect of the means proposed for the delivery of health services on the clinical needs of health professional training programs in the area in which the services are to be provided.

Department Evaluation
This criterion is not applicable to this application.

(b) If proposed health services are to be available in a limited number of facilities, the extent to which the health professions schools serving the area will have access to the services for training purposes.

Department Evaluation
This criterion is not applicable to this application.

(5) The project is needed to meet the special needs and circumstances of enrolled members or reasonably anticipated new members of a health maintenance organization or proposed health maintenance organization and the services proposed are not available from nonhealth maintenance organization providers or other health maintenance organizations in a reasonable and cost-effective manner consistent with the basic method of operation of the health maintenance organization or proposed health maintenance organization.

Department Evaluation
This criterion is not applicable to this application.

B. Financial Feasibility (WAC 246-310-220)
Based on the source information reviewed and the applicant's agreement to the conditions identified in the "Conclusion" section of this evaluation, the department concludes that Northwest Kidney Center's project 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.
WAC 246-310 does not contain specific WAC 246-310-220(1) financial feasibility criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what the operating revenues and expenses should be for a project of this type and size. Therefore, using its experience and expertise the department evaluates if the applicant's pro forma operating statements reasonably project the proposed project is meeting its immediate and long-range capital and operating costs by the end of the third complete year of operation.

Northwest Kidney Centers
"Per the CN Program's April 2011 memorandum, the total estimated capital expenditure for this project is $1,699,127. Of this amount, NKC will be responsible for $1,459,329 and the landlord will provide $239,798 (tenant improvement (TI) allowance and broker commissions.) Note: $70,725 of the TI allowance is not available until after March 2023 but it has been included in the TI allowance listed above" [Application, page 6]

"The pro forma operating assumptions and statement, which include the impact of the depreciation expense from the proposed 9 stations expansion, are included in Exhibit 12. [Source: Application, page 28]

Because NKC noted that the tenement improvement to be incur by the landlord will not be available immediately, but at a later date the department asked NKC to provide clarification to the statement. In response NKC stated provided the statement below.

"This reference was to indicate that the TI allowance was the responsibility of the landlord and it provided transparency to the Certificate of Need Program (the Program) that a portion of the TI allowance (a cost of the landlord) would not be available to NKC until after March of 2023. This was the result of the lease negotiation and was not specific to this project. However, in response to this question, NKC has now revised its share of the capital expenditure to include this amount. This revision is made because we will not receive reimbursement from the landlord until 2023; after the project is complete. Please note that this does not change the total capital costs of the project. This simply a shifting of the costs from the landlord to NKC. Finally, NKC notes that this change has no impact on the pro forma as the depreciation expenses is based on the actual construction costs of the project..." [Source: Screening responses received May 15, 2017, page 1]

The department summary of NKC's projected operating revenues and expenses based on screening responses is below. [Source: Screening responses received May 15, 2017, Attachment 2]

STATISTICS	Implementation Partial Year 6/30/2018	Project Year 1 Ending 6/30/2019	Project Year 2 Ending 6/30/2020	Project Year 3 Ending 6/30/2021
Total Gross Revenues	$5,909,557	$37,688,926	$39,920,507	$42,152,088
Total Deductions	($4,470,918)	($28,513,831)	($30,202,150)	($31,890,469)
Net Revenues	$1,438,639	$9,175,095	$9,718,357	$10,261,619
Total Direct Expenses	$831,745	$5,347,995	$5,616,395	$5,883,816
Excess of Direct/Direct Expenses	$606,895	$3,826,999	$4,101,961	$4,377,803
Overhead	$295,097	$1,882,015	$1,993,450	$2,104,886
Net Profit or Loss	$311,798	$1,944,984	$2,108,511	$2,272,917

In addition to the updated pro forma financial statement summarized above, NKC provided the following statement.

"The existing and proposed sources of revenue, by payer, for NKC Kent are:

Payer	***% Patients***	***% Net Revenue***
Medicare	*71.2%*	*44.6%*
Medicaid	*16.4%*	*10.2%*
Other	*12.4%*	*45.2%*
Total	***100.0%***	***100.0%"***

[Source: Application, page 8]

The department review of the lease agreement provided in the application shows an initial lease agreement between VEF V/TRE Kent Business Center, LLC ("Landlord") and Northwest Kidney Centers ("Tenant"). The initial agreement has been extended several times. Amendment No. 2 to lease agreement which became effective on February 15, 2013 is between Kent Investors, LLC ("Landlord") and Northwest Kidney Centers ("Tenant"). The terms of the No. 2 amended agreement expires on February 28, 2028. [Source: Application, Exhibit 9] NKC identified Dr. Brockenbrough as the medical director for NKC Kent Kidney Center and provided a copy of the medical director agreement. [Source: Application, Exhibit 6]

On October 13, 2017, the department declared a Pivotal Unresolved Issue (PUI). The PUI was necessary because NKC's application did not identify the assumptions used to project patient volumes, occupancy, revenue and expenses and the department failed to request the information. In response to the PUI, NKC provided the statements restated below.

NKC's financial assumption

NKC stated, "*The requested information is included in Attachment 1. NKC used this format for the CN application requesting additional stations for NKC Enumclaw. This format was accepted by the CN Program for that application.*

1. *The pro forma is completed based on a June 30 fiscal year. The implementation year is assumed to be 2 months ending June 30, 2018.*
2. *Volumes*
    a. *In Patient Census is expected to reach 136 by June 30, 2021, increasing by 7 patients per post implementation year through fiscal year 2020.*
    b. *Home patient census is assumed to be 25% of in-patient census consistent with the current percentage of home patients in the area.*
    c. *Treatment are calculated based on an average rate of 148 treatment per patient per year.*
3. *Gross Revenue*
    a. *Gross Revenue: The modeled weighted average charge per treatment for all billable services is $1,675.40 which is reflective of the actual average amount for the existing facility for the first 6 months of fiscal year 2017.*
    b. *Total Gross Revenue represents the weighted average of the patient payer mix which is reflective of the actual average payer mix for the existing facility for the first 6 months of the fiscal 2017.*
    c. *No rate increase and or changes in contract pricing have been assumed in the forecast period.*
4. *Deductions from Gross Revenue*
    a. *Contractual Deductions: The modeled weighted average deduction per treatment for all billable services is $1266.25 which is reflected of the actual average amount for the existing facility for the first 6 months of fiscal year 2017.*
    b. *Total Gross Deductions is the weighted average of the deduction relative to the patient payer mix which is the weighted average of the deductions relative to the patients pay mix which is reflective of the actual pay mix for the existing facility for the first 6 months of the fiscal 2017.*

5. *Direct Expenses: Direct expenses are modeled based on the actual average amount per treatment for the existing facility for the first 6 months of the fiscal year 2017.*
    a. *No inflation has been assumed in the forecasted period*
    b. *Medical Director fees are per contracted annual rate.*
    c. *Annual depreciation has been increased by $98,734 in the implementation year for new construction costs associated with the project.*
    d. *Rent and building operations costs are based on the current executed lease for existing build out space plus unimproved spaced currently under lease.*
    e. *Other Supplies refers to office supplies, janitorial supplies, building and plant supplies*
    f. *Other Purchased Services refers to language interpretation services, freight, landscaping, window washing and pest control.*
6. *Overhead: is based on the organization-wide operating budget for fiscal year 2017. Overhead includes administrative, support and shared services such as information technology, accounting patient finance, human resources and executive team".* [Source: NKC PUI response received October 20, 2017, page 3, Attachment 1]

The department did not receive any public comment related to the PUI documents submitted by NKC.

PUI Public Comments
None

PUI Rebuttal Comments
None

Below is the summary of NKC's Kent Kidney Center historic financial statement. [Source: NKC PUI response received October 20, 2017, page 5, Attachment 2]

STATISTICS	As Filed Med Cost Rpt. 6/30/2014	As Filed Med Cost Rpt. 6/30/2015	As Filed Med Cost Rpt. 6/30/2016
Total Gross Revenues	$18,540,430	$24,347,012	$30,960,124
Total Deductions	$12,178,076	$19,324,748	$23,906,286
Net Revenues	$6,362,354	$5,022,264	$7,053,835
Total Direct Expenses	$3,329,748	$3,597,615	$4,186,940
Excess Direct Revenue /Direct Expenses	$3,032,606	$1,424,649	$2,866,895
Overhead	$936,652	$988,081	$1,300,475
Excess (Deficit) of Revenues	$2,095,954	$436,568	$1,566,420

The department received public comments from DaVita related to this sub criterion. Below are the comments by topics.

Site Control
"A CN applicant must demonstrate site control consistent with the Department's standard. (Application, p. 11[Application Form, § II (P)].) NKC has not done so.

NKC states in its application that it will need another 6,250 square feet, in addition to its current 14,766 usable square feet, to complete the proposed expansion. (Application, p.9.) But nowhere in its application materials does NKC demonstrate any site control over this proposed 6,250 square-foot expansion. The lease document that it has provided only account for its current 14,766 square feet. (Application, pp. 68-128.) Indeed, NKC bases its response in § II (P) solely on the lease of its existing space. (Application, p. 11.) Not only has NKC failed to submit a signed lease for the additional 6,250 square feet, as is required under the Department standard, it has not even provided a draft lease for this proposed expansion space". [Source: DaVita public comments received July 19, 2017, page 1]

Pro forma financial statement

"NKC's pro forma (application, p. 147) projected net revenue as follows:

Net Revenue
Pro Forma

Project Year	***Net Patient Service Revenue (Before Bad Debt/Charity Deductions)***
FY 2019	*$9,188,592*
FY 2020	*$9,732,653*
FY 2021	*$10,276,715*

But NKC's "updated" pro forma financial projection (screening responses, p. 13) projected net revenue as follows.

Net Revenue
Updated Pro Forma

Project Year	***Net Patient Service Revenue (Before Bad Debt/Charity Deductions)***
FY 2019	*$9,175,094*
FY 2020	*$9,718,357*
FY 2021	*$10,261,619*

As can be seen by comparing the tables above, NKC slightly changed its net revenue projections between the time it submitted its application on February 27 and the time it submitted its screening responses on May 15. It backdated its updated pro forma to February 1, but this projection obviously was created later than that date since it differs from the pro forma submitted with the application on February 27". [Source: DaVita public comments received July 19, 2017, page 4]

"The program asked NKC to provide an updated pro forma that identifies its contractual adjustments (Screening question no. 11) NKC responded by providing an updated pro forma that not only showed the contractual deductions, it also changed the net revenue projections themselves—without any disclosures that this was being done or explanation as to why it was being done.

It is impossible for (1) NKC's net revenue projection to change, but (2) none of NKC's assumptions driving net revenue changed. Since NKC altered its net revenue projections, it must also be altering its projected treatments or payer mix, without disclosing this to the Program or showing the change in its updated pro forma". [Source: DaVita public comments received July 19, 2017, page 4]

In response to DaVita's public comments above, NKC provided rebuttal comments. Below are the comments by topics.

Rebuttal Comments

Site Control

NKC has documented site control. NKC leased a total of 14,766 square feet space from the landlord as outlined in the lease provided to the Program within its application. Of the 14,766 total space, NKC would modify 6,250 for use as it expand the treatment space. The intent of the statement on page 9 of NKC's application was to share the amount of the leased space that would be modified during the proposed construction. This space includes approved stations, two future expanded stations, a second nurses station, a home training suite, medical supply storage and offices. Contrary to DaVita's claim, the landlord approved NKC intentions to modify the spaces to according to the specifications outlined in the application. [Source: NKC's Rebuttal comments received August 10, 2017, page 2]

Pro forma financial statement

NKC's pro forma is reliable. DaVita provided a very detailed but decidedly inaccurate review of NKC's pro forma. The net revenue figures quoted in DaVita's comments stated "before bad debt/charity deductions," but are in fact after bad debt and charity has been deducted. DaVita inaccurately concludes that NKC slightly changed its net revenue projections and therefore the change made the pro forma financial statement unreliable. In a direct response to the Program's March 31, 2017 screening letter, NKC provided a revised pro forma. As requested by the Program, the revised pro forma added a contractual adjustments line item. The slight change in the pro forma highlighted by DaVita is 0.15% difference and is simply the result of payer mix rounding. [Source: NKC's rebuttal comments received August 10, 2017, page 3]

The purpose of the pro forma is to demonstrate overall financial viability of the proposed expansion project. Table 1 document the minor difference and changes made to any documents during the screening process as allowed.

"Table 1 (Reproduced)
NKC Kent Pro Forma Net Revenue Numbers, Exhibit 12 and Screening Response, Attachment 2

Project Year	*NKC CN Pro Forma Exhibit 12 Net Patient Revenue (after Bad Debt/Charity care deductions)*[12]	*NKC Screening Responses Pro Forma-Attachment 2 Net Patient Service Revenue (Before Bad Debt/Charity Deductions)*[13]	*% Difference*
FY 2019	*9,188,592*	*9,175,094*	*-0.15%*
FY 2020	*9,732,653*	*9,718,357*	*-0.15%*
FY 2021	*10,276,715*	*10,261,619*	*-0.15%"*

[Source: NKC's rebuttal comments received August 10, 2017, page 4]

DaVita also provided rebuttal comments related to NKC's proposed project. The comments are summarized below.

[12] DaVita labelled this as Net Patient Revenue (Before Bad Debt/charity care deduction). This is not correct.
[13] DaVita labelled this as Net Patient Revenue (Before Bad Debt/charity care deductions). This is not correct.

"NKC's Vice President of Planning submitted a letter in support of NKC's application in which he pointed out NKC Kent's current occupancy level. Others submitted similar comments. However, slightly more than half of the stations in the planning area are not at NKC Kent. They are at DaVita Kent, which currently has capacity to take additional patients.[14] *There is no dispute that additional stations are needed in this planning area. However, as explained in DaVita's public comments, the additional stations should not be added by expanding one of the large existing facilities; instead, they should be added by establishing a new facility in a different part of the planning area, to improve geographic access. Only 29% of the new planning area's ESRD patients reside in the 98032 zip code, but 100% of the planning area's 37 stations are located in that zip code. Establishing a new 9-station facility in a different part of the planning area, as NKC admits was an option, is a superior alternative to adding another nine stations in 98032, as NKC proposes to do. (DaVita's July 19 comments, pp. 1-2)".*

The Program should not be misled by NKC's public comments into false sense of urgency: i.e., that the Program should ignore geographic access and the clearly superior alternative of establishing a new facility in a different part of the planning area, and allow NKC to expand its 18-station facility into a 27-station facility. NKC must satisfy WAC246-310-240(1) like any other applicant, and it simply has not done so here". [Source" DaVita's rebuttal comments received August 3, 2017, page 1-3

Department Evaluation

DaVita's rebuttal comments seems to suggest that establishing a new facility instead of adding new stations to an existing facility is the best available alternative. This may be case in the event that NKC's application was competing with another applicant, but this is not the case. The most recent quarterly NWRN data for this application submission period (September 2016) shows that NKC Kent is dialyzing at 6.17 patients per station. So, clearly adding stations is an available alternative because the applicant is not competing with another applicant. DaVita argued that a new facility should not be established in the 98032 zip code area. Within the city of Kent, there are four zip codes (98030, 98031, 98038, and 98042) without DaVita naming a preferable zip code within Kent suitable for new facility, it argument does not stop a noncompeting applicant from adding stations to its existing facility that can accommodate the new stations.

About DaVita's other concern that NKC has not demonstrated site control, a review of NKC's lease agreement provided in the application shows that NKC has demonstrated site control. The lease agreement was originally executed in 2007 a review of the document shows that it has been amended since it was executed. The department review of the line drawing provided within the application shows the proposed spaces to be used for the expansion project is part of the currently leased spaces described in the lease agreement. Clarifying information provided by NKC as screening responses stated space to be used for the expansion projection is currently used for home training and staff offices. This information was verified in the line drawing provided. Therefore the department disagrees with DaVita's assertions that NKC did not provide a lease agreement for the spaces to be used for the expansion project.

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[14] Andrew Brockenbrough, MD, suggests in his comments that there are "no local spots available in King 10, i.e., that DaVita Kent does not have any capacity at this time. Dr. Brockenbrough appears to have been given inaccurate information. DaVita Kent has spots available, and we would be please to work with Dr. Brockenbrough to ensure that any of his patients who would prefer to dialyze at DaVita Kent are able to do so.

DaVita's also commented that NKC pro forma financial statement is unreliable, however, the department did not find any error in the pro forma that supports DaVita's assertions. The assumptions related to patient's volume, occupancy, revenue and expenses provided by NKC in response to the PUI are reasonable. NKC Kent Kidney Center has been in operation for more than six years and it appears the assumptions used to project volume, occupancy, revenue and expenses reflect NKC's business experience as it relates to the facility.

NKC anticipates the 9 stations to be added to the existing 18 station Kent Kidney Center would be operational by the end of May 2018. NKC operates on a fiscal year (July 1 through June 30) rather than on a calendar year. Table 1 illustrates the projected revenue, expenses, and net income for years FY 2018 through FY 2021 for NKC Kent Kidney Center.

Table 1
NKC Federal Way Kidney Center
Projected Revenue and Expenses-Fiscal Years 2018 - 2021

	Partial FY 2018	FY 1-2019	FY 2-2020	FY 3-2021
# of Stations	27	27	27	27
# of Treatments [1]	2,837	18,056	19,092	20,128
# of Patients [1]	115	122	129	126
Utilization Rate [1]	4.26	4.52	4.78	5.04
Net Patient Revenue [3]	$1,438,639	$9,175,095	$9,718,357	$10,261,619
Total Expense [2]	$1,126,842	$7,230,010	$7,609,845	$7,988,702
Net Profit or (Loss)[15]	**$311,798**	**$1,944,984**	**$2,108,511**	**$2,272,917**

[1] Includes in-center patients only; [2] includes bad debt, charity care, and overhead [3] in-center revenue

The 'Net Patient Revenue' line item is gross revenue minus any deductions for charity care, bad debt, and contractual allowances. The 'Total Expenses' line item includes such items as salaries and wages, pharmacy, repair & maintenance, depreciation, and overhead. At NKC's projected volumes, the 27-station facility would make a profit in during partial year 2018 and in each of the facility's first three full years of operation.

Revenue sources identified by NKC are comparable with previous dialysis applications the department has reviewed and approved[16]. Lease costs for NKC Kent Kidney Center, located at 25316 74th Avenue South, Suite 101 in Kent, were identified in the lease agreement and also verified in the pro-forma operating statement.

The medical director agreement identified the term of the agreement as one-year with annual automatic renewals. Compensation for medical director services was identified in the medical director agreement and the costs were verified in the pro-forma operating statement.

Based on the information above, the department concludes that the immediate and long-range operating costs of the project can be met. **This sub-criterion is met.**

[15] Amounts may not add due to rounding
[16] CN historical files for projects from Franciscan Health System, DaVita Healthcare Partners, and Fresenius Medical Care

(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.*

WAC 246-310 does not contain specific WAC 246-310-220(2) financial feasibility criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what an unreasonable impact on costs and charges would be for a project of this type and size. Therefore, using its experience and expertise the department compared the proposed project's costs with those previously considered by the department.

Northwest Kidney Centers

"NKC has extensive experience in the design, construction and equipping of dialysis facilities. NKC has based the construction costs on its recent experience (and that of our General Contractor) in recent expansion projects. Other capital costs are based on NKC's recent similar dialysis station development project costs". [Source: Application, page 28]

"The capital costs for the project are detailed as follows:

(Reproduced)
Revised Capital Expenditures

	NKC Kent	***Landlord Costs***	***Total Project Costs***
TI Construction and permit	*$1,039,289*	*$52,200*	*$1,091,489*
Fixed Equipment	*$34,900*		*$34,900*
Moveable Equipment	*$169,999*		*$169,999*
Architect & Engineering Fees	*$128,453*		*$128,453*
Sales Tax	*$125,053*		*$125,053*
Furniture	*$26,860*		*$26,860*
Real Estate Commission		*$116,873*	*$116,873*
Other Project Costs	*$3,500*		*$3,500*
Total Estimated Capital Costs	***$1,530,054***	***$169,073***	***$1,699,127"***

[Source: Application, Page 28 and screening responses received May 15, 2017, page 2]

"The existing lease is included in Exhibit 9. The initial lease commenced in February 2007 and had an initial term of 10.3 years. Since that time, four amendments to the lease have been negotiated and executed. Please note that amendment #3 clarifies the terms of amendment #2. The most recent amendment becomes effective February 28, 2017 and extends the lease term for an additional ten years or until February 2028." [Source: Application, page 11]

"The majority of reimbursements for dialysis services flow from Medicare and Medicaid, which are not subject to, or affected by, capital improvements and expenditures by providers. The pro forma operating assumption and statement, which include the impact of the depreciation expense from the proposed 9 station expansion, are included in Exhibit 12. [Source: Application, page 28]

The department received public comments from DaVita related to this sub criterion. Summarized below are the comments.

Public Comments

"NKCs capital budget is inaccurate. It appears that NKC has not disclosed all of its capital costs. NKC has incrementally increased the size of its existing facility over the last several years, and its proposed new stations will be placed in that existing space—where its home training and administrative functions currently are housed". It will then move its home training and administrative functions to the new space to be added to the facility. NKC should have disclosed the historical costs associated with the previous expansions that make the current project possible, but appears not to have done so.

"NKC added 2,835 square feet of expansion space in 2014 (lease amendment no. 3) and another 621 square feet of expansion space in 2016 (lease amendment no. 4)". [Source: DaVita public comments received July 19, 2017, page 5]

NKC received $28,350 tenant improvement allowance in connection with the first expansion and an additional $70,725 tenant improvement allowances in connection with the second expansion. In addition to the $261,940 (or $239,000) tenant improvement allowances associated with the original lease and the first two amendments, NKC would not be able to add nine stations. Yet these costs do not match the $122,925 tenant improvement construction and permit costs stated in NKC's capital expenditure budget disclosed in its application or the $52,200 capital expenditure it disclosed in its screening responses. [Source: DaVita public comments received July 19, 2017, page 6]

Rebuttal Comments

NKC has accurately budgeted its capital expenditures in its application and responses to screening responses questions. NKC has identified all capital expenditures associated with the project, including the portion of the remaining tenant improvement allowance that is expected to be applied to this project. There are no uncaptured historical expenditures by NKC or the landlord that part of this project. [Source: NKC's Rebuttal comments received August 10, 2017, page 4]

"As noted in the application, when NKC expands the treatment area for the new stations, it will relocate the home training and staff offices. NKC is investing in a significantly expanded home training area, and creating a "home suite" that has room for three patients to train at one time, a feature that exceeds the requirements outlined in the CMS and CN guidelines". [Source: NKC's Rebuttal comments received August 10, 2017, page 4]

"DaVita suggests that "NKC has expanded its facility twice without CN review," insinuating that NKC somehow failed to comply with CN laws. That suggestion is false, in 2014 NKC created CKD education space (noted on the plans) to better serve the community. As neither the Department nor CMS require CKD patient education space as part of the required services at a dialysis facility, and no CN is or was required for additional educational space, the historic costs of the space are in no way capital expenditure associated with or incorporated into this project, nor were they unreported in violation of Washington law". [Source: NKC's Rebuttal comments received August 10, 2017, page 4]

Department Evaluation

Given the comments provided by NKC in response to DaVita public comments, the department believes NKC's rebuttal comments are reasonable. The department noted that the space to be used for the expansion project is part of the total spaces identified in the executed lease agreement provided by NKC. NKC has a history of developing kidney dialysis facilities within Washington. For this project, NKC used its recent history with other King County projects to develop the cost

estimates. The estimated construction costs are comparable to other kidney dialysis facilities reviewed by the department.

The existing facility is located at 25316 74th Avenue South, Suite 101, Kent, Washington. A copy of the existing lease agreement was provided and the document identifies the costs and terms of the lease. Within the application, NKC stated the expansion project would need an additional 6,250 square feet in order for the nine stations to be added to existing capacity. NKC provided a single line drawing for the facility showing the existing and proposed stations.

The department does not have an adopted standard on what constitutes an unreasonable impact on charges for health services. Medicare and Medicaid patients typically make up the largest percentage of patients served by a dialysis facility. For the proposed dialysis facility 87.6 % of the patients are projected to be Medicare and Medicaid. Revenue from these two sources are projected to equal 54.8%. The remaining 45.2% of revenue will come from a variety of sources including private insurance.

CMS has implemented an ESRD Prospective Payment System (PPS). Under this ESRD PPS, Medicare pays dialysis facilities a bundled rate per treatment. The rate is not the same for each facility. Each facility, within a given geographic area, may receive the same base rate. However, there are a number of adjustments both at the facility and at patient-specific level that affects the final reimbursement rate each facility will receive. What a dialysis facility receives from its commercial payers will also vary. Even if two different dialysis providers billed the same commercial payer the same amount, the actual payment to each facility will depend on the negotiated discount rate obtained by the commercial payer from each individual provider.

Based on department's understanding of how kidney dialysis facilities are reimbursed for their services, the department concludes this project is not expected to have an unreasonable impact on the costs and charges of health services.

Based on the information reviewed and with NKC's agreement to the condition identified above, the department concludes **this sub-criterion is met.**

(3) The project can be appropriately financed.

WAC 246-310 does not contain specific source of financing criteria as identified in WAC 246-310-200(2) (a) (i). There are also no known recognized standards as identified in WAC 246-310-200(2) (a) (ii) and (b) that directs how a project of this type and size should be financed. Therefore, using its experience and expertise the department compared the proposed project's source of financing to those previously considered by the department.

Northwest Kidney Centers

"This project will be funded through existing capital reserves of NKC. This is the least costly alternative." [Source: Application, page 28]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

As stated earlier in this evaluation, in the application, NKC stated, the total estimated capital expenditure for this project is $1,699,127. Of this amount, NKC is responsible for $1,459,329 and the landlord portion is $239,798, but of the landlord's portion; the sum of $70,725 will not be available until March 2023. Given this statement, the department asked NKC to provide an update letter of financial commitment accounting for all capital expenditure expected for this project. In response to screening, NKC provided a revised letter of financial commitment. The letter stated, *"...Expand our "NKC/Kent Kidney Center by 9 stations. The amount below reflects only Northwest Kidney Center costs and does not include costs paid by the landlord (lease Tenant Improvement allowance and real-estate commission)."* [Source: NKC screening responses received May 9, 2017, Attachment 3]

The total cost of the project is $1,699,127. Of this amount, $1,530,054 is NKC's financial responsibility. The remaining $169,073 is the responsibility of the landlord. The letter from Gary Houlahan, Chairman Board of Trustees demonstrates the board's financial commitment to this project. The department also reviewed NKC's audited financial statements for fiscal years 2014 and 2015. [Source: Application Appendix 1 and Screening responses received May 9, 2017, Attachment 3] NKC has enough unrestricted assets to finance the proposed project. The department concludes the NKC Kent Kidney Center can be appropriately financed. **This sub criterion is met.**

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

Based on the source information reviewed and provided the applicant agrees to the conditions identified in the 'conclusion' section of this evaluation, the department concludes Northwest Kidney Centers has met the structure and process 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.

WAC 246-310 does not contain specific WAC 246-310-230(1) criteria as identified in WAC 246-310-200(2)(a)(i). There are also no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs what specific staffing patterns or numbers of FTEs that should be employed for projects of this type or size.

Northwest Kidney Centers

"As indicated in Table 14, NKC is proposing just fewer than 7.0 incremental FTEs for the addition of the stations at NKC Kent. NKC anticipates that the staff increase is most likely to be achieved by recruiting new staff couple with existing part-time staff adding hours. In addition, NKC Kent now operates with a 4th patient shift, which is a less desirable shift for both patients and staff. With the addition of 9 station, NKC Kent will be able to expand the other shifts and eliminate the 4th shift. Given that NKC's current average length of service is 10 years, we do not anticipate any difficulty in recruiting the additional staff needed for this expansion." [Source: Application, page 31]

Table 14 (Reproduced)
Current and Proposed Total Staffing-- NKC Kent

	Current	*FYE 2018*	*FYE 2019*	*FYE 2020*	*FYE 2021*
HD Tech	*15.12*	*15.96*	*16.93*	*17.90*	*18.87*
RN	*8.14*	*8.59*	*9.11*	*9.64*	*10.16*
RN-Home Training (PD & HH)[17]	*1.09*	*1.27*	*1.36*	*1.45*	*1.55*
Clinical Nurse Manager/Care Manager	*1.00*	*1.00*	*1.00*	*1.00*	*1.00*
Facility System Specialist	*0.50*	*0.50*	*0.50*	*0.50*	*0.50*
MSW	*1.21*	*1.30*	*1.38*	*1.46*	*1.55*
Dietician	*1.11*	*1.19*	*1.27*	*1.34*	*1.42*
Receptionist	*1.00*	*1.00*	*1.00*	*1.00*	*1.00*
Total	***29.17***	***30.81***	***32.55***	***34.29***	***36.05***

[Source: Application, page 30]

"A complete listing of NKC Medical Staff is included in Exhibit 4 and includes 54 active staff and 43 courtesy staff. The proposed Medical Director for NKC Kent is Andrew Brockenbrough, MD. Dr. Brockenbrough's professional license number is MD00039138. The Medical Director agreement with Dr. Brockenbrough is included in Exhibit 5." [Source: Application, page 4]

Public Comments
None

Rebuttal Comments
None

Department Evaluation
As an existing provider with many facilities located in King County, the department does not expect NKC will have difficulty recruiting FTE's. NKC stated the average length of service for its employees is 10 years and as a result the department think that majority of FTEs needed for this expansion project are already in place. A review of NKC's current and projected FTE increase shows that most of the increase is expected to occur by year 2021. By that year, NKC anticipate it will add 3.75 new HD Techs and 2.02 RNs. NKC also expect slight increase in the number of hours primarily for its RN home training program, MSW and dietician. When the nine new dialysis stations are added, NKC will have 36.05 FTEs. NKC has a history of recruiting staff for its dialysis facilities therefor, the department did not expect the addition of few FTE's to NKC Kent to be any different from previous applications submitted by NKC to add dialysis stations.

The current medical director for NKC Kent is Andrew Brockenbrough, MD. NKC provided a copy the executed medical director agreement between itself and Dr. Andrew Brockenbrough. The initial was dated August 2012 and the term of the agreement is one-year with annual automatic renewals. The medical director agreement was amended in July 2016 as a result of compensation adjustment. [Source: Application, page 4, and Exhibit 5]

The department concludes **this sub-criterion is met.**

[17] Peritoneal Dialysis (PD) and Home Hemodialysis (HH)

(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.*

WAC 246-310 does not contain specific WAC 246-310-230(2) criteria as identified in WAC 246-310-200(2)(a)(i). There are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

Northwest Kidney Center

"NKC Kent has been providing outpatient dialysis services in the King 10 Dialysis Planning Area since 2008.

Table 15 provides a summary of ancillary and support services provided to each of our centers on an as needed basis—including our existing Kent unit. The "onsite" reference in the table means that the services is already provided at NKC Kent.

Reproduced Table 15
NKC Ancillary and Support Services

Service	***Location Provided***
Administration	*In addition to Unit Management that is provided onsite at the center, we provide support from our Seattle (700 Broadway) and Lake City offices.*
Business Office	*Accounting, Patient Accounting is provided from our SeaTac Pavilion and other support functions from our Seattle offices (700 Broadway)*
Community Relations	*Supported from our Lake City Office*
Dialysis Academy	*Education and training through our SeaTac Pavilion (SeaTac Kidney Center).*
Information Nurses	*Supported from our Seattle (700 Broadway) and Lake City office*
Information Systems	*Supported from our Seattle (700 Broadway) and Lake City office*
Human Resources	*Supported from our Seattle (700 Broadway) offices*
Social Services	*Onsite and from Seattle (700 Broadway) offices*
Materials Management	*Our distribution center is located at 9700 Martin Luther King Jr. Way S, Seattle. We provide deliveries directly to our facilities.*
Medical Staff Credentialing	*Supported from our Seattle (700 Broadway) and Lake City office*
Nutrition Services	*Onsite and from our Seattle (700 Broadway) offices*
Patient Education	*Onsite and from our Seattle (700 Broadway) offices*
Patient Financial Counseling	*Onsite and from Seattle (700 Broadway) offices*
Pharmacy	*Remote support and from our Seattle (700 Broadway) offices*
Plant Operations	*Onsite and from our Seattle (700 Broadway) offices*
Public Relations	*Onsite and from our Lake City offices*
Technical Services	*Onsite and from Tech Services support building at 9700 Martin Luther King Jr. Way S, Seattle.*

Service	*Location Provided*
Visitor Dialysis	*Scheduling is done from Lake City office*
Water Purification Specialist	*Onsite and from Tech Services support building at 9700 Martin Luther King Jr. Way S, Seattle".*

A copy of the existing transfer agreement between NKC and Swedish Medical Center is included in Exhibit 14." [Source: Application, page 33]

Public Comments
None

Rebuttal Comments
None

Department Evaluation
The department acknowledges that the ancillary and support services and the working relationship list provided by NKC is comprehensive and the list shows that NKC has the necessary ancillary and support services for NKC Kent. Within the application, NKC stated some ancillary and support services are currently available at one of the several NKC's support offices in King County. NKC provided a copy of its current transfer agreement between NKC and Swedish Medical Center. This transfer agreement was executed in October 2, 2013 and while the initial term is one year it continues indefinitely after that one year unless the termination clause is invoked. The department concludes there is reasonable assurance that NKC Kent Dialysis Center would continue to have the necessary ancillary and support services. **This sub-criterion is met.**

(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.*
WAC 246-310 does not contain specific WAC 246-310-230(3) criteria as identified in WAC 246-310-200(2) (a) (i). There are known recognized standards as identified in WAC 246-310-200(2) (a) (ii) and (b) that a facility must meet when it is to be Medicare certified and Medicaid eligible. As part of its review, the department must conclude that the proposed service would be operated in a manner that ensures safe and adequate care to the public. Therefore, using its experience and expertise the department assessed the applicant's history in meeting these standards at other facilities owned or operated by the applicant.

Northwest Kidney Centers
"NKC operates all existing programs in conformance with applicable federal and state laws, rules, and regulations.

NKC has no history with respect to the actions noted in CN regulations WAC 248-19-390 (5)(a), now codified at WAC 246-310-230(5)(a). " [Source: Application, page 35]

Public Comments
None

Rebuttal Comments
None

Department Evaluation

NKC does not own or operate any out-of-state healthcare facilities. NKC provides dialysis services in Clallam, Pierce, and King counties within Washington State. All NKC's dialysis facilities are Medicare certified. The department reviewed the quality of care compliance history for all 15 kidney dialysis facilities owned, operated, or managed by NKC.

The Department of Health's Investigations and Inspections Office (IIO), as the contractor for Medicare, completed 15 compliance surveys for the facilities owned or managed by NKC.[18] These surveys revealed minor non-compliance issues typical of a dialysis facility. NKC submitted and implemented acceptable plans of correction. [Source: Facility survey data provided by the Investigations and Inspections Office]

The department also reviewed information from the Center for Medicare & Medicaid Services (CMS) website related to dialysis facilities star ratings. CMS assigns a one to five star rating in two separate categories: best treatment practices, hospitalizations, and deaths. The more stars, the better the rating. Below is a summary of the data within the two categories.

- Best Treatment Practices
  This is a measure of the facility's treatment practices in the areas of anemia management; dialysis adequacy, vascular access, and mineral & bone disorder. This category reviews both adult and child dialysis patients.

- Hospitalization and Deaths
  This measure takes a facility's expected total number of hospital admissions and compares it to the actual total number of hospital admissions among its Medicare dialysis patients. It also takes a facility's expected patient death ratio and compares it to the actual patient death ratio taking into consideration the patient's age, race, sex, diabetes, years on dialysis, and co-morbidities.

Table 2 below shows the fifteen NKC dialysis centers and the CMS star ratings. [Source: August 18 2017, CMS compare data]

Table 2
Northwest Kidney Centers Dialysis Facilities CMS Star Rating

Facilities	City	Star Rating
NKC Auburn Center	Auburn	4
NKC Broadway Kidney Center	Seattle	5
NKC Elliot Bay Kidney Center	Seattle	4
NKC Enumclaw Kidney Center	Enumclaw	5
NKC Kent Kidney Center	Kent	4
NKC Kirkland Kidney Center	Kirkland	4
NKC Lake City Kidney Center	Lake Forest Park	4
NKC Lake Washington	Seattle	4
NKC Port Angeles Kidney Center	Port Angeles	5

[18] Most recent quality of care surveys conducted in year 2010 for Elliot Bay Kidney Center; year 2012 for Broadway Kidney Center, year 2013 for Auburn Kidney Center, Enumclaw Kidney Center, Seattle Kidney Center, and Snoqualmie Kidney Center; year 2014 for Kirkland Kidney Center; year 2015 for Kent Kidney Center, Lake City Kidney Center, Lake Washington Kidney Center, Port Angeles Kidney Center, Scribner Kidney Center, and SeaTac Kidney Center; year 2016 for Renton Kidney Center and West Seattle Kidney Center.

Facilities	City	Star Rating
NKC Renton Kidney Center	Renton	4
NKC Scribner Kidney Center	Seattle	5
NKC SeaTac	SeaTac	5
NKC Seattle Kidney Center	Seattle	4
NKC Snoqualmie Kidney Center	Snoqualmie	4
NKC West Seattle Center	Seattle	3

As shown in Table 2, the facilities operated or owned by NKC have an average rating of 4.3 stars. Of the 15 dialysis facilities, owned/operated only one facility, NKC West Seattle Center has a rating below 4. It has a three rating. The other 14 facilities have a rating of 4 or above.

NKC identified Andrew Brockenbrough, MD as the medical director for NKC Kent Kidney Center. A review of Dr. Andrew Brockenbrough compliance history with the Department of Health's Medical Quality Assurance Commission did not revealed any recorded sanctions. [Source: Compliance history provided by Medical Quality Assurance Commission]

The department concludes there is reasonable assurance the NKC Kent Kidney Center would be operated in conformance with applicable state and federal licensing and certification requirements. **This sub criterion is met.**

(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.

WAC 246-310 does not contain specific WAC 246-310-230(4) criteria as identified in WAC 246-310-200(2)(a)(i). There are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b) that directs how to measure unwarranted fragmentation of services or what types of relationships with a services area's existing health care system should be for a project of this type and size. Therefore, using its experience and expertise the department assessed the materials in the application.

Northwest Kidney Centers

"NKC Kent has been providing outpatient dialysis services in the King 10 Dialysis Planning Area since 2008. The additional stations will assure that our commitment to the community continues, and will ensure timely access to service for patients of the King 10 Dialysis Planning Area or choosing to dialyze at NKC Kent". [Source: Application, page 33]

NKC provided a listing of its working relationship with health care providers and partners. The list includes hospitals such as MultiCare Tacoma General, Harborview Medical Center, Virginia Mason Medical Center, and Overlake Hospital Medical Center. The list also includes nephrology groups and clinics such as Seattle Nephrology, Transplant and Nephrology NW, and Rainier Nephrology. For its working relationship with community partners working to find cure for kidney diseases, NKC listed American Diabetes Association—Washington Chapter, the National Kidney Foundation—Washington Chapter and Navos. As a nonprofit organization, the list provided by NKC includes other not for profit dialysis providers such as Puget Sound Kidney Centers, Olympic Peninsula Kidney Centers and Seattle Children's Hospital.

Public Comments
None

Rebuttal Comments
None

Department Evaluation
NKC has been providing services in King County ESRD planning area #10 since 2008 and it has maintained appropriate relationships with healthcare providers in the planning area. A review of extensive the listing of community healthcare providers and partners that NKC stated it has working relationship with, shows that NKC is an established dialysis provider in King County. The various categories of community healthcare providers and partnership that NKC has working relationship with, ranges from hospitals, clinics and nephrology groups to recognizable community entities at the forefront engaged in finding cure for kidney diseases. It is the department perspectives that these working relationship demonstrates that NKC is well established in the local community. Nothing in the materials reviewed by the department suggests that approval of the nine new stations to be added to existing capacity will change the relationships that NKC has with the existing service area providers. The department concludes **this sub-criterion is met**.

(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.
This sub-criterion is evaluated in sub-section (3) above and **is met**.

D. Cost Containment (WAC 246-310-240)
Based on the source information reviewed and provided the applicant agrees to the conditions identified in the 'Conclusion' section of this evaluation, the department concludes Northwest Kidney Center's 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.
To determine if a proposed project is the best alternative, the department takes a multi-step approach. Step one determines if the application has met the other criteria of WAC 246-310-210 thru 230 including any project type specific criteria. If it has failed to meet one or more of these criteria, then the project is determined not to be the best alternative, and would fail this sub-criterion.

If the project has met the applicable criteria in WAC 246-310-210 through 230 criteria including any project type specific criteria, the department then assesses the other options considered by the applicant. If the department determines the proposed project is better or equal to other options considered by the applicant and the department has not identified any other better options this criterion is determined to be met unless there are multiple applications.

If there are multiple applications, the department's assessment is to apply any service or facility superiority criteria contained throughout WAC 246-310 related to the specific project type in Step three. The superiority criteria are objective measures used to compare competing projects and make the determination between two or more approvable projects, which is the best alternative. If WAC 246-310 does not contain any service or facility type superiority criteria as directed by WAC 246-310-200(2) (a)(i), then the department would use WAC 246-310-240(2)(a)(ii) and (b) for criteria to make the assessment of the competing proposals.

If there are no known recognized standards as identified in WAC 246-310-200(2)(a)(ii) and (b), then using its experience and expertise, the department would assess the competing projects and determine which project should be approved.

Department Evaluation

Step One

The department determined NKC met the applicable review criteria under WAC 246-310-210, 220, and 230 including WAC 246-310-284(5) and (6). Therefore, the department moves to step two.

Step Two

Northwest Kidney Centers

"NKC considered the following options to developing the enclosed proposal:

1) *Sourcing property in another portion of the planning area to build: NKC considered identifying property within a different portion of the planning are and building a center in a "green field environment".*
2) *Sourcing leased space in another portion of the planning area;*
3) *Expanding our current treatment center to accommodate the patients in need"* [Source: Application Page 36]

"Option 1, This option was ruled out due to the timing of preparing the application, the challenge of finding land on which to build a new center, the availability of space to expand the current center, and the capital cost of a building new (when lower costs were available)." [Source: Application Page 36]

"Option 2, NKC was challenged to find leased space that was zoned correctly within the planning area, and for this reason, this option was eliminated" [Source: Application Page 36]

***"Option 3: This application was designed for this option.** Ultimately NKC found that the most cost effective and quickest to market solution was to expand our existing unit and serve the patients in the community. "Quickest to market" was important because of our high census. Our existing unit has plenty of parking, is close to the downtown corridor of Kent, and provides outstanding access to the freeway and main access streets to the Kent community"* [Source: Application Page 36]

The department received public comments from DaVita related to this sub criterion. Summarized below are the comments.

Public Comment

"NKC has not selected superior alternative. King 10 planning area is currently served by two facilities NKC's 18-station facility and DaVita's 19 station facility both facilities 37 stations are located in zip code 98032. Yet most of the planning area's ESRD patients reside outside of the zip code. NKC determined that adding another nine stations in the same zip code was superior to establishing a new facility in another part of the planning area. The program should not accept NKC's determination. NKC's 18 station facility is a large facility expanding it into a 27 station facility does not improve geographic access in the planning area. [Source: DaVita public comments received July 19, 2017, page 2]

"The 3/31/2017 patient population data from Northwest Renal Network shows that although zip code 98032 were both existing facilities are located has 56 ESRD patients, there are 139 ESRD patients located in 98030, 98031 and 98042 zip codes areas that is about 71% of the total King 10 ESRD population. The program should deny NKC's application because a superior alternative is available". [Source: DaVita public comments received July 19, 2017, page 2]

Rebuttal Comment

The applicant stated, *"NKC's proposal is superior for the following reasons:*

1) *NKC's Kent 9 station expansion will become operational much more quickly than a new facility. In fact, DV's rejected application had a projected opening date of March 2019; NKC's expanded stations will be operating nearly a year before (estimated by May 2018)*

2) *NKC agrees with DV that geographic access is important. There are currently two facilities located within King 10. And, NKC Kent is conveniently located such that it is accessible to patients travelling north/south along Highway 167 and Highway 516 for patients travelling east/west. NKC Kent's location actually sits on the edge of zip code 98032 and 98030; making it close to 52% of King 10 patients.*

3) *As noted in Table of our application, even with the addition of the 2012 award to DV Kent of 7 stations, NKC's occupancy has consistently been in excess of 93% and has been over 100% since June 2015. In contrasts, DV Kent operated below 80% for almost seven years. Table 4 of our application documents that the dialysis station projection methodology contained in WAC 246-310-284 has projected "need" for additional stations in King 10 in each of the last four years. Despite our high occupancy, we have been unable to apply for those stations because of the low occupancy at DV Kent. And, in fact, as of March 2017, DV Kent is again, below 80% occupancy. Clearly, NKC Kent needs more stations".* [Source: NKC rebuttal comments received August 10, 2017, page 3]

The department also received rebuttal comments from DaVita. The comments from DaVita are summarized below.

Rebuttal Comment (DaVita)

"The program should deny NKC's application because there is a superior available alternative. The program should then invite NKC (and other providers) to submit new applications that take into consideration the DaVita's rebuttal comments. NKC's Vice President of Planning submitted a letter in support of NKC's application in which, he pointed out NKC's Kent's high current occupancy level. Other submitted similar comments. However, slightly more than half of the stations in the planning area are not at NKC Kent. They are at DaVita Kent which currently has capacity to take additional patients. [Source: DaVita's rebuttal comments received August 3, 2017, pages 2-3]

"The program should not be misled by NKC's public comment into a false sense of urgency; i.e., that the Program should ignore geographic access and the clearly superior alternative of establishing a new facility in a different part of the planning area, and allow NKC to expand its 18-station facility into a 27-station facility, NKC must satisfy WAC 246-310-240(1) like any other applicant, and it simply has not done so here". [Source: DaVita's rebuttal comments received August 3, 2017, page 2]

Department Evaluation

The department agrees with NKC comments that more stations are needed in the King 10 ESRD planning area. DaVita in fact stated in their rebuttal comments *"There is no dispute that additional stations are needed in this planning area."* [Source: DaVita's rebuttal comments received August 3, 2018, page 2] DaVita has argued that NKC has not selected the best available alternative because in DaVita's view, establishing a new facility in a different part of the planning area is better. Using this argument, DaVita wants the department to deny NKC's application and invite NKC and others to submit new applications for the planning area. The department notes two of the three options NKC considered involved establishing a new dialysis facility. Factors considered by NKC in determining the 9 station addition was the best alternative in terms of cost, efficiency, or effectiveness included:

- Challenges in finding property to either purchase or lease for a new facility
- Cost of building a new "green build" facility, verses renovating new leased space, verses adding stations to the existing facility.
- Ancillary and support services already in existence without the need to be replicated or expanded.
- Ability to use existing center infrastructure such as power, water, drain, and medical gas to support the station addition verses the cost of these infrastructure requirements at a new facility.
- Minimal increases in staffing to support the station addition verses the numbers of staff required for a new facility. And
- Timing of when the 9 stations could become operational.

The NKC application is the only application currently under review proposing to add stations to the King 10 planning area. Nine additional stations are projected as needed in the planning area. The department has determined earlier in this evaluation, that NKC has met the applicable criterion of WAC 246-310-210 (need), 220 (financial feasibility), 230 (structure and process of care), and dialysis specific criteria WAC 246-310-284(5) (other planning area station use). The reasoning NKC identified for rejecting establishing a new facility is reasonable. The department did not identify any other alternatives under consideration that are a better alternative to the proposal submitted by NKC.

Denying an application that otherwise meets applicable review criteria, in order to allow other providers to submit competing proposals, is not in the best interest of the dialysis patients. The department further determines the approach suggested by DaVita is not the best alternative in terms of cost, efficiency, or effectiveness.

Given the options considered by NKC, the department concludes this **sub criteria is met**.

Department Evaluation

Step Three

This step is applicable only when there are two or more approvable projects. The NKC Kent proposal is the only application currently under review to add stations in the King 10 planning area. Therefore, this step does not apply.

The department concludes **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;

WAC 246-310 does not contain specific WAC 246-310-240(2)(a) criteria as identified in WAC 246-310-200(2)(a)(i). There are known minimum building and energy standards that healthcare facilities must meet to be licensed or certified to provide care. If built to only the minimum standards all construction projects could be determined to be reasonable.

Northwest Kidney Centers

"The existing facility was designed and built to meet or exceed all applicable state and local codes and CMS conditions of coverage". [Source: Application Page 37]

"The building complies with the State Energy Code, latest edition." [Source: Application Page 37]

Public Comments

None

Rebuttal Comments

None

Department Evaluation

The information reviewed by the department is consistent with similar dialysis projects. The department concludes **this sub-criterion is met.**

(b) The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.

Public Comments

None

Rebuttal Comments

None

Department Evaluation

The information reviewed by the department is consistent with similar dialysis projects. Because there is a demonstrated need for additional dialysis stations, the department does not anticipate an unreasonable impact on the costs and charges to the public for providing these type services. The department concludes **this sub-criterion is met.**

(3) *The project will involve appropriate improvements or innovations in the financing and delivery of health services which foster cost containment and which promote quality assurance and cost effectiveness.*

Department Evaluation

This project will improve the delivery of health services within King #10 ESRD planning area because more stations would be available to dialysis patients. Additionally, with the projected need for more dialysis stations within the planning area, the construction costs for this project will appropriately improve the delivery of health services. The department concludes **this sub-criterion is met.**

APPENDIX A

Washington State Department of Health

2016
King County 10 - CORRECTED
ESRD Need Projection Methodology

Planning Area	6 Year Utilization Data - Resident Incenter Patients					
King Ten	2010	2011	2012	2013	2014	2015
98030	20	28	25	29	31	39
98031	32	30	39	53	47	43
98032	36	38	50	49	56	53
98038	12	14	8	9	9	11
98042	23	25	31	27	23	33
98051	1	3	2	0	0	1
TOTALS	124	138	155	167	166	180

246-310-284(4)(a)	Rate of Change		11.29%	12.32%	7.74%	-0.60%	8.43%
	6% Growth or Greater?		TRUE	TRUE	TRUE	FALSE	TRUE
	Regression Method:	Linear					

246-310-284(4)(c)		Year 1 2016	Year 2 2017	Year 3 2018	Year 4 2019
Projected Resident Incenter Patients	from 246-310-284(4)(b)	189.70	199.20	208.70	218.20
Station Need for Patients	Divide Resident Incenter Patients by 4.8	39.5208	41.5000	43.4792	45.4583
	Rounded to next whole number	40	42	44	46

246-310-284(4)(d)	subtract (4)(c) from approved stations				
Existing CN Approved Stations		37	37	37	37
Results of (4)(c) above		40	42	44	46
Net Station Need		-3	-5	-7	-9

Negative number indicates need for stations

Planning Area Facilities

Name of Center	# of Stations
DaVita Kent Community	19
NKC Kent	18
Total	37

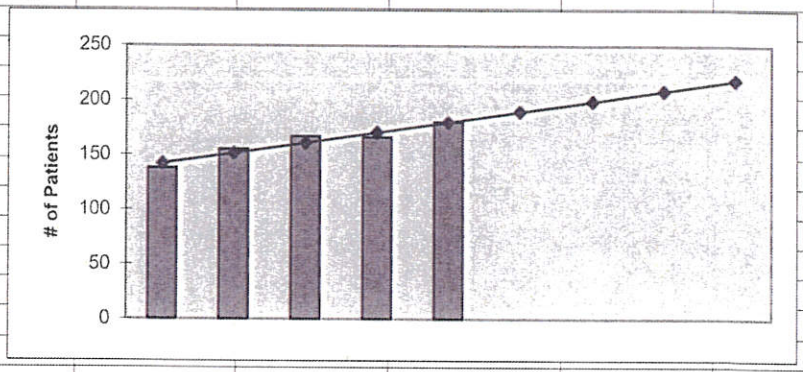
Source: Northwest Renal Network data 2010-2015
Most recent year-end data: 2015 posted 02/05/2016

Prepared by CN Program Staff - March 2016

Washington State Department of Health

2016
King County 10 - CORRECTED
ESRD Need Projection Methodology

x	y	Linear
2011	138	142
2012	155	152
2013	167	161
2014	166	171
2015	180	180
2016		189.70
2017		199.20
2018		208.70
2019		218.20



SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.956332764
R Square	0.914572355
Adjusted R Square	0.886096473
Standard Error	5.300943312
Observations	5

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	902.5	902.5	32.11743772	0.010881835
Residual	3	84.3	28.1		
Total	4	986.8			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-18962.3	3374.403727	-5.619452068	0.011142124	-29701.15867	-8223.44133	-29701.15867	-8223.44133
X Variable 1	9.5	1.676305461	5.66722487	0.010881835	4.165247878	14.83475212	4.165247878	14.83475212

RESIDUAL OUTPUT

Observation	*Predicted Y*	*Residuals*
1	115.8	4.2
2	128.3	-4.3
3	140.8	-2.8
4	153.3	1.7
5	165.8	1.2