

BRIEFING MEMO

Dialysis Clinic, Inc.

Acquisition of Control through purchase of Dialysis Services Program located at Maine General Medical Center in Waterville, Maine.

DATE: November 18, 2013

TO: Mary C. Mayhew, Commissioner, DHHS

THROUGH: Ken Albert III, Director, Division of Licensing and Regulatory Services

FROM: Phyllis Powell, Assistant Director, Medical Facilities
Larry Carbonneau, Senior Health Care Financial Analyst
Richard S. Lawrence, Senior Health Care Financial Analyst

SUBJECT: Dialysis Clinic, Inc. purchase of Dialysis Services located at Maine General Medical Center in Waterville, Maine.

ISSUE ACTIVATED BY: The referenced proposal requires Certificate of Need (CON) approval as defined in "The Maine Certificate of Need Act of 2002," 22 MRSA §326 et seq., as amended.

REGISTERED AFFECTED PARTIES: None

I. BACKGROUND:

Dialysis Clinic, Inc. (DCI) operates 210 outpatient dialysis clinics in 27 states. The Company provides inpatient dialysis services to more than 100 hospitals. DCI has operated a 12 station dialysis facility in Skowhegan located at 27 Research Drive since 2003 and a 12 station In-center and Home dialysis program in Belfast located at 125 Northport Ave since 2006.

II. PROJECT DESCRIPTION:

DCI is seeking CON approval to purchase the existing dialysis program located at Maine General Medical Center, Thayer Campus, 149 North Street, Waterville, Maine 04901. This application requests a change of ownership. The existing dialysis program at Maine General Medical Center has 14 dialysis stations and operates six days a week. DCI would like to assume ownership of this program by January 1, 2014 pending CON approval.

The change of ownership will not impact service delivery. The local Medical Director and DCI will provide clinical oversight for the facility. Nephrologists at MGMC will continue to fulfill the role of Medical Director. DCI's financial forecasts project improved facility financial performance while billing in accordance with the rates established by CMS. State and Federal government finances will not be affected.

The purchase price is estimated to be \$3,000,000.00 including assets of the dialysis program at MGMC.

III. HIGHLIGHTS:

Letter of Intent dated: June 17, 2013
Technical Assistance meeting held: Waived
CON application filed: August 1, 2013
CON application certified complete: August 1, 2013
Public Informational Meeting held: N/A
Public Hearing: N/A
Preliminary analysis released: October 18, 2013
Record Closed: November 13, 2013

IV. PUBLIC COMMENTS RECEIVED IN RESPONSE TO THE PRELIMINARY ANALYSIS:

Following release of the Preliminary Analysis, no public comments were received.

V. CONU ANALYSIS/APPLICANTS COMMENTS:**i. Fit, Willing and Able:**

Dialysis Clinic, Inc. (DCI) has operated dialysis services in the State of Maine since 2003. The services provided by the applicant are consistent with applicable licensing and certification standards.

ii. Economic Feasibility:

In order to determine the ability of the applicant to support the project financially over its useful life CONU obtained copies of Dialysis Clinic, Inc. September 30, 2012 consolidated financial statements. The applicant plans to pay \$3,000,000 for the assets of Maine General Medical Centers dialysis operations located in Waterville, Maine. This will not require any borrowing since Dialysis Clinic, Inc. has over \$200,000,000 in cash and cash equivalents on its balance sheet. CONU reviewed current income statements and projected income statements for the Waterville operations. DCI is predicting profitable operations in both year 2 and year 3 of this project. In the event that the results of operations fall short of expectations the applicant has sufficient financial resources to operate the Waterville facility.

iii. Public Need:

The project will have a positive impact on the health status indicators of the population served due to ongoing quality improvement initiatives. Based on historical utilization data there is a demonstrated need for dialysis services in the Waterville, Maine area. The applicant will offer services to all residents of the area proposed to be served and therefore will ensure accessibility of the service.

iv. Orderly and Economic Development:

The services proposed in this project are highly specialized and are conducted at specialized facilities. Total health care expenditures are not expected to increase as a result of this transaction. The need for these services is definite and measurable. Current utilization of these services and the specificity of the services make the continuation and availability of these services a necessary component of health care.

State funds are not projected to be materially impacted by this transaction. The majority of these services are paid for by Medicare. 9.05% of services at the Belfast and Skowhegan dialysis clinics and 4% of the services at the Waterville dialysis clinic are reimbursed through MaineCare. This purchase involves continuation of existing services and does not involve the addition of any new services. It is unlikely that a more effective or less costly alternative to this treatment will become available in the near future.

v. Outcomes and Community Impact:

The applicant has demonstrated that they can ensure high quality outcomes through the significant level of health indicators that they measure. Existing service providers would not be impacted by this proposal in that they are significantly distant from the facility locations under review in this project.

vi. Service Utilization:

This project involves continuation of existing dialysis services and no addition of new health services. Due to the unique and specialized nature of the services provided there would be little opportunity for inappropriate increases in service utilization.

VI. CONCLUSION:

For all the reasons set forth in the Preliminary Analysis and in the record, CONU concludes that the review criteria have been satisfied. CONU recommends the approval of the CON.

VII. RECOMMENDATION:

CONU recommends this proposal be **Approved**.