



DOCKET ITEM: A-01	BOARD MEETING: November 12, 2014	PROJECT NUMBER: 12-008
PERMIT HOLDERS(S): DaVita, Inc. Total Renal Care, Inc.		
FACILITY NAME and LOCATION: Stony Island Dialysis, Chicago		

STATE BOARD STAFF REPORT
PERMIT RENEWAL REQUEST

I. Background

On July 24, 2012, the State Board approved Project #12-008. The permit authorized the addition of 8 ESRD stations to Stony Island Dialysis, an existing 24 station ESRD facility in Chicago. The State Agency notes the project is obligated, and the original project completion date was December 31, 2013. Project cost: \$3,315,506.

State Board Staff notes this second permit renewal request was submitted on August 18, 2014. This submittal was in accordance with 77 IAC 1130.740(d), which states that renewal requests must be received by the State Agency at least 45 days prior to the permit expiration date. A \$500.00 permit renewal fee accompanied the renewal request. The permit holders were approved for the first permit renewal on November 20, 2013. This 12-month renewal extended the project completion date to December 31, 2014.

II. Findings

State Board Staff notes this is the second renewal request for this project and it appears the permit holders have submitted all of the information required in Section 1130.740 for a permit renewal.

III. The Permit Renewal Request

- A. Requested Completion Date: The permit holders request a project completion date of June 30, 2015. This would extend the project's completion date by six months, from December 31, 2014 to June 30, 2015.
- B. Status of the Project and Components Yet to be Finished: The permit holders state the construction portion of the project began in November 2013, and is expected to be completed in the next few months. The permit holders note the Medicare certification inspection remains, and is the reason for the second permit renewal.
- C. Reason(s) Why the Project Has Not Been Completed: The permit holders' state the following events occurred, which delayed completion of the project:
- The permit holders state delays in the securing of permits from the City of Chicago, which in turn delayed commencement of the construction phase, accounts for the need to request additional time for this project.
- D. Evidence of Financial Commitment to Fund the Project: The permit holders indicate \$2,013,908 (60.7% of the total project cost), has been expended to date and the existence of sufficient financial resources to complete the proposed transaction.
- E. Anticipated Final Cost of the Project: The permit holders estimate the project will not deviate from the originally approved permit amount of \$3,315,506.

IV. Project Description & Other Background Information

The permit authorized the addition of 8 ESRD stations to Stony Island Dialysis, an existing 24 station ESRD facility in Chicago. Project cost: \$3,315,506.

Permit Issuance Date: July 24, 2012

Original Project Completion Date: December 31, 2013

Project Obligation Date: November 9, 2012

Original Project Completion Date: December 31, 2013

Proposed Project Completion Date: December 31, 2014
(1st renewal, 12-month renewal request)

Proposed Project Completion Date: June 30, 2015
(2nd renewal, 6-month renewal request)

V. Applicable Rules for Permit Renewal Requests

77 IAC 1130.740 specifies that a permit holder may request a change in the approved project completion date by applying for a permit renewal.

77 IAC 1130.740(b) states that failure to complete a project or to renew a permit within the prescribed timeframes will subject the permit holders to the sanctions and penalties provided in the Act and this Subpart.

77 IAC 1130.740(c) states that a permit renewal will commence on the expiration date of the original or renewed completion period.

77 IAC 1130.740(d) states that the State Board must be in receipt of a permit renewal request at least 45 days prior to the expiration date of the completion period, and include the following: 1) the requested completion date; 2) a status report on the project detailing what percent has been completed and a summary of project components yet to be finished and the amount of funds expended on the project to date; 3) a statement as to the reasons why the project has not been completed; and 4) confirmatory evidence by the permit holders' authorized representative that the project's costs and scope are in compliance with what the State Board approved and that sufficient financial resources are available to complete the project.

77 IAC 1130.740(e) states IDPH will review the request and prepare a report of its findings. If the findings are that the request is in conformance with all HFPB criteria, and if this is the first request for this project, then the request, IDPH's findings, and all related documentation shall be sent to the Chairman. The Chairman, acting on behalf of HFPB, will approve, deny or refer the request to the HFPB for action. If IDPH finds that all criteria are not positive or, if this is not the first request for this project, or if the Chairman refers this to HFPB for action, then HFPB will evaluate the information submitted to determine if the project has proceeded with due diligence (as defined in 77 IAC 1130.140). Denial of a permit renewal request constitutes HFPB's Notice of Intent to revoke a permit and the permit holders will be afforded an opportunity for an administrative hearing.

VI. Other Information

Appended to this report are the following: the permit holders' documents for a permit renewal, and a copy of the original State Agency Report.

RECEIVED

AUG 18 2014

HEALTH FACILITIES &
SERVICES REVIEW BOARD

FEDERAL EXPRESS

Ms. Kathryn J. Olson
Chair
Illinois Health Facilities and Services Review
Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Re: Permit Renewal Request – Stony Island Dialysis (Proj. No. 12-008)

Dear Ms. Olson:

I am writing on behalf of DaVita HealthCare Partners Inc. and Total Renal Care, Inc. (collectively, "DaVita") to request a six month extension of the completion date for Project No. 12-008 (Stony Island Dialysis). On July 24, 2012, the Illinois Health Facilities and Services Review Board ("HFSRB") approved DaVita's certificate of need application for the expansion of Stony Island Dialysis (the "Project"). Due delays in obtaining a building permit and site storm drain permit from the City of Chicago, construction did not commenced as originally anticipated. Once all of the permits were in place, construction began. While construction is projected to be complete in the next few months, based on recent experience, DaVita anticipates it may take four to six months for Medicare certification of the additional stations. Accordingly, DaVita respectfully requests a six month renewal of the Project permit and a new project completion date of June 30, 2015.

1. Requested Project Completion Date

DaVita requests the HFSRB grant a six month renewal of the Project permit and establish June 30, 2015 as the new project completion date.

2. Status of the Project

The Project was obligated on November 9, 2012, through the execution of an amendment of a lease to expand the dialysis facility. Due to delays in obtaining permits from the City of Chicago, construction did not commence when anticipated. DaVita received its building construction permit from the City of Chicago on September 23, 2013 and still had to wait for the site storm drainage permit. Construction began in November 2013 and is projected to be complete in the next few months. Based on recent experience, DaVita anticipates it may take four to six months for Medicare certification of the additional stations. Therefore, to allow sufficient time to complete the Project, DaVita requests a six month renewal of the Project permit.

To date, DaVita has expended \$2,013,908 on the Project.

Ms. Kathryn J. Olson

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3. Statement Regarding Completion of the Project

The primary reason, the Project is not complete is due to delays in obtaining permits from the City of Chicago. The building construction permit was granted September 23, 2013. As discussed above, construction did not begin until November 2013. To ensure adequate time to complete construction and to allow for Medicare survey and certification, DaVita respectfully requests a six month renewal of the Project permit.

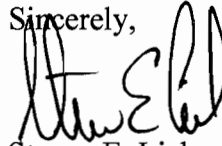
4. Confirmatory Evidence of Project Compliance

I hereby certify, pursuant to 77 Ill. Admin. Code §1130.740, DaVita's compliance with the scope and costs of the project approved by the HFSRB pursuant to Project Permit #12-008.

Based on the above information, which is provided to the HFSRB in compliance with Section 1130.740 of the Illinois Administrative Code, DaVita formally requests a six month renewal of its permit for Project #12-008 and a new project completion date of June 30, 2015.

If you need any additional information or have any questions regarding the status of the project, please feel free to contact me.

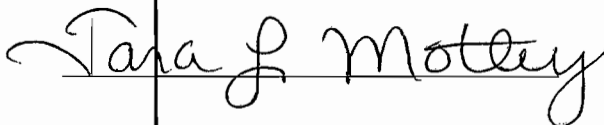
Sincerely,



Steven E. Lieb

Vice President, Group Administration & Strategy
Development
DaVita HealthCare Partners Inc

SUBSCRIBED AND SWORN
to before me this 15th day of
August, 2014



My commission expires: 6-11-17

cc: Michael Constantino
Penny Davis
Ronny Philip

Davita. DATE: 11-Aug-14

VENDOR NAME: ILLINOIS DEPARTMENT OF

NO. 5594639

INVOICE NUMBER	INVOICE DATE	DESCRIPTION	FACILITY	DISCOUNT AMOUNT	NET AMOUNT
IL5579080714	08/07/2014	CON FEE	05579	\$0.00	\$500.00
RECEIVED AUG 18 2014 HEALTH FACILITIES & SERVICES REVIEW BOARD					
PLEASE DETACH AND RETAIN THIS STATEMENT AS YOUR RECORD OF PAYMENT				\$0.00	\$500.00

▼ DETACH CHECK ALONG PERFORATION ▼

▼ DETACH CHECK ALONG PERFORATION ▼

<i>Davita.</i>	TOTAL RENAL CARE, INC. A SUBSIDIARY OF DAVITA P.O. Box 2037 Tacoma, WA 98401-2037	62-35 BNY MELLON TRUST OF DELAWARE 311	5594639	
		CHECK DATE 11-Aug-14	CHECK NUMBER 5594639	PAY THIS AMOUNT \$500.00

PAY Five Hundred Dollars And Zero Cents*****

TO THE ORDER OF ILLINOIS DEPARTMENT OF PUBLIC HEALTH
525 W JEFFERSON STREET
SPRINGFIELD, IL 62761

12-008 Stony Island Dialysis

KDJ

DOCUMENT CONTAINS MULTI-COLORED PANTOGRAPH & MICROPRINTING. BACK HAS THERMOCHROMIC INK & A WATERMARK. HOLD AT AN ANGLE TO VIEW. VOID IF NOT PRESENT. 

⑈0005594639⑈ ⑆031100351⑆ ⑈300961042⑈

Davita.

TOTAL RENAL CARE, INC.
A SUBSIDIARY OF DAVITA INC.
P.O. BOX 2037 • TACOMA, WA 98401-2037

ILLINOIS DEPARTMENT OF PUBLIC HEALTH
525 W JEFFERSON STREET
SPRINGFIELD, IL 62761

OVERNIGHT



STATE OF ILLINOIS

HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-18	BOARD MEETING: July 23-24, 2012	PROJECT NO: 12-008	PROJECT COST: Original: \$3,315,506
FACILITY NAME: Stony Island Dialysis		CITY: Chicago	
TYPE OF PROJECT: Non Substantive			HSA: VI

PROJECT DESCRIPTION: DaVita, Inc., and Total Renal Care, Inc. (the applicants) are proposing to add 8 ESRD stations to a 24 station facility for a total of 32 ESRD stations in 11,566 GSF of leased space in Chicago. The cost of the project is \$3,315,506.



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EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- DaVita, Inc., and Total Renal Care, Inc. (the applicants) are proposing to add 8 ESRD stations to a 24 station facility in 11,566 GSF of leased space in Chicago. The cost of the project is \$3,315,506. **The anticipated project completion date is December 31, 2013.**

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- To establish a health care facility as defined by Illinois Health Facilities Planning Act.

PURPOSE OF THE PROJECT:

- The proposed project seeks to maintain access to life-sustaining ESRD services in Chicago and HSA-VI.

NEED FOR THE PROJECT:

- To expand an existing ESRD facility the applicants must document that
 1. there is a calculated need in the planning area;
 2. the proposed additional stations must provide service to planning area residents;
 3. there must be a demand for the service in the planning area;
 4. the proposed addition will not reduce the utilization at other facilities.

The State Board Staff Notes for the expansion of an existing ESRD facility current State Board rule does not require the determination if facilities within 30 minutes are operating at the State Board's target occupancy of 80%.

- HSA-VI currently has a calculated need for 92 ESRD stations by CY 2013. The existing facility is operating at 100.00% as of March 31, 2012.
- There are 141 ESRD patients currently being served at the Stony Island Dialysis facility.
- A referral letter from Dr. Stankus M.D. identifies an additional 38 pre-ESRD patients who will be referred to the facility within the next two years.
- The applicants have attested that the proposed addition will not reduce the utilization of other facilities in the planning area.

BACKGROUND/COMPLIANCE ISSUES

- In May of 1999 the State Board approved a 16 station facility at this site owned by the University of Chicago at a cost of \$2.2 million.
- Subsequent station additions over the years increased the number of stations to 24 stations. This was accomplished under the lesser of 10% of station capacity or 3 station rule.
- In July of 2010 the State Board approved a change of ownership of this facility to DaVita Inc. at a cost of \$15.3 million



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- Neither applicant has outstanding compliance issues with the State Board.

PUBLIC HEARING/COMMENT

- No public hearing was requested and no letters of opposition or support for this project were received by the State Board Staff.

FINANCIAL AND ECONOMIC FEASIBILITY

- The entirety of the project will be funded through internal sources (Cash and Securities/Fair Market Value of the Leases and a review of the financial statements indicate sufficient cash is available to fund the project.

CONCLUSIONS:

- The applicants have successfully addressed all 13 criteria that were required by the State Board:
- There is a calculated station need in the HSA-VI ESRD service area of 92 ESRD stations by CY 2013. The applicants are requesting an additional eight stations for a total of 32 stations at the facility. The calculated need will support the station increase. There are 141 ESRD patients currently being served at the facility and there is an additional 38 patients that will need dialysis services within next two years. Therefore it appears there is sufficient patient demand to justify the number of stations being requested by the applicants. The applicants are financially viable and the project is economically feasible based upon the audited financial statements provided by the applicants.



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STATE BOARD STAFF REPORT

Stony Island Dialysis, Chicago

PROJECT #12-008

Applicants	DaVita, Inc. Total Renal Care, Inc.
Facility Name	Stony Island Dialysis
Location	Chicago
Application Received	January 25, 2012
Application Deemed Complete	January 25, 2012
Review Period Ended	March 25, 2012
Review Period Extended by the State Board Staff	No
Public Hearing Requested	No
Applicants' Deferred Project	No
Can Applicants Request Another Deferral?	Yes
Project Completion Date	December 31, 2013

I. The Proposed Project

DaVita, Inc., and Total Renal Care, Inc. (the applicants) are proposing to add 8 ESRD stations to a 24 station ESRD facility in 11,566 GSF of leased space in Chicago. The cost of the project is \$3,315,506.

II. Summary of Findings

- A. The State Board Staff finds the proposed project appears to be in conformance with the provisions of Part 1110.
- B. The State Board Staff finds the proposed project appears to be in conformance with the provisions of Part 1120.

III. General Information

DaVita, Inc., and Total Renal Care, Inc. (the applicants) are proposing to add 8 ESRD stations to a 24 station ESRD facility in 11,566 GSF of leased space in Chicago. The cost of the project is \$3,315,506. The applicants are Total Renal Care, Inc., and DaVita, Inc. DaVita, Inc is the parent organization for all the entities and S87 LLC owns the site. Total Renal Care, Inc. is the operating entity. The facility is located at 8721 S. Stony Island, Chicago in HSA VI. HSA VI is comprised of the City of Chicago. The June 2012 update to the IDPH Inventory of Health Care Facilities ("Inventory") shows a computed need for 92 ESRD



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stations in HSA VI.

There is no land acquisition cost for this project, as the proposed facility will be newly constructed/leased space. This is a substantive project subject to both a Part 1110 and Part 1120 review. Project obligation is contingent on permit issuance. **The anticipated project completion date is December 31, 2013.**

A public hearing was offered on this project; however, no hearing was requested. The State Board Staff has not received any letters of support or opposition.

IV. The Proposed Project - Details

DaVita, Inc., and Total Renal Care, Inc. (the applicants) are proposing to add 8 ESRD stations to a 24 ESRD station facility in 11,566 GSF of leased space in Chicago. The cost of the project is \$3,315,506.

V. Project Costs and Sources of Funds

The total estimated project cost is \$3,315,506. The proposed project is being funded with cash and securities totaling \$2,719,882, and leases with a Fair Market Value of \$595,624. Table One outlines the project's costs and uses of funds. The State Board Staff notes all costs are classified as being clinical. The other cost to be capitalized includes costs for a new water treatment system and communications system.

TABLE ONE	
Project Uses and Sources of Funds	
Uses of Funds	Clinical
New Construction Contracts	\$483,133
Modernization Contracts	\$1,386,000
Contingencies	\$186,500
A & E Fees	\$135,094
Consulting & Other Fees	\$62,500
Moveable Equipment	\$237,795
Fair Market Value of Leased Space/Equipment	\$595,624
Other costs to be Capitalized	\$228,860



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TABLE ONE	
Project Uses and Sources of Funds	
Uses of Funds	Clinical
Total Uses of Funds	\$3,315,506
Sources of Funds	Clinical
Cash and Securities	\$2,719,882
Leases (fair market value)	\$595,624
Total Sources of Funds	\$3,315,506

VI. Cost/Space Requirements

Table Two displays the project's cost/space requirements for the project. The clinical portion comprises approximately 100% of the cost and GSF.

TABLE TWO							
Stony Island Dialysis-Cost/Space Allocation							
Clinical Department	Cost	Existing GSF	Proposed GSF	New	Modernized	Vacated	As Is
ESRD	\$3,315,506	9,300	11,566	2,266	9,300	0	0
Total	\$3,315,506	9,300	11,566	2,266	9,300	0	0

VIII. Section 1110.230 - Project Purpose, Background and Alternatives

A. Criterion 1110.230(a) - Background of Applicant

The Criterion states:

- "1) An applicant must demonstrate that it is fit, willing and able, and has the qualifications, background and character, to adequately provide a proper standard of health care service for the community. [20 ILCS 3960/6] In evaluating the qualifications, background and character of the applicant, HFPB shall consider whether adverse action has been taken against the applicant, or against any health care facility owned or operated by the applicant, directly or indirectly, within three years preceding the filing of the application. A health care facility is considered "owned or operated" by every person or entity that owns, directly or indirectly, an ownership interest. If any person or entity owns



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any option to acquire stock, the stock shall be considered to be owned by such person or entity (refer to 77 Ill. Adm. Code 1100 and 1130 for definitions of terms such as "adverse action", "ownership interest" and "principal shareholder").

The applicant provided a list of all health care facilities currently owned and/or operated by the applicant, including licensing, certification and accreditation identification numbers, a certified statement from the applicant that no adverse action has been taken against any facility owned and/or operated by the applicant during the three years prior to the filing of the application, and authorization permitting HFPB and Illinois Department of Public Health (IDPH) access to any documents necessary to verify the information submitted. The applicants appear fit, willing and able and have the qualifications, background and character to adequately provide a proper standard of healthcare service for the community.

B. Safety Net Impact Statement/Charity Care

Davita's Safety Net Statement

DaVita accepts and dialyzes patients with renal failure needing a regular course of dialysis without regard to race, color, national origin, gender, sexual orientation, age, religion, disability or ability to pay. Complete charity care is very unusual as most dialysis patients are covered by some type of payment system.

US Citizen patients are covered by commercial insurance, Medicare or Medicaid. If not covered through one of these avenues there are options through application and acceptance to receive payment through the American Kidney Foundation or National Kidney Foundation. For non-qualified aliens in IL the Emergency Medicaid program covers them.

If we have exhausted all other avenues for payment methods, we have a patient financial evaluation policy in place. From this evaluation we determine the financial ability and obligation to pay.

This information was taken from Davita Inc. 10-K for fiscal year ended December 31, 2010

"Medicare pays 80% of the amount set by the Medicare system for each covered treatment. The patient is responsible for the remaining 20%. In most cases, a secondary



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payor, such as Medicare supplemental insurance, a state Medicaid program or a commercial health plan, covers all or part of these balances. Some patients, who do not qualify for Medicaid but otherwise cannot afford secondary insurance, can apply for premium payment assistance from charitable organizations through a program offered by the American Kidney Fund. We and other dialysis providers support the American Kidney Fund and similar programs through voluntary contributions. If a patient does not have secondary insurance coverage, we are generally unsuccessful in our efforts to collect from the patient the 20% portion of the ESRD composite rate that Medicare does not pay. However, we are able to recover some portion of this unpaid patient balance from Medicare through an established cost reporting process by identifying these Medicare bad debts on each center's Medicare cost report.

TABLE THREE Davita Illinois Facilities Self Pay and Medicaid Information			
CHARITY CARE	2008	2009	2010
Net Revenue	\$ 138,964,396	\$ 149,370,292	\$ 161,884,078
Charity (# of Self-Pay Patients)	52	66	96
Charity (Self-Pay Cost)	\$321,510	\$597,263	\$957,867
% of Net Revenue	0.23%	0.40%	0.59%
MEDICAID			
Medicaid (Patients)	443	445	563
Medicaid (Revenue)	\$8,695,341	\$8,820,052	\$10,447,021
% of Net Revenue	6.26%	5.90%	6.45%

C. Criterion 1110.230(b) - Purpose of the Project

The Criterion states:

The applicant shall document that the project will provide health services that improve the health care or well-being of the market area population to be served. The applicant shall define the planning area or market area, or other, per the applicant's definition.

- 1) The applicant shall address the purpose of the project, i.e., identify the issues or problems that the project is proposing to address or solve. Information to be provided shall include, but is not limited to, identification of existing problems or issues that



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need to be addressed, as applicable and appropriate for the project. Examples of such information include:

- A) The area's demographics or characteristics (e.g., rapid area growth rate, increased aging population, higher or lower fertility rates) that may affect the need for services in the future;
 - B) The population's morbidity or mortality rates;
 - C) The incidence of various diseases in the area;
 - D) The population's financial ability to access health care (e.g., financial hardship, increased number of charity care patients, changes in the area population's insurance or managed care status);
 - E) The physical accessibility to necessary health care (e.g., new highways, other changes in roadways, changes in bus/train routes or changes in housing developments).
- 2) The applicant shall cite the source of the information (e.g., local health department Illinois Project for Local Assessment of Need (IPLAN) documents, Public Health Futures, local mental health plans, or other health assessment studies from governmental or academic and/or other independent sources).
 - 3) The applicant shall detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being. Further, the applicant shall provide goals with quantified and measurable objectives with specific time frames that relate to achieving the stated goals.
 - 4) For projects involving modernization, the applicant shall describe the conditions being upgraded. For facility projects, the applicant shall include statements of age and condition and any regulatory citations. For equipment being replaced, the applicant shall also include repair and maintenance records.

The applicants state that the purpose of the proposed project is to continue to meet the growing need for ESRD services in this area of Chicago. According to the applicants the existing facility cannot accommodate the demand for the physician that rounds at the existing facility. This facility is currently operating at 100.00% as of March 31, 2012, and average utilization since 2008 is 109%.

The applicants cited quantifiable goals as being the ability to improve access while monitoring patient demand, and that the facility will achieve



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quality outcomes as demonstrated by achieving 85% of patients having a URR greater than or equal to 65%, and 85% of patients having a Kt/V greater than or equal to 1.2.

D. Criterion 1110.230(c) - Alternatives to the Proposed Project

The Criterion states:

“The applicant shall document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.

- 1) Alternative options shall be addressed. Examples of alternative options include:
 - A) Proposing a project of greater or lesser scope and cost;
 - B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;
 - C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and
 - D) Other considerations.
- 2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of cost, patient access, quality and financial benefits in both the short term (within one to three years after project completion) and long term. This may vary by project or situation.
- 3) The applicant shall provide empirical evidence, including quantified outcome data, that verifies improved quality of care, as available.”

The applicants considered the following alternatives:

1. Do Nothing

The applicants note the option of utilizing the existing facility for the growing ESRD demand is infeasible. Additional stations are needed to meet the growing demand for dialysis services in this planning area. If this option is pursued, implementation of a fourth shift would be



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necessary, causing undue hardship on both staff and patients. **There were no costs identified with this option.**

2. Utilize Existing Facilities

The applicants note that this alternative was rejected because facilities within the service area cannot accommodate Stony Island's existing caseload and would cause the referring physician to round at numerous facilities in the area. **There were no costs identified with this option.**

3. Project as Proposed

The applicants note the decision to add 8 ESRD stations to the 24-station Stony Island Dialysis facility is in the best interests for a densely populated neighborhood that has a high susceptibility to renal disease and Kidney-related illness. **Cost of the proposed alternative: \$3,315,506.**

VI. Section 1110.234 - Project Scope and Size, Utilization and Unfinished/Shell Space – Review Criteria

A) Size of Project

The Criterion states:

"The applicant shall document that the amount of physical space proposed for the project is necessary and not excessive. The proposed gross square footage (GSF) cannot exceed the GSF standards of Appendix B, unless the additional GSF can be justified by documenting one of the following:

- 1) Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies;**
- 2) The existing facility's physical configuration has constraints or impediments and requires an architectural design that results in a size exceeding the standards of Appendix B;**
- 3) The project involves the conversion of existing bed space that results in excess square footage."**

The applicants propose to add 8 stations to the 24-station Stony Island Dialysis facility in 11,566 GSF of leased space. The State board standard is



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360-520 GSF per station. The applicants note the project is allocating 362 GSF per station. The proposed project meets the spatial standards established by the State Board, and a positive finding has been made.

TABLE FIVE SIZE OF PROJECT 12-008 Stony Island Dialysis				
Department /Service	Proposed BGSF/DGSF	State Standard	Difference	Met Standard?
ESRD Facility	11,566 GSF (32 Stations)	360-520 GSF (362 GSF/Station)	0	Yes

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE SIZE OF PROJECT CRITERION (77 IAC 1110.234(a)).

B) Criterion 1110.234 (b) - Project Services Utilization

The applicant shall document that, by the end of the second year of operation, the annual utilization of the clinical service areas or equipment shall meet or exceed the utilization standards specified in Appendix B. The number of years projected shall not exceed the number of historical years documented. If the applicant does not meet the utilization standards in Appendix B, or if service areas do not have utilization standards in 77 Ill. Adm. Code 1100, the applicant shall justify its own utilization standard by providing published data or studies, as applicable and available from a recognized source, that minimally include the following:

There are 141 ESRD patients currently being served at the Stony Island Dialysis facility. A referral letter from Dr. Stankus, M.D. identifies an additional 38 pre-ESRD patients who will be referred to the facility within the next two years. The applicants have documented by the second year after project completion they will be above the State Board's target occupancy of 80%.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PROJECTED SERVICES UTILIZATION CRITERION (77 IAC 1110.234(b)).

IX. Section 1110.1430 - In-Center Hemodialysis Projects - Review Criteria



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The criterion for establishing an ESRD facility reads as follows:

- 1) **77 Ill. Adm. Code 1100 (formula calculation)**
 - A) The number of stations to be established for in-center hemodialysis is in conformance with the projected station deficit specified in 77 Ill. Adm. Code 1100, as reflected in the latest updates to the Inventory.
 - B) The number of stations proposed shall not exceed the number of the projected deficit, to meet the health care needs of the population served, in compliance with the utilization standard specified in 77 Ill. Adm. Code 1100.
- 2) **Service to Planning Area Residents**
 - A) Applicants proposing to establish or add stations shall document that the primary purpose of the project will be to provide necessary health care to the residents of the area in which the proposed project will be physically located (i.e., the planning or geographical service area, as applicable), for each category of service included in the project.
 - B) Applicants proposing to add stations to an existing in-center hemodialysis service shall provide patient origin information for all admissions for the last 12-month period, verifying that at least 50% of admissions were residents of the area. For all other projects, applicants shall document that at least 50% of the projected patient volume will be from residents of the area.
 - C) Applicants proposing to expand an existing in-center hemodialysis service shall submit patient origin information by zip code, based upon the patient's legal residence (other than a health care facility).
- 4) **Service Demand – Expansion of In-Center Hemodialysis Service**



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The number of stations to be added for each category of service is necessary to reduce the facility's experienced high utilization and to meet a projected demand for service. The applicant shall document subsection (b)(4)(A) and either (b)(4)(B) or (C):

Planning Area Need Review Criterion

The applicant shall document that the number of stations to be established or added is necessary to serve the planning area's population, based on the following:

1) 77 Ill. Adm. Code 1100 (formula calculation)

According to the June 2012 update to the IDPH Inventory of Health Care Facilities ("Inventory"), HSA-VI shows a computed need for 92 ESRD stations.

2) Service to Planning Area Residents

The primary purpose of this project is to provide in-center ESRD services to the existing and growing patient base at Stony Island Dialysis in Chicago (HSA-VI). The applicants note 38 pre-ESRD patients and 141 of the existing dialysis patients will utilize the proposed facility. Over 50% of the ESRD patients reside in the planning area.

3) Expansion of In-Center Hemodialysis Service

There are 141 ESRD patients currently being served at the Stony Island Dialysis facility. A referral letter from Dr. Stankus, M.D. identifies an additional 38 pre-ESRD patients who will be referred to the facility within the next two years. The applicants have documented by the second year after project completion (2013), they will be above the State Board's target occupancy of 80%.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PLANNING AREA NEED CRITERION (77 IAC 1110.1430(b)).

B) Criterion 1110.1430 (e) - Staffing Availability



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The Criterion states:

"The applicant shall document that relevant clinical and professional staffing needs for the proposed project were considered and that licensure and JCAHO staffing requirements can be met. In addition, the applicant shall document that necessary staffing is available by providing letters of interest from prospective staff members, completed applications for employment, or a narrative explanation of how the proposed staffing will be achieved.

1) Qualifications

- A) **Medical Director - Medical direction of the facility shall be vested in a physician who has completed a board-approved training program in nephrology and has at least 12 months experience providing care to patients receiving dialysis.**
- B) **Registered Nurse - The nurse responsible for nursing services in the unit shall be a registered nurse (RN) who meets the practice requirements of the State of Illinois and has at least 12 months experience in providing nursing care to patients on maintenance dialysis.**
- C) **Dialysis Technician - This individual shall meet all applicable State of Illinois requirements (see 210 ILCS 62, the End Stage Renal Disease Facility Act). In addition, the applicant shall document its requirements for training and continuing education.**
- D) **Dietitian - This individual shall be a registered dietitian with the Commission on Dietetic Registration, meet the practice requirements of the State of Illinois (see the Dietetic and Nutrition Services Practice Act [225 ILCS 30]) and have a minimum of one year of professional work experience in clinical nutrition as a registered dietitian.**
- E) **Social Worker - The individual responsible for social services shall have a Master's of Social Work and meet the State of Illinois requirements (see 225 ILCS 20, the Clinical Social Work and Social Work Practice Act)."**

The applicants are proposing to add 8 ESRD stations to a 24 station facility for a total of 32 ESRD stations. The applicants have provided the necessary information to successfully address this criterion.



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THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE STAFFING CRITERION (77 IAC 1110.1430 (e) (1)).

C) Criterion 1110.1430(f) - Support Services

The Criteria states:

"An applicant proposing to establish an in-center hemodialysis category of service must submit a certification from an authorized representative that attests to each of the following:

- 1) Participation in a dialysis data system;**
- 2) Availability of support services consisting of clinical laboratory service, blood bank, nutrition, rehabilitation, psychiatric and social services; and**
- 3) Provision of training for self-care dialysis, self-care instruction, home and home-assisted dialysis, and home training provided at the proposed facility or the existence of a signed, written agreement for provision of these services with another facility."**

The applicants are proposing to add 8 ESRD stations to a 24 station facility for a total of 32 ESRD stations. The applicants have provided the necessary information to successfully address this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH THE SUPPORT SERVICES CRITERION (77 IAC 1110.1430 (f)).

D) Criterion 1110.1430 (j) - Assurances

The Criterion states:

"The applicant representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that:

- 1) By the second year of operation after the project completion, the applicant will achieve and maintain the utilization standards specified in 77 Ill. Adm. Code 1100 for each category of service involved in the proposal; and**
- 2) An applicant proposing to expand or relocate in-center**



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**hemodialysis stations will achieve and maintain compliance with the following adequacy of hemodialysis outcome measures for the latest 12-month period for which data are available:
 $\geq 85\%$ of hemodialysis patient population achieves area reduction ratio (URR) $\geq 65\%$ and $\geq 85\%$ of hemodialysis patient population achieves Kt/V Daugirdas .1.2."**

The applicants provided the required certification information on page 157 of the application for permit as required of the criterion. The applicants note DaVita patients in Illinois have achieved the following adequacy outcomes, and the same is expected for Stony Island Dialysis.

- 85% of patients had a URR $\geq 65\%$
- 85% of patients had a Kt/V ≥ 1.2

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ASSURANCES CRITERION (77 IAC 1110.1430 (j)).

X. 1120.120 - Availability of Funds

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources.

The applicants are funding the project with cash and securities totaling \$2,719,882 the FMV of the leases totaling \$595,624. A review of the applicants' financial statements indicates that sufficient cash is available to fund the project.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE AVAILABILITY OF FUNDS CRITERION (77 IAC 1120.120 (a)).

XI. 1120.130 - Financial Feasibility

A. Criterion 1120.130 - Financial Viability

Financial Viability Waiver



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The applicant is NOT required to submit financial viability ratios if:

- 1) all project capital expenditures, including capital expended through a lease, are completely funded through internal resources (cash, securities or received pledges); or

HFSRB NOTE: Documentation of internal resources availability shall be available as of the date the application is deemed complete.

- 2) the applicant's current debt financing or projected debt financing is insured or anticipated to be insured by Municipal Bond Insurance Association Inc. (MBIA), or its equivalent; or

HFSRB NOTE: MBIA Inc is a holding company whose subsidiaries provide financial guarantee insurance for municipal bonds and structured financial projects. MBIA coverage is used to promote credit enhancement as MBIA would pay the debt (both principal and interest) in case of the bond issuer's default.

- 3) the applicant provides a third-party surety bond or performance bond letter of credit from an A rated guarantor (insurance company, bank or investing firm) guaranteeing project completion within the approved financial and project criteria.

The applicants have qualified for the financial waiver because the project is being funded with internal sources including capital expended through a lease. The applicants are funding the project with cash and securities of \$2,719,882, and the FMV of the lease of \$595,624. A review of the applicants' audited financial statements indicates that sufficient cash is available to fund the project.

TABLE SIX DaVita Credit Ratings			
	Standard & Poor's	Moody's	Fitch
Davita Corporate Credit Rating	BB-	Ba3	BB-1
BB – Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions. Ba1 -Speculative investment. Occurs often in deteriorated circumstances, usually			



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problematic to predict future development

BB - ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments

Ba3 - Questionable credit quality

BB-1 - Prone to changes in the economy

A minus sign (-) signifies an intermediate rating in each category

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE FINANCIAL FEASIBILITY CRITERION (77 IAC 1120.130 (a)).

XII. Section 1120.140 - Economic Feasibility

A. Criterion 1120.140(a) - Reasonableness of Financing Arrangements

The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:

1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or

2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:

A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or

B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

The applicants are funding the project with cash and securities of \$2,719,882, and the FMV of the lease of \$595,624. The applicants have provided documentation of internal funding sources for the proposed project. The applicants have met this criterion.



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THE STATE BOARD STAFF FINDS THE PORPOSED PROJECT APPEARS TO BE CONFORMANCE WITH THE REASONABLENESS OF FINANCING ARRANGEMENTS (77 IAC 1120.140(a)).

B. Criterion 1120.140(b) - Terms of Debt Financing

This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

- 1) That the selected form of debt financing for the project will be at the lowest net cost available;
- 2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;
- 3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

The applicants are funding the project with cash and securities of \$2,719,882, the FMV of the lease of \$595,624. The applicants have provided documentation of internal funding sources for the proposed project, and this criterion is inapplicable

THE STATE BOARD STAFF FINDS THE PORPOSED PROJECT APPEARS TO BE CONFORMANCE WITH THE TERMS OF DEBT FINANCING ARRANGEMENTS (77 IAC 1120.140(b)).

C. Criterion 1120.140(c) - Reasonableness of Project Cost

The applicant shall document that the estimated project costs are reasonable and shall document compliance with the State Board's standards as detailed in 77 IAC 1120.



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New Construction and Contingencies - These costs total \$519,672 or \$229.33 per gross square feet. ($\$519,672 / 2,266 \text{ GSF} = \$229.33 / \text{GSF}$). This appears reasonable when compared to the State Board standard of \$243.48/GSF.

Modernization and Contingencies - These costs total \$1,535,961 or \$165.15 per gross square feet. ($\$1,535,961 / 9,300 \text{ GSF} = \165.15). This appears reasonable when compared to the State Board standard of \$170.55.

Contingencies - These costs total \$186,500. These costs are 10.00% of new construction and modernization costs. This appears reasonable when compared to the State Board standard of 10%-15% of modernization costs.

Architect and Engineering Fees - These costs total \$135,094 or 6.57% of construction and contingency costs. This appears reasonable when compared to the State Board standard of 6.54%-9.82 % of modernization and contingency costs.

Consulting and Other Fees - These costs total \$62,500. The State Board does not have a standard for this cost.

Moveable Equipment - These costs total \$237,795 or \$29,724 per station. This appears reasonable when compared to the State Board standard of \$39,945.

Fair Market Value of Leased Space - These costs are \$595,624. The State Board does not have a standard for these costs.

Other Costs to be Capitalized - These costs total 228,860. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REASONABLENESS OF PROJECT COST CRITERION (77 IAC 1120.140 (c)).

D) Criterion 1120.140 (d) - Projected Operating Costs



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The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct cost means the fully allocated costs of salaries, benefits and supplies for the service.

The applicants anticipate the direct operating costs per treatment to be \$248.33. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PROJECT DIRECT OPERATING COSTS CRITERION (77 IAC 1120.140 (d)).

E) Criterion 1120.140 (e) - Total Effect of the Project on Capital Costs

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

The applicants anticipate the total effect of the Project on Capital Costs per treatment to be \$9.92. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS CRITERION (77 IAC 1120.140 (e)).

