



STATE OF ILLINOIS

HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

DOCKET NO: H-07	BOARD MEETING: February 16, 2016	PROJECT NO: 15-052	PROJECT COST: Original: \$1,448,658
FACILITY NAME: Sauget Dialysis		CITY: Sauget	
TYPE OF PROJECT: Substantive			HSA: XI

PROJECT DESCRIPTION: The applicants (DaVita HealthCare Partners, Inc and Renal Treatment Centers - Illinois, Inc.) propose to add eight (8) dialysis stations to its existing sixteen (16) station dialysis facility located at 2061 Goose Lake Road, Sauget, Illinois at a cost of \$1,448,658. The anticipated completion date is August 31, 2017.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicants (DaVita HealthCare Partners, Inc and Renal Treatment Centers - Illinois, Inc.) propose to add eight (8) dialysis stations to its existing sixteen (16) station dialysis facility located at 2061 Goose Lake Road, Sauget, Illinois at a cost of \$1,448,658. The anticipated completion date is August 31, 2017.
- In October 2004 Sauget Dialysis was approved to discontinue a fourteen (14) station facility in East St. Louis and relocate fourteen (14) stations to Sauget at a cost of \$2,245,259.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The applicants are substantially changing the scope of the facility by increasing the number of stations from sixteen (16) to twenty-four (24) stations. 20 ILCS 3960/5 (b)

PURPOSE OF THE PROJECT:

- The purpose of the project is to address the high utilization at the sixteen (16) station facility of 93.75%.

NEED FOR THE PROJECT:

- To determine need for the additional eight (8) stations at Sauget Dialysis the applicants must demonstrate that there is sufficient patient volume to justify the additional eight (8) stations and that the existing sixteen (16) station facility has been operating in excess of the 80% target capacity. The sixteen (16) station facility is operating at 93.75% which is in excess of the eighty percent (80%) State Board target occupancy. The applicants have identified eighty-three (83) patients who are suffering from Stage four (4) or five (5) CKD who all reside within an approximate fifteen (15) minute commute of the proposed facility. Fifty-eight (58) of these eighty-three (83) patients will progress to dialysis within the twelve (12) to twenty-four (24) months of project completion. It appears the additional eight (8) stations are warranted.

PUBLIC HEARING/COMMENT:

- A public hearing was offered in regard to the proposed project, but none was requested. No letters of support or opposition were received by the State Board Staff.

CONCLUSIONS:

- The applicants addressed a total of eighteen (18) criteria and have successfully addressed them all.

STATE BOARD STAFF REPORT
Project #15-052
Sauget Dialysis

APPLICATION/CHRONOLOGY/SUMMARY	
Applicants(s)	DaVita HealthCare Partners, Inc and Renal Treatment Centers - Illinois, Inc
Facility Name	Sauget Dialysis
Location	2061 Goose Lake Road, Sauget, Illinois
Permit Holder	Renal Treatment Centers –Illinois, Inc.
Operating Entity	Renal Treatment Centers –Illinois, Inc.
Owner of Site	Union Planters Trust No. 03-90-1090-00
Description	Add 8 ESRD stations for a total of 24 stations
Total GSF	6,800 GSF
Application Received	November 10, 2015
Application Deemed Complete	November 19, 2015
Review Period Ends	January 18, 2016
Financial Commitment Date	February 16, 2017
Project Completion Date	August 31, 2017
Review Period Extended by the State Board Staff?	No
Can the applicants request a deferral?	Yes

I. Project Description

The applicants (DaVita HealthCare Partners, Inc and Renal Treatment Centers - Illinois, Inc.) propose to add eight (8) dialysis stations to its existing sixteen (16) station dialysis facility located at 2061 Goose Lake Road, Sauget, Illinois at a cost of \$1,448,658. The anticipated completion date is August 31, 2017

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

The applicants are DaVita HealthCare Partners Inc. and Renal Treatment Centers-Illinois, Inc. DaVita Healthcare Partners, Inc. currently operates over 2,179 dialysis centers throughout the United States. Renal Treatment Centers-Illinois, Inc. is a subsidiary of DaVita HealthCare Partners, Inc. Renal Treatment Centers-Illinois, Inc is a Delaware Corporation licensed to conduct business in the State of Illinois and is currently in good standing with the State of Illinois. The operating entity is Renal Treatment Centers-Illinois, Inc. and the owner of the site is Union Planters Trust No. 03-90-1090-00. Sauget Dialysis is located at 2061 Goose Lake Road, Sauget, Illinois in the HSA XI

ESRD Planning Area. HSA XI ESRD Planning Area consists of the Illinois Counties of Clinton, Madison, Monroe, and St. Clair. There is a calculated need for twenty-one (21) ESRD stations in this planning area.

Table One below outlines the current DaVita Projects approved by the State Board and not yet completed.

TABLE ONE			
Current DaVita Projects			
Project Number	Name	Project Type	Completion Date
13-070	Belvidere Dialysis	Establishment	3/31/2016
14-020	Chicago Ridge Dialysis	Establishment	01/31/2016
14-042	Tinley Park Dialysis	Establishment	10/31/2016
14-058	Alton Dialysis	Discontinuation/Establishment	07/31/2016
14-069	Stony Creek Dialysis	Discontinuation/Establishment	06/30/2016
15-004	Machesney Park Dialysis	Establishment	04/30/2017
15-003	Vermillion County Dialysis	Establishment	04/30/2017
15-020	Calumet City Dialysis	Establishment	07/31/2017
15-025	South Holland Dialysis	Discontinuation/Establishment	10/31/2017
15-032	Morris Dialysis	Discontinuation/Establishment	04/30/2017
15-033	Lincoln Park Dialysis	Discontinuation/Establishment	04/30/2017
15-035	Montgomery Dialysis	Establishment	04/30/2017
Source: #15-052 Application for Permit			

IV. Project Costs and Sources of Funds

The applicants are funding the project with cash of \$1,028,592 and the FMV of leased space of \$420,066.

TABLE TWO		
Project Costs and Sources of Funds		
	Clinical	Total
Modernization Contracts	\$500,000	\$500,000
Contingencies	\$30,000	\$30,000
Architectural & Engineering	\$50,000	\$50,000
Consulting and Other Fees	\$52,500	\$52,500
Movable or Other Equipment	\$396,092	\$396,092
FMV of Leased Space	\$420,066	\$420,066
Total	\$1,448,658	\$1,448,658
Cash and Securities	\$1,028,592	\$1,028,592
FMV of Leased Space	\$420,066	\$420,066
Total	\$1,448,658	\$1,448,658
Source: Page 6 of Application for Permit		

V. Purpose of the Project, Safety Net Impact Statement, and Alternatives

The information for these three criteria is informational only.

A) Criterion 1110.230(a) - Purpose of the Project

The applicants stated the following in part:

“The Applicants propose to add 8 dialysis stations to Sauget Dialysis to meet the growing need for dialysis services in Sauget and its surrounding communities. There is currently a need for 21 dialysis stations in the Sauget HSA. Over the past year, utilization at Sauget Dialysis increased over 10%. As of June 30, 2015, it is operating at 96% capacity and can only accommodate 4 patients before it reaches full capacity. Accordingly, the additional stations are needed to maintain access to life sustaining dialysis services for patients in Sauget and the surrounding communities. The expansion is needed to serve the growing need for dialysis services in the Sauget community. Without the additional stations, Sauget will be required to operate a 4th shift to accommodate patient demand. As a result, patients will receive treatment well past midnight, which is suboptimal and sometimes dangerous for patients and staff. When a fourth shift is operated, the dialysis facility operates nearly around the clock with staff opening the facility around 5:00 a.m. and closing it around midnight. Not only is staffing a fourth shift difficult for clinic personnel, it is also Suboptimal for the patients themselves. Approximately 70% of the Sauget patients do not have access to transportation and are reliant upon Medicare services to transport them to and from their dialysis appointments. Most of the medical transportation services do not run past 9:30 p.m. Patients dialyzing on a fourth shift would not have reliable access to transportation to get home. These patients may have to miss treatments, which results in involuntary non-compliance, when they cannot arrange for transportation. Noncompliance has significant negative consequences. Skipping one or more dialysis sessions in a month has been associated with a 16% higher risk of hospitalization and 30% increased mortality risk compared to those who did not miss a dialysis session. Further, approximately 90% of the Sauget patients are disabled. These patients are faced with additional safety hazards when arriving and departing the facility in the dark. Some of these hazards cannot be avoided in the winter but patients feel more secure when arriving and departing during the day. Finally, a fourth shift increases operating costs by adding additional staffing and utilities costs.” (For a complete discussion see pages 82-85 of the application for permit.)

B) Criterion 1110.230(b) – Safety Net Statement

The applicants provided a safety net statement at page eighty-six (86) of the application for permit. The applicants stated the following:

“This criterion is required for all substantive and discontinuation projects. DaVita HealthCare Partners Inc. and its affiliates are safety net providers of dialysis services to residents of the State of Illinois. DaVita is a leading provider of dialysis services in the United States and is committed to innovation, improving clinical outcomes, compassionate care, education and Kidney Smarting patients, and community outreach. A copy of DaVita's 2014 Community Care report, which details DaVita's commitment to quality, patient centric focus and community outreach, was previously included as part of Applicants' application for Project. No. 15-025. As referenced in the report, DaVita led the industry in quality, with 50 percent of its dialysis centers earning four or five stars in the federal Five-Star Ratings, compared to the 21 percent industry average. DaVita also led the industry in Medicare's Quality Incentive Program, ranking No. 1 in three out of four clinical measures and receiving the fewest penalties. DaVita has taken on many initiatives to improve the lives of patients suffering from CKD and ESRD. These programs include the Kidney Smart, IMPACT, CathAway, and transplant assistance programs. Furthermore, DaVita is an industry leader in the rate of fistula use and has the lowest day-90 catheter rates among large dialysis providers. During 2000 - 2014, DaVita improved its fistula adoption rate by 103 percent. Its commitment to improving clinical outcomes directly translated into 7% reduction in hospitalizations among DaVita patients. DaVita has improved clinical outcomes each year since 2000, generating an estimated \$204 million in net savings to the American healthcare system in 2013. The proposed project will not impact the ability of other health care providers or health care systems to cross-subsidize safety net services. Sauget Dialysis is currently operating at 96% utilization. There are 245 patients from Dr. Dalal's practice suffering from Stage 4 or 5 CKD. 83 of the Stage 4 and Stage 5 patients reside within an approximate 15 minute commute of Sauget Dialysis. At least 58 of these patients will be referred to the proposed Sauget Dialysis within 12 to 24 months of project completion. As such, the proposed 8 station expansion is necessary to allow Sauget Dialysis to accommodate the growing demand for dialysis services. Accordingly, the proposed 8 station expansion will not impact other general health care providers' ability to cross-subsidize safety net services.”

TABLE THREE			
DaVita Healthcare Partners, Inc. Illinois Facilities			
Safety Net Impact			
	2012	2013	2014
Net Patient Revenue	\$228,403,979	\$244,115,132	\$266,319,949
CHARITY CARE			
Charity (# of patients)	152	187	146
Charity (cost In dollars)	\$1,199,657	\$2,175,940	\$2,477,363
% Charity Care to Net Revenue	0.05%	0.08%	0.09%
MEDICAID			
Medicaid (# of patients)	651	679	708
Medicaid (revenue)	\$11,387,229	\$10,371,416	\$8,603,971

TABLE THREE			
DaVita Healthcare Partners, Inc. Illinois Facilities Safety Net Impact			
	2012	2013	2014
% Medicaid to Net Revenue	0.40%	0.40%	0.30%
Source: Page 86 Application for Permit			

C) Criterion 1110.230 (c) –Alternatives to the Proposed Project

The applicants looked at utilizing other facilities in the service area and expanding the existing facility at Sauget. Utilizing other facilities was rejected because the four facilities located within thirty (30) minutes of the Sauget Dialysis averaged 78.31% utilization as of September 2015. According to the applicants the most efficient and effective alternative would be to add stations to its existing facility to address the need in this service area. (See pages 87-88 of the application for permit for complete discussion)

VI. Project Size, Projected Utilization, Assurances

A) Criterion 1110.234 (a) – Size of the Project

The applicants are proposing 6,800 GSF of space to house twenty four (24) stations or 284 GSF per station. This appears well within the State Board Standard of 360-520 GSF per station. See page 89 of the application for permit.

B) Criterion 1110.234 (b) – Projected Utilization

The applicants are currently providing dialysis to ninety-two (92) patients in 16 stations or 14,352 treatments per year or a utilization rate of 93.7%. By the second year after project completion the applicants are projecting to provide care to one hundred fifty (150) patients for a utilization rate of 104%. See page 90 of the application for permit.

$$\begin{aligned}
 24 \text{ stations} \times 936 \text{ treatments per station per year} &= 22,464 \text{ total capacity 3 shifts per day} \\
 150 \text{ estimated patients} \times 156 \text{ treatment per year} &= 23,400 \text{ treatments} \\
 23,400 / 22,464 &= 104\%
 \end{aligned}$$

C) Criterion 1110.234 (e) - Assurances

The applicants provided the necessary assurance that the proposed twenty-four (24) station facility will be at the target occupancy of eighty percent (80 %) by the second year after project completion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION SIZE OF THE PROJECT, PROJECTED UTILIZATION, AND ASSURANCES (77 IAC 1110.234 (a) (b) (c))

VII. In Center Dialysis Center

A) Criterion 1110.1430 (b) (1) (3) - Background of Applicant

Assistant Arturo Sida, Corporate Secretary DaVita Healthcare Partners, Inc. attested: *"I hereby certify under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 ILCS 5/1-109 that no adverse action as defined in 77 IAC 1130.140 has been taken against any in-center dialysis facility owned or operated by DaVita HealthCare Partners Inc. or Renal Treatment Centers - Illinois, Inc. in the State of Illinois during the three year period prior to filing this application.*

Additionally, pursuant to 77 Ill. Admin. Code § 1110.230(a)(3)(C), I hereby authorize the Health Facilities and Services Review Board ("HFSRB") and the Illinois Department of Public Health ("IDPH") access to any documents necessary to verify information submitted as part of this application for permit. I further authorize HFSRB and IDPH to obtain any additional information or documents from other government agencies which HFSRB or IDPH deem pertinent to process this application for permit." (See pages 93-116 of the application for permit for additional information)

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION BACKGROUND OF APPLICANTS (77 IAC 1110.1430 (b) (1) (3))

B) Criterion 1110.1430 (c) (2) (4) - Planning Area Need

The primary purpose of this project is to ensure the residents of Sauget and the surrounding communities have access to life sustaining dialysis. There are thirty-one (31) new patients that have been admitted to Sauget Dialysis from January 1, 2014 through September 30, 2015. Twenty-nine (29) of the thirty-one (31) newly admitted patients (or 93.5%) reside within the Sauget Dialysis geographic service area.

TABLE FOUR		
Number of Patients in		
Zip Code	City	Number of Patients
61101	Rockford	1
62201	East St. Louis	2
62203	East St. Louis	3
62204	East St. Louis	1
62205	East St. Louis	8
62206	East St. Louis	7
62207	East St. Louis	4
62221	Belleville	1
62226	Belleville	1
62239	Dupo	1
62254	Lebanon	1
63121	St. Louis	1
Total		31

TABLE FOUR Number of Patients in		
Zip Code	City	Number of Patients
Source: Page 119 Application for Permit		

Sauget Dialysis' current utilization is ninety-six percent (96%), which is an increase of ten percent (10%) over the prior year. The facility currently treats ninety-two (92) patients and can accommodate four (4) patients before it reaches full capacity. The applicants have identified eighty-three (83) patients who are suffering from Stage four (4) or five (5) CKD who all reside within an approximate fifteen (15) minute commute of the proposed facility. Fifty-eight (58) of these eighty-three (83) patients will progress to dialysis within the twelve (12) to twenty-four (24) months of project completion. It appears the additional eight (8) stations are warranted. (See application pages 119-120 for complete discussion)

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION PLANNING AREA NEED (77 IAC 1110.1430 (c) (2) (4))

C) Criterion 1110.1430 (f) - Staffing

The facility is Medicare certified and is appropriately staffed in accordance with Medicare and State requirements. The facility is an open medical staff facility. Curriculum Vitae were provided for the medical director as required. See pages 121-123 of the application for permit

D) Criterion 1110.1430 (g) - Support Services

DaVita utilizes an electronic dialysis data system. Sauget Dialysis will have available all needed support services required by CMS which may consist of clinical laboratory services, blood bank, nutrition, rehabilitation, psychiatric services, and social services; and patients, either directly or through other area DaVita facilities, will have access to training for self-care dialysis, self-care instruction, and home hemodialysis and peritoneal dialysis. See page 124-125 of the application for permit.

E) Criterion 1110.1430 (k) - Assurances

The applicants have provided the necessary assurance that the facility will be at target occupancy within 2 years of project completion and meet the quality standards of the State Board. See pages 128-129 of the application for permit.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION STAFFING, SUPPORT SERVICES, AND ASSURANCES (77 IAC 1110.1430 (f) (g) (k))

VIII. FINANCIAL VIABILITY

A) Criterion 1120.120 - Availability of Funds

The applicants are funding this project with cash and securities totaling \$1,028,592, the fair market value of leased space of \$420,066. A review of the applicants' 2014 10-K statement (submitted with application #15-020) indicates sufficient resources are available to fund the project.

TABLE FIVE		
DaVita Healthcare Partners, Inc.		
(Dollars in thousands)		
31-Dec-14		
	2014	2013
Cash	\$965,241	\$946,249
Current Assets	\$3,876,797	\$2,472,278
Current Liabilities	\$2,088,652	\$2,462,049
LTD	\$8,383,280	\$8,141,231
Net Patient Service Revenue	\$8,501,454	\$8,013,649
Total Revenue	\$12,795,106	\$11,764,050
Operating Expenses	\$10,979,965	\$10,213,916
Net Income	\$723,114	\$633,446
Average revenue/treatment	\$342	\$340
Average expense/treatment	\$273.60	\$285.60
Source: DaVita Healthcare Partners, Inc. 2014 10K		

B) Criterion 1120.130 – Financial Viability

The applicants qualify for the financial waiver because all funding will be coming from internal resources; therefore no financial ratios needed to be provided.

XI. ECONOMIC FEASIBILITY

A) Criterion 1120.140 (a) – Reasonableness of Financing Arrangements

B) Criterion 1120.140 (b) – Terms of Debt Financing

The applicants provided the lease agreement between Union Planters Trust No. 03-90-1090-00 (“lessor”) and Renal Treatment Centers Illinois Inc. (“lessee”) dated March 2005. According to the agreement the base rent is \$14.30 per GSF or \$8,103.33 per month based upon 6,800 GSF. The base rent is adjusted annually by the consumer price index. The lease is for fifteen (15) years. This lease agreement was approved as part of Permit #04-032. (See pages 30-60 of the application for permit for the lease document)

C) Criterion 1120.140 (c) – Reasonableness of Project Costs

All costs are clinical. There are no non-clinical costs.

Modernization and Contingencies Costs are \$530,000 or \$77.91 per GSF of 6,800 GSF. This appears reasonable when compared to the State Board Standard of \$200.71 per GSF.

Contingencies Costs are \$30,000 and are 6% of the modernization costs of \$500,000. This appears reasonable when compared to the State Board Standard of 10-15%.

Architectural Fees are \$50,000 and are 9.4% of modernization and contingencies. This appears reasonable when compared to the State Board Standard of 7.96-11.94%.

Consulting and Other Fees are \$52,500. The State Board does not have a standard for this cost.

Movable of Other Equipment is \$396,092 or \$49,512 per station (8 stations). This appears reasonable when compared to the State Standard of \$55,293 per station.

TABLE SIX	
Itemization of Moveable or Other Equipment	
Communications	\$51,000
Water Treatment	\$155,175
Bio-Medical Treatment	\$10,185
Clinical Equipment	\$135,675
Clinical Furniture/Fixtures	\$12,165
Storage Furniture/Fixtures	\$4,987
Business Office Fixtures	\$12,905
General Furniture/Fixtures	\$13,000
Signage	\$1,000
Total	\$396,092
Source: Page 79 Application for Permit	

Fair Market Value is \$420,066. The State Board does not have a standard for this cost.

D) Criterion 1120.140 (d) - Direct Operating Costs

Direct operating costs per treatment is \$140.62. This appears reasonable when compared to previously approved projects. (See page 137 of the application for permit.)

E) Criterion 1120.140 (e) – Projected Capital Costs

Capital Costs per treatment are expected to be \$3.49 per treatment. This appears reasonable when compared to previously approved projects. (See page 138 of the application for permit.)

15-052 DaVita Sauget Dialysis - Sauget

