



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-08	BOARD MEETING: February 16, 2016	PROJECT NO: 15-054	PROJECT COST: Original: \$3,899,637
FACILITY NAME: DaVita Washington Heights Dialysis		CITY: Washington Heights	
TYPE OF PROJECT: Substantive			HSA: VI

PROJECT DESCRIPTION: The applicants (DaVita HealthCare Partners, Inc and Total Renal Care, Inc) are proposing to establish a sixteen (16) station ESRD facility in 7,540 GSF of leased space at a cost of approximately \$3,899,637. The anticipated project completion date is September 30, 2017.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicants (DaVita HealthCare Partners, Inc and Total Renal Care, Inc) are proposing to establish a sixteen (16) station ESRD facility in 7,540 GSF of leased space at a cost of approximately \$3,899,637. The anticipated project completion date is September 30, 2017.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- This project is before the State Board because the project proposes to establish an existing health care facility as defined by Illinois Health Facilities Planning Act (20 ILCS 3960(3)).

PURPOSE OF THE PROJECT:

- Per the applicants *“The purpose of the project is to improve access to life sustaining dialysis services to the residents of the Southside of Chicago*

NEED FOR THE PROJECT:

- There is a calculated need for one hundred four (104) ESRD stations in the HSA VI ESRD Planning Area i.e. City of Chicago. There appears to be sufficient demand for the project as the applicants have identified eighty (80) pre-ESRD patients that are expected to require dialysis within two (2) years after project completion. Over 50% of the pre ESRD patients reside in the HSA VI ESRD Planning Area. The proposed facility will be located within an area that has been identified as being a health professional shortage area. There are thirty-six (36) facilities within thirty (30) minutes of the proposed facility. Two (2) facilities have recently been approved by the State Board and are not yet operational. Average utilization of the thirty-six facilities (36) within the thirty (30) minute service area (adjusted) is approximately seventy three percent (74%). If the two (2) facilities are not taken into account average utilization of the thirty-four (34) facilities is approximately seventy-eight (78%) percent.

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 twenty-one (21) criteria and have successfully addressed them all.

STATE BOARD STAFF REPORT
Davita Washington Heights Dialysis
Project 15-054

APPLICATION/CHRONOLOGY/SUMMARY	
Applicant(s)	DaVita HealthCare Partners, Inc and Total Renal Care, Inc
Facility Name	DaVita Washington Heights Dialysis
Location	10620 South Halsted Street, Chicago, Illinois
Permit Holder	Total Renal Care, Inc.
Operating Entity	Total Renal Care, Inc
Owner of Site	Novogroder/Franklin & Halstead, LLC
Description	Establish a 16 station ESRD facility
Total GSF	7,540 GSF
Application Received	November 30, 2015
Application Deemed Complete	December 1, 2015
Review Period Ends	January 29, 2016
Financial Commitment Date	February 16, 2018
Project Completion Date	September 30, 2017
Review Period Extended by the State Board Staff?	No
Can the applicants request a deferral?	Yes

I. Project Description

The applicants are proposing to establish a sixteen (16) station ESRD facility in 7,540 GSF of leased space at a cost of approximately \$3,899,637. The anticipated project completion date is September 30, 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 Total Renal Care, Inc. DaVita Healthcare Partners, Inc. currently operates over 2,179 dialysis centers throughout the United States. Total Renal Care, Inc. is a subsidiary of DaVita HealthCare Partners, Inc. Total Renal Care, Inc is a California 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 Total Renal Care, In. and the owner of the site is Novogroder/Franklin & Halstead, LLC. The proposed facility is located in the Health Service Area (HSA) VI ESRD Planning Area. The HSA VI ESRD Planning Area consists of the City of Chicago. There is a calculated need for one hundred four (104) ESRD stations in the HSA VI ESRD

Planning Area. Obligation will occur after permit issuance. The proposed location is compliant with the Historic Resources Preservation Act and is in compliance with Executive Order #2006-5.

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: #15-054 Application for Permit			

IV. Project Costs and Sources of Funds

The applicants funding this project with cash and securities of \$2,231,274 and the FMV of leased space of \$1,668,363. The estimated start-up costs and operating deficit is \$1,704,337.

TABLE TWO		
Project Costs and Sources of Funds		
	Clinical	Total
Modernization Contracts	\$1,293,997	\$1,293,997
Contingencies	\$90,000	\$90,000
Architectural & Engineering	\$125,400	\$125,400
Consulting and Other Fees	\$122,500	\$122,500
Movable or Other Equipment	\$599,377	\$599,377
FMV of Leased Space	\$1,668,363	\$1,668,363
Total	\$3,899,637	\$3,899,637
Cash and Securities	\$2,231,274	\$2,231,274
FMV of Leased Space	\$1,668,363	\$1,668,363
Total	\$3,899,637	\$3,899,637

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

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

The applicants stated the following in part to address this criterion:

“The purpose of the project is to improve access to life sustaining dialysis services to the residents of the Southside of Chicago. There are 36 dialysis facilities within 30 minutes of the proposed Washington Heights Dialysis; collectively these facilities were operating at 73.24% as of September 30, 2015. Excluding recently approved facilities and facilities that have been operational less than 2 years, utilization increases to 76.5%. Due to socioeconomic conditions in Washington Heights, lack of primary care services, and more individuals obtaining insurance through the Affordable Care Act (or ACA), the need for dialysis services in Washington Heights is projected to increase in the coming years. Accordingly, there will be insufficient capacity for Dr. Barakat's projected referrals.

Washington Heights is a predominantly African-American community, and 29.4% of residents live below the federal poverty level, which is over twice the State-wide average.¹⁰ As a result, this population exhibits a higher prevalence of obesity, which is a driver of diabetes and hypertension, the two leading causes of CKD and ESRD. Notably, African Americans are at an increased risk of ESRD compared to the general population due to the higher prevalence of these conditions in the African American community. In fact, the ESRD incident rate among African Americans is 3.6 times greater than whites. Additionally, the U.S. Department of Health and Human Services Health Resources and Services Administration (HRSA) designated the Washington Heights zip code (60628) as a primary care health professional shortage area.” (See pages 99-102 of the Application for Permit for a complete discussion)

B) Criterion 1110.230 (b) - Safety Net Impact Statement

The applicants stated the following in part to address this criterion:

“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 Proj. 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.” (See pages 174-175 of the Application for Permit for the complete safety net impact statement)

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
% 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 considered utilizing existing facilities in the thirty (30) minute service area but rejected that alternative because

“There are 36 dialysis facilities within 30 minutes of the proposed Washington Heights Dialysis; collectively these facilities were operating at 73.24% as of September 30, 2015. Excluding recently approved facilities and facilities that have been operational less than 2 years, utilization increases to 76.5%. Due to socioeconomic conditions in Washington Heights, lack of primary care services, and more individuals obtaining insurance through the ACA, the need for dialysis services in Washington Heights is projected to increase in the coming years. Accordingly, there will be insufficient capacity for Dr. Barakat's projected referrals.” (See pages 103-105 of the Application for Permit for a complete discussion) No other alternative was considered.

VI. Size of the Project, Projected Utilization, Assurances

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

The applicants are proposing sixteen (16) stations in 7,540 GSF of space or four hundred seventy-two (472) GSF per station. The State Board Standard is five hundred twenty (520) GSF per station or eight thousand three hundred twenty (8,320) GSF. The applicants have met the requirements of this criterion.

B) Criterion 1110.234 (b) – Projected Utilization

The applicants are projecting eighty (80) patients to begin dialysis within 12-24 months of the proposed facility opening. The applicants have successfully addressed this criterion.

$$\begin{aligned} 80 \text{ patients} \times 156 \text{ treatments per year} &= 12,480 \text{ treatments} \\ 16 \text{ station} \times 936 \text{ treatments per year per station} &= 14,976 \text{ treatments} \\ \underline{12,480/14,976} &= \underline{83.3\%} \end{aligned}$$

C) Criterion 1110.234 (e) – Assurances

The applicants provided the necessary assurance at page 146 of the application for permit that the proposed facility will be at target occupancy within two years of project completion. The applicants have successfully addressed this criterion.

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

VII. In-Center Dialysis Center

A) Criterion 1110.1430 (b) (1) (3) - Background of the Applicants

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 Total Renal Care, 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 72-98 of the Application for Permit for additional information)

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

B) Criterion 1110.1430 (c) (1) (2) (3) (5) – Planning Area Need

The applicants stated the following:

"The establishment of a 16-station dialysis facility will improve access to necessary dialysis treatment for those individuals on the Southside of Chicago who suffers from ESRD. ESRD patients are typically chronically ill individuals and adequate access to dialysis services is essential to their well-being."

There is a calculated need for one hundred four (104) ESRD stations in the HSA VI ESRD Planning Area. Fifty-three percent (53%) or eighty-five (85) pre- ESRD patients of the one hundred sixty (160) pre-ESRD patients that live within thirty (30) minutes reside in the HSA VI ESRD Planning Area. The referring physician's practice, Kidney & Hypertension Associates, is currently treating 207 Stage 3, 4, and 5 CKD patients. Based upon attrition due to patient death, transplant, return of function, or relocation, the applicants anticipate that at least eighty (80) of the one hundred sixty (160) of these patients will initiate dialysis at the proposed facility within 12 to 24 months following project completion. The location of the proposed facility (Washington Heights) is a Health Professional Shortage Area as determined by the United States Department of Health and Human Services Health Resources and Services Administration.

In conclusion there appears to be sufficient demand as demonstrated by the number of patients that will require dialysis within the two years after project completion. Over fifty percent (50%) of the pre ESRD patients reside within the planning area as required by State Board rule. In addition the State Board has estimated a need for one hundred

four (104) ESRD stations by CY 2018 in the HSA VI ESRD Planning Area and there appears to be a service access issue in this thirty minute (30) service area as referenced above. *(See pages 110-113 of the Application for Permit)*

TABLE FOUR		
Patient Origin by Zip Code and City		
Zip Code	City	Patients #
60406	Blue Island	10
60409	Calumet City	1
60411	Chicago Heights	1
60415	Chicago Ridge	6
60419	Dolton	2
60425	Glenwood	1
60426	Harvey	1
60428	Markham	1
60430	Homewood	2
60438	Lansing	1
60445	Midlothian	5
60452	Oak Forest	4
60453	Oak Lawn	15
60461	Olympia Fields	1
60463	Palos Heights	2
60472	Robbins	2
60477	Tinley Park	3
60482	Worth	3
60612	Chicago	1
60615	Chicago	1
60616	Chicago	1
60617	Chicago	2
60619	Chicago	3
60620	Chicago	17
60621	Chicago	2
60628	Chicago	22
60629	Chicago	6
60636	Chicago	3
60643	Chicago	21
60655	Chicago	5
60670	Chicago	1
60803	Alsip	5
60805	Evergreen Park	4
60827	Riverdale	5
Total		160
Source: Pages 111-112 of the Application for Permit		

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION PLANNING AREA NEED (77 IAC 1110.1430 (c) (1) (2) (3) (5))

C) Criterion 1110.1430 (d) - Unnecessary Duplication of Service, Mal-distribution of Service, Impact on Other Providers.

An **unnecessary duplication of service** is characterized by the number of facilities in the thirty (30) minute (adjusted) service area that are not at the State Board's target occupancy of eighty percent (80%). There are thirty-six (36) ESRD facilities within thirty (30) minutes (adjusted) of the proposed facility. Of that number twenty-one (21) facilities have not met the State Board's target occupancy of eighty (80%) percent. However, average occupancy of these thirty six (36) facilities is 73.24%. If the two facilities that are not yet operational (Calumet City Dialysis and FMC New City Dialysis) are excluded the average occupancy is 76.49%.

A **mal-distribution of service** is characterized by a surplus of stations in the identified thirty (30) minute service area. This surplus of stations is determined by comparing the State of Illinois ratio of stations to residents of one (1) station to every three thousand twenty seven (3,027) residents compared to the thirty (30) service area ratio of one (1) station per every 2,882 resident that is greater than 1.5 times the State of Illinois ratio. Based upon this ratio there is not a surplus of stations in this thirty (30) service area.

The proposed facility if approved does not appear to **impact other facilities** in the thirty (30) minute service area as the patients identified for this project have not been utilized to justify any other project approved by the State Board.

TABLE FIVE
Facilities within (30) minutes (adjusted) of the proposed facility

Facility	City	Adjusted Time ⁽¹⁾	Stations	Occupancy ⁽²⁾	Met Standards
Fresenius Medical Care of Roseland	Chicago	6.25	12	98.61%	Yes
Fresenius Medical Care Evergreen Park	Evergreen Park	10	30	91.11%	Yes
FMC - Merrionette Park	Merrionette Park	13.75	24	74.31%	No
Mount Greenwood Dialysis	Chicago	13.75	16	105.21%	Yes
Fresenius Medical Care Chatham	Chicago	15	16	82.29%	Yes
Greenwood Dialysis Center	Chicago	17.25	28	80.36%	Yes
Fresenius Medical Care South Deering	Chicago	17.5	20	39.17%	No
FMC Blue Island Dialysis Ctr.	Blue Island	17.5	28	76.19%	No
Alsip Dialysis Center	Alsip	18.75	20	66.67%	No
Stony Island Dialysis	Chicago	18.75	32	70.83%	No
Country Hills Dialysis	Country Club Hills	20	24	76.39%	No
Beverly Dialysis	Chicago	20	16	95.83%	Yes
Fresenius Medical Care Oak Forest	Oak Forest	21.25	12	59.72%	No
FMC - Ross Dialysis - Englewood	Chicago	22.5	16	92.71%	Yes
Fresenius Medical Care South Shore	Chicago	23.75	16	68.75%	No
Direct Dialysis - Crestwood Care Centre	Crestwood	23.75	9	70.37%	No
Jackson Park Dialysis	Chicago	23.75	24	71.53%	No
FMC - Neomedica South	Chicago	23.75	36	78.24%	No
Stony Creek Dialysis	Oak Lawn	23.75	12	98.61%	Yes
Grand Crossing Dialysis	Chicago	25	12	84.72%	Yes
Fresenius Medical Care Hazel Crest	Hazel Crest	26.25	16	80.21%	Yes
FMC - Southside	Chicago	26.25	39	85.04%	Yes

TABLE FIVE
Facilities within (30) minutes (adjusted) of the proposed facility

Facility	City	Adjusted Time ⁽¹⁾	Stations	Occupancy ⁽²⁾	Met Standards
FMC· Neomedica - Marquette Park	Chicago	26.25	16	87.50%	Yes
Community Dialysis of Harvey	Harvey	27.5	18	60.19%	No
Fresenius Medical Care Far South Holland	South Holland	27.5	24	67.36%	No
Dialysis Center of America - Crestwood	Crestwood	27.5	24	69.44%	No
FMC· Garfield	Chicago	27.5	22	79.55%	No
Hazel Crest Renal Center	Hazel Crest	27.5	19	83.33%	Yes
Woodlawn Dialysis	Chicago	28.75	32	64.58%	No
Olympia Fields Dialysis Center	Matteson	28.75	24	65.28%	No
Fresenius Medical Care of Mokena	Mokena	28.75	12	72.22%	No
South Holland Renal Center	South Holland	28.75	24	80.56%	Yes
RCG-Scottsdale	Chicago	30	36	67.59%	No
West Lawn Dialysis	Chicago	30	12	90.28%	Yes
Total Stations/Average Utilization			721	76.49%	
Calumet City Dialysis ⁽³⁾	Calumet City	22.5	16	0.00%	NA
,FMC New City ⁽⁴⁾	Chicago	30	16	0.00%	NA
Total Stations/Average Utilization			753	73.24%	

1. Time determined by MapQuest and adjusted per 77 IAC 1100.560 (d)
2. Occupancy as of September 30, 2015
3. Calumet City Dialysis approved June 2, 2015 to establish 16 station ESRD facility.
4. FMC New City approved December 2014 to establish 16 station ESRD facility

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION OF SERVICE, MALDISTRIBUTION OF SERVICE, IMPACT ON OTHER FACILITIES (77 IAC 1110.1430 (d) (1) (2) (3))

D) Criterion 1110.1430 (f) – Staffing

The proposed facility will be staffed in accordance with all State and Medicare staffing requirements. Mohamad Barakat, M.D. will serve as the Medical Director for the proposed facility. A copy of Dr. Barakat's curriculum vitae has been provided along with Davita's Basic Training Manual. *(See pages 119-129 of the Application for Permit)*

E) Criterion 1110.1430 (g) – Support Services

The applicants have attested that the proposed facility will participate in a dialysis data system, will make support services available to patients, and will provide training for self-care dialysis, self-care instruction, home and home-assisted dialysis, and home training. *(See pages 130-131 of the Application for Permit)*

F) Criterion 1110.1430 (h) – Minimum Number of Stations

The proposed facility will be located in a MSA therefore the minimum number of stations for a facility within a MSA is eight (8) stations. The applicants are proposing sixteen (16) stations.

G) Criterion 1110.1430 (i) – Continuity of Care

The applicants have an agreement with the University of Chicago to provide inpatient care and other hospital services as necessary. *(See pages 133-144 of the Application for permit)*

H) Criterion 1110.1430 (k) – Assurances

The applicants have provided the necessary assurance that the proposed facility will be at target occupancy within two (2) years of project completion. *(See pages 146-147 of the Application for Permit)*

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERIA STAFFING, SUPPORT SERVICES, MINIMUM NUMBER OF STATIONS, CONTINUITY OF CARE, ASSURANCES (77 IAC 1110.1430 (f) (g) (h) (i) (k))

VIII. FINANCIAL VIABILITY

A) Criterion 1120.120 - Availability of Funds

The applicants are funding this project with cash and securities totaling \$2,231,274, and the fair market value of leased space of \$1,668,363. A review of the applicants' 2014 10-K statement (submitted with application #15-020) indicates sufficient resources are available to fund the project.

TABLE SIX 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 10-K		

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.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERIA AVAILABILITY OF FUNDS FINANCIAL VIABILITY (77 IAC 1120.120) (77 IAC 1120.130)

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 letter of intent agreement between The Novogrodel Companies, Inc. (“lessor”) and Total Renal Care, Inc. (“lessee”) dated September 2015. The lease will be for fifteen (15) years. According to the agreement the base rent is \$24.00 per square foot for years 1-5, \$26.40 per square foot for years 5-10, and \$29.04 for years 11-15. Additional expenses include real estate taxes of \$61,000 annually, common area maintenance of \$11,000 annually, and insurance of \$4,500 annually. (See pages 149-165 of the application for permit for the entire letter of intent agreement) The letter of intent agreement appears reasonable when compared to previously approved agreements.

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

All costs have been identified as clinical. There are no non-clinical costs.

Modernization and Contingency Costs are \$1,383,997 or \$183.55 per GSF of 7,540 GSF. This appears reasonable when compared to the State Board Standard of \$200.71 per GSF.

Contingency Costs are \$90,000 and are 6.9% of the modernization costs of \$1,293,997. This appears reasonable when compared to the State Board Standard of 10-15%.

Architectural Fees are \$125,400 and are 9.0% of modernization and contingency costs of \$1,383,997. This appears reasonable when compared to the State Board Standard of 7.96-11.94%.

Consulting and Other Fees are \$122,500. The State Board does not have a standard for this cost.

Movable of Other Equipment is \$599,377 or \$37.461 per station (16 stations). This appears reasonable when compared to the State Standard of \$55,293 per station.

TABLE SEVEN	
Itemization of Moveable or Other Equipment	
Communications	\$97,150
Water Treatment	\$141,675
Bio-Medical Treatment	\$10,885
Clinical Equipment	\$247,755
Clinical Furniture/Fixtures	\$22,745
Storage Furniture/Fixtures	\$3,265
Lounge Furniture/Fixtures	\$7,037
Business Office Fixtures	\$29,865
General Furniture/Fixtures	\$29,000

TABLE SEVEN Itemization of Moveable or Other Equipment	
Signage	\$10,000
Total	\$599,377
Source: Page 68 Application for Permit	

Fair Market Value of Leased Space is \$1,668,363. 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 \$224.14. This appears reasonable when compared to previously approved projects. *(See page 172 of the Application for Permit.)*

E) Criterion 1120.140 (e) – Projected Capital Costs

Capital Costs per treatment are expected to be \$16.95 per treatment. This appears reasonable when compared to previously approved projects. *(See page 173 of the Application for Permit.)*

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERIA REASONABLENESS OF PROJECT FINANCING, TERMS OF DEBT FINANCING, REASONABLENESS OF PROJECT COSTS, DIRECT OPERATING COSTS, PROJECTED CAPITAL COSTS (77 IAC 1120.140 (a) (b) (c) (d) (e))

Copyright © and (P) 1988–2006 Microsoft Corporation and/or its suppliers. All rights reserved. <http://www.microsoft.com/mappoint/>
Portions © 1990–2005 InstallShield Software Corporation. All rights reserved. Certain mapping and direction data © 2005 NAVTEQ. All rights reserved. The Data for areas of Canada includes information taken with permission from Canadian authorities, including: © Her Majesty the Queen in Right of Canada, © Queen's Printer for Ontario. NAVTEQ and NAVTEQ ON BOARD are trademarks of NAVTEQ. © 2005 Tele Atlas North America, Inc. All rights reserved. Tele Atlas and Tele Atlas North America are trademarks of Tele Atlas, Inc.