



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-01	BOARD MEETING: October 25, 2016	PROJECT NO: 16-026	PROJECT COST: Original: \$2,458,365
FACILITY NAME: USRC Hickory Hills Dialysis		CITY: Hickory Hills	
TYPE OF PROJECT: Substantive			HSA: VII

PROJECT DESCRIPTION: The applicants (USRC Alliance, LLC, U.S. Renal Care, Inc., and USRC Hickory Hills, LLC) are proposing the establishment of a thirteen (13) station ESRD facility in 6,500 GSF of leased space in Hickory Hills, Illinois. The cost of the project is \$2,458,365, and the scheduled completion date is March 31, 2018.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicants (USRC Alliance, LLC, U.S. Renal Care, Inc., and USRC Hickory Hills, LLC) are proposing the establishment of a thirteen (13) station ESRD facility in 6,500 GSF of leased space in Hickory Hills, Illinois. The cost of the project is \$2,458,365, and the projected completion date is March 31, 2018.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The project is before the State Board because the project proposes to establish a health care facility as defined at 20 ILCS 3960/3

PURPOSE OF THE PROJECT:

- **The applicants' state:** *"The purpose of this project is to keep dialysis services accessible to a growing ESRD population in Cook County (HSA-07), and to alleviate the current need for dialysis services in Health Planning Area 7E. The revised needs determinations for ESRD stations, dated May 11, 2016, shows that HSA-07 currently has an unmet need for 58 additional; stations. The applicant will help alleviate this need by making 13 ESRD stations (12 general and 1 isolation), available to ESRD patients in the planning area."*

PUBLIC HEARING/COMMENT:

- A public hearing was offered on this project, but none was requested. The application file contains no letters of support or opposition.

CONCLUSIONS:

- The State Board Staff has reviewed the application for permit and the supplemental information submitted and note the following:
- There is a calculated need for fifty-eight (58) additional ESRD stations in the HSA VII ESRD Planning Area by CY 2018.
- The ten (10) referring physicians have referred six hundred twenty (620) patients over the last four (4) years (2013 thru first quarter of 2016) to twelve (12) different dialysis facilities. The applicants are projecting to refer forty-eight (48) pre-ESRD patients to the new facility within two years after project completion. Additionally the applicants expect to transfer fifteen (15) patients from four (4) facilities within the thirty (30) minute service area. **[See Page 8 of this report]**
- There are forty-one (41) facilities within thirty (30) minutes of the proposed facility. Six (6) of the facilities were recently approved projects or are in ramp-up and all of the stations are not yet fully operational. Of the remaining thirty-five (35) facilities sixteen (16) are at target occupancy. Average utilization of these thirty-five (35) facilities is 79.25%. **[See Table at the end of this report]**
- No surplus of stations exists in the thirty (30) minute service area when the ratio of stations to population in this thirty (30) minute service area is compared to the ratio of stations to population in the State of Illinois. **[See Page 10 of this report]**
- It appears that the proposed facility will not impact other facilities in the area as the facilities within thirty (30) minutes of the proposed facility on average are operating at target occupancy of eighty percent (80%).
- The applicants addressed twenty-one (21) criteria and have met them all.

STATE BOARD STAFF REPORT
US Renal Care Hickory Hills Dialysis
PROJECT #16-026

APPLICATION SUMMARY/CHRONOLOGY	
Applicants	USRC Alliance, LLC U.S. Renal Care, Inc. USRC Hickory Hills, LLC
Facility Name	US Renal Care Hickory Hills Dialysis
Location	9528 South Roberts Road, Suite B-2, Hickory Hills
Application Received	June 21, 2016
Application Deemed Complete	June 27, 2016
Review Period Ends	October 25, 2016
Permit Holder	U.S. Renal Care, Inc.
Operating Entity	USRC Hickory Hills, LLC
Owner of the Site	H.P. Square Shopping Center
Project Financial Commitment Date	March 31, 2018
Gross Square Footage	6,500 GSF
Project Completion Date	March 31, 2018
Expedited Review	Yes
Can Applicants Request Another Deferral?	Yes
Has the Application been extended by the State Board?	No

I. The Proposed Project

The applicants (USRC Alliance, LLC, U.S. Renal Care, Inc., USRC Hickory Hills, LLC) are proposing the establishment of a thirteen (13) station ESRD facility in 6,500 GSF of leased space in Hickory Hills, Illinois. The cost of the project is \$2,458,365, and the project completion date is March 31, 2018.

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 U.S. Renal Care, Inc., USRC Alliance, LLC, and USRC Hickory Hills, LLC. U.S. Renal Care Inc. operates more than 400 outpatient, home, and specialty dialysis programs in thirty-three (33) states, ten (10) in Illinois. USRC Alliance LLC, and USRC Hickory Hills, LLC, are subsidiaries of U.S. Renal Care, Inc. USRC Hickory Hills will be located at 9528 South Roberts Road, Suite B-2, Hickory Hills, Illinois in the HSA VII ESRD planning area. HSA VII includes suburban Cook and DuPage counties. The State Board has projected a need for an additional fifty-eight (58) ESRD stations by CY 2018 in the HSA VII ESRD Planning Area. This is a substantive project subject to an 1110 and 1120 review. Financial commitment will occur after permit issuance.

Table One outlines the most recent U.S. Renal Care projects approved by the State Board and their completion date.

TABLE ONE			
U.S. Renal Care Projects and Status			
Project Number	Name	Project Type	Completion Date
11-024	US Renal Care Oak Brook Dialysis	Establishment	9/26/2012
11-025	US Renal Care Bolingbrook Dialysis	Establishment	11/15/2012
11-026	US Renal Care Streamwood Dialysis	Establishment	7/10/2012
12-026	US Renal Care Villa Park Dialysis	Establishment	2/4/2013
12-058	US Renal Care Lemont Dialysis	Establishment	Withdrawn 1/7/2013
12-059	US Renal Care Plainfield Dialysis	Establishment	Withdrawn 12/31/2012

IV. Project Costs

The applicants are funding this project with cash and securities of \$1,666,990 and the fair market value of leased space and equipment of \$791,375. The estimated start-up costs and the operating deficit are projected to be \$75,820.

TABLE TWO			
Project Costs and Sources of Funds			
USE OF FUNDS	Reviewable	Non Reviewable	Total
Modernization Contracts	\$760,500	\$409,500	\$1,170,000
Contingencies	\$5,057	\$2,723	\$7,780
Architectural/Engineering Fees	\$39,000	\$21,000	\$60,000
Movable or Other Equipment (not in construction contracts)	\$278,986.50	\$150,223.50	\$429,210
Fair Market Value of Leased Space & Equipment	\$514,393.75	\$276,981.25	\$791,375
TOTAL USES OF FUNDS	\$1,597,937.75	\$860,427.25	\$2,458,365
SOURCE OF FUNDS	Reviewable	Non Reviewable	Total
Cash and Securities	\$1,083,543.50	\$583,446.50	\$1,666,990
Leases (fair market value) ⁽¹⁾	\$514,393.75	\$276,981.25	\$791,375
TOTAL SOURCES	\$1,597,937.25	\$860,427.75	\$2,458,365

Source: Page 7 of the Application for Permit.

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

A) Criterion 1110.230 (a) Purpose of the Project

The applicants stated the following:

“The purpose of this project is to keep dialysis services accessible to a growing ESRD population in Cook County HSA-07 and to alleviate the current need for dialysis services within Health Planning Area 7-E. The revised needs determinations for ESRD stations, date May 11, 2016, show that HSA-07 currently has an unmet need for fifty-eight (58) additional stations. Applicant will help alleviate this need by making thirteen (13) ESRD stations (12 general 1 isolation), available to ESRD patients in the planning area. In addition, as the physician’s referral letter in Appendix 1 indicates, they estimate they will refer annually an additional forty-eight (48) patients to the applicant’s facility within 24 months after project completion. By the time the applicant completes the project, additional stations will be necessary to meet the needs of these patients. The goal of USRC Hickory Hills, LLC is to keep dialysis access available to this patient population, continue to monitor the growth of the patients needing dialysis, and provide responsible health care planning for the area.” [See Application for Permit Page 65]

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

The applicants stated the following:

“For the three fiscal years before the date of application, US Renal Care, Inc. facilities in Illinois provided \$600,503 of charity care. For the three fiscal years before the date of application, US Renal Care Inc. facilities in Illinois provided \$549,962 in care to Medicaid patients.”

TABLE THREE ⁽¹⁾			
SAFETY NET INFORMATION			
US Renal Care Facilities in Illinois			
	2013	2014	2015
Net Revenue	\$10,669,105	\$10,770,414	\$12,400,107
CHARITY			
Charity (# of self-pay patients)	1,008	1,071	1,359
Charity (self-pay) Cost	\$441,488	\$97,869	\$61,146
% of Charity Care to Net Rev.	4.14%	0.91%	0.49%
MEDICAID			
Medicaid (Patients)	504	196	141
Medicaid (Revenue)	\$96,667	\$184,816	\$268,479
% of Medicaid to Net Revenue	.09%	.17%	2.1%

1. Source: Additional information received June 27, 2016.

C) Criterion 1110.230 (c) - Alternatives to the Project

The applicants considered the following three (3) alternatives to the proposed project.

1. Proposing a project of greater or lesser scope and cost.
2. Pursuing a joint venture or similar arrangement
3. Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project.

Project of Greater or Lesser Scope

During the planning phase of this project, the applicants considered projects with more and less stations. The alternative with fewer stations would not meet the current need for additional stations in the planning area, and the need for a larger ESRD facility seems necessary, but was considered premature. The applicants feel the proposal to establish a thirteen (13) station ESRD facility would be the most prudent option at this time. The applicants rejected this alternative. No capital costs were provided for this alternative.

Pursue a Joint Venture or Similar Arrangement

The applicants note the ownership structure of the proposed facility is in compliance with the standard model for US Renal Care facilities. The applicants rejected the pursuit of joint ownership, because they felt it may negate the current operating model or otherwise dilute the benefits to patients of USRC Hickory Hills, LLC. Capital costs estimated to be \$2,458,365.

Utilize Other Health Care Resources Available to Serve All or a Portion of the Population

The applicants note the patients in the service area are limited in their options to utilize other healthcare resources. The applicants note the high frequency and length of required treatments make it necessary to introduce additional stations. Based on these determinants, this alternative was rejected. No capital costs were provided for this alternative

After considering each of the three (3) above alternatives, the applicants determined the option of establishing a thirteen (13) station ESRD facility in Hickory Hills, as the most feasible and cost-effective alternative. Cost of the chosen alternative: \$2,458,365. [See Application for Permit pages 66-67]

VI. Project Scope and Size, Utilization and Unfinished/Shell Space

A) Criterion 1110.234 (a) - Size of Project

The applicants are proposing the build out of 6,500 GSF of leased space (4,225 GSF clinical/2,275 GSF non-clinical) for thirteen stations or 325 GSF per station. The State Board standard is 450-650 GSF per station. The applicants' note the non-clinical space will be designated as administration, mechanical, equipment, and waiting room space (*See Application for Permit page 69*)

B) Criterion 1110.234 (b) – Projected Utilization

The referring physicians from Southwest Nephrology Associates S.C. identified 603 pre-ESRD patients under their care who could ultimately require dialysis services. Of these pre-ESRD patients, forty-eight (48) patients have been identified as requiring dialysis treatment in the first two (2) years that the new Hickory Hills facility is in operation. Should the proposed project be approved an additional fifteen (15) patients will be transferred to the new facility from the four (4) facilities from the list below. Southwest Nephrology Associates S.C. has referred six hundred twenty (620) patients to these facilities over the past four years (2013 thru the first quarter of 2016). [See Application for Permit pages 175-179, Additional Information submitted October 3, 2016]

Facility	Historic Referrals	Utilization	Proposed Transfers
DaVita Beverly	9	106.25%	
DaVita Greenwood	5	66.07%	
DaVita Palos Park	24	73.61%	5
DaVita West Lawn	1	95.83%	
DSI-Scottsdale	257	63.89%	6
FMC-Alsip	11	63.33%	
FMC-Crestwood	145	67.36%	2
FMC- Merrionette	106	80.56%	
FMC-Mokena	5	72.22%	
FMC-Oak Forest	3	65.28%	
FMC- Orland Park	42	74.07%	2
FMC -Southside	12	83.76%	
Total/Average	620	76.02%	15

63 patients x 156 treatment per year = 9,828 treatments
13 stations x 936 treatments per stations per year = 12,168 treatments
10,608 treatments/12,168 treatments = 81% utilization

C) Criterion 1110.234 (e) – Assurances

The applicants have provided the necessary assurance that they will be at target occupancy within two (2) years after project completion. [See Application for Permit page 132]

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

VII. Section 1110.1430 - In-Center Hemo-dialysis Projects

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

To address this criterion the applicants must provide a list of all facilities currently owned in the State of Illinois and an attestation documenting that no adverse actions have been taken against the applicants by either Medicare or Medicaid, or any State or Federal regulatory authority during the 3 years prior to the filing of the Application with the Illinois Health Facilities and Services Review Board; and authorization to the State Board and Agency access to information in order to verify any documentation or information submitted in response to the requirements of the application for permit.

The applicants have provided sufficient background information, to include a list of facilities and the necessary attestations as required by the State Board at *pages 57-64 of the application for permit*. Additionally the ten (10) physicians that will refer patients to the proposed facility are in compliance with the Department of Professional Regulation <http://www.idfpr.com/DPR.asp>. The State Board Staff concludes the applicants have met this criterion.

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

B) Criterion 1110.1430 (c) - Planning Area Need

The applicant shall document the following:

- 1) 77 Ill. Adm. Code 1100 (Formula Calculation)
- 2) Service to Planning Area Residents
- 3) Service Demand – Establishment of In-Center Hemodialysis Service
- 5) Service Accessibility

1. Planning Area Calculated Need

The proposed facility will be located in the HSA VII ESRD Planning Area. There is calculated need for an additional fifty-eight (58) ESRD stations in this planning area by CY 2018.

1.	2013 HSA VII Patients	4,906
2.	2013 Planning Area Population	3,466,100
3.	HSA VII Area Use Rate	1.415
4.	2018 Planning Area Population	3,500,400
5.	Projected Patients	4,954
6.	Adjustment Factor	1.33
7.	Adjusted Patients	6,590
8.	Projected Treatments	1,027,970
9.	2018 Stations Needed	1,372
10.	<u>Current Number of Stations</u>	<u>1,314</u>
11.	Stations Needed	58

2. Service to Planning Area Residents

The applicants have attested, through the zip code origin chart (Application, p. 181), that approximately fifty-six percent (56%) of the patients are residents of the thirty (30) minute Planning Area.

3. Service Demand

Southwest Nephrology Associates, S.C. is comprised of the following ten (10) physicians:

Dr. Obasi	Dr. Patel
Dr. Guglielmi	Dr. Selk
Dr. Thomas	Dr. Desai
Dr. Ahuja	Dr. Raju
Dr. McLaughlin	Dr. Onyenwenyi

The ten (10) physicians that comprise Southwest Nephrology Associates, S.C. anticipate the referral of forty-eight (48) pre-ESRD patients to the proposed facility by the second year following project completion. Additionally the physicians believe fifteen (15) patients will be transferred to the new facility based upon patient preference. These patients would come from the four (4) facilities listed below. Southwest Nephrology Associates S.C. has referred six hundred twenty (620) patients to these facilities over the past four years (2013 thru first quarter of 2016) from the zip codes within the thirty (30) minute service area. [See Application for Permit page 175-179]

Facility	Patients Referred	Facility Utilization
DaVita Palos Park	5	73.61%
DSI-Scottsdale	6	63.89%
FMC-Crestwood	2	67.36%
FMC- Orland Park	2	74.07%
Total	15	

The forty-eight (48) pre-ESRD patients will come from the zip codes and cities listed below.

<u>Zip Codes</u>	<u>City</u>	<u>Referrals</u>
60415	Chicago Ridge	3
60453	Oak Lawn	13
60455	Bridgeview	4
60456	Hometown	1
60457	Hickory Hills	4
60458	Justice	1
60459	Burbank	6
60463	Palos Heights	4
60465	Palos Heights	5
60482	Worth	2
60638	Chicago	1
60652	Chicago	1
<u>60803</u>	<u>Alsip</u>	<u>3</u>
Total		48

5. Service Accessibility

The applicants must document that the proposed facility will improve service access for planning area residents. To document compliance with this criterion the applicants must document that one of the following service restrictions exist in the proposed thirty (30) minute service area.

- a) There is no absence of ESRD services in this thirty (30) minute service area. There are a total of forty-one (41) ESRD facilities within this thirty (30) minute service area. Six (6) of the facilities are in ramp-up or the stations at these facilities are not yet fully operational. The remaining thirty-five (35) facilities are operating at an average utilization of 79.25%. [See Table at the end of this report]
- b) No access limitations due to payor status of patients, including, but not limited to, individuals with health care coverage through Medicare, Medicaid, managed care or charity care have been identified by the applicants.
- c) No restrictive admission policies have been identified by the applicants at other ESRD facilities in this thirty (30) minute service area.
- d) The proposed facility will not be located in a Medically Underserved Area or serve a Medically Underserved Population. Facilities within the proposed thirty-minute (30) service area are currently operating at approximately eighty percent (80%).

From the State Board Staff's review of the information submitted, it does appear that the proposed facility will improve access as the existing facilities within the thirty (30) minute service area are operating at approximately eighty percent (80%) utilization. There is a calculated need for additional stations in this ESRD planning area, and there appears to be sufficient demand and the proposed project will serve the residents of the planning area.

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

D) Criterion 1110.1430 (d) (1) (2) (3) - Unnecessary Duplication/Mal-distribution/ Impact on Other Facilities

- 1) *The applicant shall document that the project will not result in an unnecessary duplication.*
- 2) *The applicant shall document that the project will not result in maldistribution of services.*
- 3) *The applicant shall document that, within 24 months after project completion, the proposed project will not lower the utilization of other area providers below the occupancy standards specified in 77 Ill. Adm. Code 1100 and will not lower, to a further extent, the utilization of other area providers that are currently (during the latest 12-month period) operating below the occupancy standards.*

1. Unnecessary Duplication of Service

There are forty-one (41) facilities within thirty (30) minutes of the proposed facility. Six (6) of the facilities are recently approved projects or are in ramp-up and all of the stations are not yet fully operational. Of the remaining thirty-five (35) facilities sixteen are at target occupancy. Average utilization of these thirty-five (35) facilities is 79.25%. Based upon this average utilization (79.25%), there does not appear to be unnecessary duplication of service in this thirty (30) minute service area. See Table at the end of this report.

2. Mal-distribution of Service

The ratio of ESRD stations to population in the zip codes within a thirty (30) minute radius of USRC Hickory Hills Dialysis is 1 station per 2,918 residents according to the 2010 census. The State ratio is 1 station per 2,974 residents (based on US Census projections for 2015 and the September 2016 Board Station Inventory Update). The ratio of stations in the thirty (30) minute service area is not 1.5 times the ratio of stations in the State of Illinois. Based upon this comparison, there is no surplus of ESRD stations in this thirty (30) minute service area.

3. Impact on Other Facilities

In response to this criterion the applicants stated “it appears that the proposed facility will not have an impact on other facilities in the area, because the number of stations proposed (13), is fractional compared to the number of existing licensed stations in the area. Additionally, the applicants note the addition of thirteen (13) stations would have the capacity to affect the operational capacity at existing facilities in the area by less than 1% (.8%).” [See information received June 26, 2016]

There is no surplus of stations in the thirty (30) minute service area. The transfer of fifteen (15) patients from the five (5) facilities within the thirty (30) minute service area will impact the five (5) facilities’ average utilization by approximately by 3.25%. However should the State Board approve this project the impact would not occur until March 31, 2018 the date the project is to be completed. See Table below.

Facility	Stations	Patients Referred	Current Utilization	After Transfer
DaVita Palos Park	12	5	73.61%	66.67%
DSI-Scottsdale	36	6	63.89%	61.11%
FMC-Crestwood	24	2	67.36%	65.97%
FMC- Orland Park	18	2	74.07%	72.22%
	90	15		

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

- E) Criterion 1110.1430 (f) - Staffing**
- F) Criterion 1110.1430 (g) - Support Services**
- G) Criterion 1110.1430 (h) - Minimum Number of Stations**
- H) Criterion 1110.1430 (i) - Continuity of Care**
- I) Criterion 1110.1430 (k) – Assurances**

US Renal Care recruits qualified personnel using job posting websites, and their own corporate page. All staffing plans will be in compliance with State requirements, and Federal staffing guidelines. Support services including nutritional counseling, psychiatric/social services, home/self training, and clinical laboratory services - provided by Health Informatics International will be provided at the proposed facility. The following services will be provided via referral to Advocate Christ Medical Center, Oak Lawn: blood bank services, rehabilitation services and psychiatric services. The applicants are proposing thirteen (13) stations and the minimum number of stations in an MSA is eight (8) stations. Continuity of care will be provided at Advocate Christ Medical Center as stipulated in the agreement provided in the application for permit (application p. 126). Additionally, the appropriate assurances have been provided by the applicants asserting the proposed facility will be at the target occupancy of eighty percent (80%) two years after project completion and that the proposed facility will meet the adequacy outcomes stipulated by the State Board. [See Application p. 132]

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION 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**
- B) Criterion 1120.130 – Financial Viability**

The applicants are funding this project with cash and securities of \$1,666,990 and the fair market value of leased space and equipment of \$791,375. A review of the 2014 and 2015 audited financial statements indicates there is sufficient cash to

fund the project. Because the project will be funded with cash no viability ratios need to be provided.

TABLE FOUR US Renal Care, Inc. Years ended December 31, 2015 and 2014 (Dollars in Thousands)		
	2015	2014
Cash	\$159,023	\$60,289
Current Assets	\$397,213	\$219,711
Total Assets	\$3,023,394	\$1,675,139
Current Liabilities	\$99,364	\$78,411
LTD	\$1,935,212	\$1,203,787
Total Liabilities	\$2,130,397	\$1,302,321
Net Operating Rev.	\$735,294	\$696,463
Operating Expenses	\$524,166	\$478,786
Operating Income	\$185,330	\$193,887
Net Income	\$63,434	\$94,000
Application for Permit pages 134-168		

IX. ECONOMIC FEASIBILITY

- A) **Criterion 1120.140 (a) – Reasonableness of Financing Arrangements**
- B) **Criterion 1120.140 (b) – Terms of Debt Financing**

The applicants are funding the proposed project with a combination of cash and securities, and the fair market value of a lease. The applicants provided a copy of a lease of 7,500 rentable contiguous square feet with an initial lease term of ten (10) years with the option for two (2) consecutive five (5) year lease renewal options, with ten percent (10%) increases at the beginning of each option. The lease rate per gross square foot is \$13.50. The applicants have attested that the entering into a lease (borrowing) is less costly than the liquidation of existing investments which would be required for the applicant to buy the property and build a structure itself to house a dialysis clinic.

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

Only Clinical Costs are reviewed in this criterion.

Modernization and Contingencies Costs are \$765,557 or \$181 per GSF for 4,225 GSF. This appears reasonable when compared to the State Board Standard of \$189.19 per GSF.

Contingencies – These costs total \$5,057, and are .6% of the modernization costs identified for this project. This is in compliance with the State standard of 10-15%.

Architectural Fees are \$39,000 and are 5% of modernization and contingencies. This appears reasonable when compared to the State Board Standard of 7.05% to 10.59%.

Movable or Other Equipment – These costs are \$278,986 or \$21,460 per station (13 stations). This appears reasonable when compared to the State Board Standard of \$52,119 per station.

Fair Market Value of Leased Space and Equipment – These costs are \$514,393. The State Board does not have a standard for these costs.

D) Criterion 1120.140 (d) - Direct Operating Costs

The applicants are estimating \$230.13 per treatment in direct operating costs. This appears reasonable when compared to previously approved projects of this type. [See Application for Permit 170]

Estimated Personnel Expense:	\$740,302
Estimated Medical Supplies:	\$260,958
Other Supplies	\$260,957
Medical Director Fees	\$55,000
Rent	\$87,750
Management Fee	\$259,138
Other	\$431,598
Total	<u>\$2,095,748</u>
Estimated Annual Treatments:	9,107
Cost Per Treatment:	\$230.13

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

The applicants are estimating \$38.10 in capital costs. This appears reasonable when compared to previously approved projects of this type. [See Application for Permit 170]

Total Cost:	\$346,933
Treatments:	<u>9,107</u>
Capital Cost per Treatment	<u>\$38.10</u>

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION AVAILABILITY OF FUNDS, FINANCIAL VIABILITY, REASONABLENESS OF FINANCING ARRANGEMENTS TERMS OF DEBT FINANCING, REASONABLENESS OF PROJECT COSTS, DIRECT OPERATING COSTS, TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS (77 IAC 1120.120, 130, 140 (a) (b) (c) (d) (e))

State Board Staff Note:

For Table Five below the Board Staff reviewed information on the Center for Medicare & Medicaid Services (CMS) website related to dialysis facilities star ratings for facilities within thirty (30) minutes. CMS assigns a one (1) to five (5) star rating in two separate categories: best treatment practices, hospitalizations, and deaths. The more stars, the better the rating.

Below is a summary of the data within the two categories.

- **Best Treatment Practices**

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

- **Hospitalization and Deaths**

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

Based on the star rating in each of the two categories, CMS then compiles an overall rating for the facility. The more stars, the better the rating. The data is as of June 2016.

TABLE FIVE

Facilities within thirty (30) minutes of the proposed facility

Facility	City	Time (1)	Stations	Utilization (2)	Met Standard?	Medicare Star Rating
DaVita Stony Creek	Oak Lawn	5.8	12	97.20%	Yes	3
FMC Crestwood	Crestwood	11.5	24	69.40%	No	2
FMC Alsip	Alsip	12.7	20	63.30%	No	1
Palos Park Dialysis	Orland Park	16.1	12	73.60%	No	3
FMC Dialysis Services Burbank	Burbank	17.3	26	86.50%	Yes	3
DSI Renal Services Scottsdale	Chicago	17.3	36	67.10%	No	3
DaVita Kenwood	Chicago	18.4	24	78.47%	No	5
FMC Merrionette Park	Merrionette Park	18.4	24	77.80%	No	2
Grand Crossing Dialysis	Chicago	18.4	12	91.60%	Yes	2
DaVita Mt. Greenwood Dialysis	Chicago	19.6	16	108.30%	Yes	3
DaVita Harvey Dialysis	Harvey	20.7	16	62%	No	2
FMC Midway	Chicago	20.7	12	94.40%	Yes	3
FMC Hazel Crest	Hazel Crest	21.9	16	84.30%	Yes	3
FMC Blue Island	Blue Island	21.9	28	75.60%	No	2
South Holland Renal Center	South Holland	23	24	84%	Yes	3
FMC Evergreen Park	Evergreen Park	23	30	87.20%	Yes	1
FMC Cicero	Cicero	24.2	16	62.50%	No	3
Country Hills Dialysis	Country Club Hls	24.2	24	72.20%	No	2
West Lawn Dialysis	Chicago	24.2	12	91.60%	Yes	3
FMC Southside	Chicago	24.2	39	81.60%	Yes	1
DaVita Hazel Crest	Hazel Crest	25.3	19	88.60%	Yes	3
Beverly Dialysis Center	Chicago	25.3	16	105.20%	Yes	3
USRC Oak Brook Dialysis	Downers Grove	25.3	13	71.70%	No	3
FMC Oak Forest	Oak Forest	26.5	12	61.10%	No	3
FMC Marquette Park	Chicago	26.5	16	93.70%	Yes	3
SAH Dialysis at 26 th St.	Chicago	26.5	15	35.50%	No	NA
FMC Berwyn	Berwyn	26.5	26	89.80%	Yes	2
FMC Willowbrook	Willowbrook	27.6	20	66.60%	No	3
FMC Orland Park	Orland Park	27.6	18	75%	No	3
FMC South Holland	South Holland	27.6	24	66.60%	No	2
FMC Chatham	Chicago	27.6	16	88.50%	Yes	1
Loyola Dialysis Center	Maywood	27.6	30	73.30%	No	3
FMC Roseland	Chicago	29.9	12	93%	Yes	2
Oak Park Kidney Ctr.	Oak Park	29.9	18	64.80%	No	2
Mt. Sinai Hospital	Chicago	29.9	16	91.60%	Yes	3
Total Stations/Average Utilization Facilities			694	79.25%		
DaVita Chicago Ridge*	Worth	6.9	16	3.13%	No	NA
FMC Summit*	Summit	18.4	12	0%	No	NA
Washington Heights Dialysis*	Chicago	26.5	16	0%	No	NA
FMC Beverly Ridge*	Chicago	26.5	16	0%	No	NA
DaVita Tinley Park*	Tinley Park	27.6	12	0%	No	NA
FMC Lemont*	Lemont	29.9	12	0%	No	NA
Total Stations/Average Utilization Facilities			778	67.73%		

*Project recently approved, or facility in ramp-up phase

1. Time adjusted according to 77 IAC 1110.510 (d)
2. Utilization data June 2016
3. Medicare Star Rating <https://www.medicare.gov/dialysisfacilitycompare/>
4. NA – Not enough quality measure data to determine a star rating

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