



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-12	BOARD MEETING: March 14, 2017	PROJECT NO: 16-037	PROJECT COST: Original: \$2,473,399
FACILITY NAME: DaVita Foxpoint Dialysis		CITY: Granite City	
TYPE OF PROJECT: Substantive			HSA: XI

PROJECT DESCRIPTION: The applicants (DaVita, Inc and Total renal Care, Inc.) are proposing to establish a 12-station End Stage Renal Dialysis (ESRD) facility in Granite City, Illinois. The cost of the project is \$2,473,399, and the completion date is July 31, 2018.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicants (DaVita, Inc. and Total Renal Care Inc.) are proposing to establish a 12-station ESRD facility in 6,400 GSF of leased space, in Granite City. The cost of the project is \$2,473,399, and the project completion date is July 31, 2018.
- This project was deferred from the January 24, 2017 State Board meeting to address concerns of the State Board.
- Additional information was provided by the applicants dated February 10, 2017. That submittal is included in your packet of material along with the State Board Transcript excerpt from the January 24, 2017 State Board Meeting. As part of that submittal the applicants stated:

“If DaVita does not add the additional services in Granite City, dialysis care will be more costly to the State of Illinois due to increased expenses for transportation furnished as a Medicaid benefit to transport patients to other communities for care. About 50% of patients in the Granite City dialysis facility rely on such state-funded transportation for their treatments three times a week. If the Granite City facility is built, the cost of dialysis care itself to the state and federal governments and other payors will be the same based on the fixed rate paid for these services regardless of the location. However, due to a significant extent to Medicaid funding issues, denying Granite City residents immediate access to dialysis services would hurt not just the patients and families but the State budget which is already in crisis due largely to Medicaid funding issues.

With regard to the growth in need for dialysis services, as DaVita previously documented, the growth in demand has been dramatic and beyond what DaVita has seen in other markets. Patient census among the existing facilities in the area that had capacity to grow has increased approximately 7% annually over the past three years, with each facility seeing double digit increases over the period from 2013 to 2016.

The primary concern raised about the proposal by HFSRB members at the January meeting is the possible option for patients residing in Granite City to leave Granite City and utilize facilities under construction in other Madison County or St. Clair communities. There are two core problems with this option: (1) the other facilities are dedicated to other patients and (2) patients barriers to transportation.

It is important to understand each of these facilities will serve a distinct patient base and that the need for these other facilities was demonstrated with different CKD patients being treated by other nephrologists in the Metro East region. As shown in the table below, different nephrologists have committed to referring patients to the other planned facilities and all four facilities will achieve the State Board's 80% utilization standard by the time the proposed Foxpoint Dialysis is operational.

Facility	City	Referring Physician	Time from Proposed Facility	Pre - ESRD CKD Patients	Projected Patients	Projected Utilization
Sauget Dialysis	Sauget	Rashid Dalal, M.D.	24	83	58	95.00%
FMC Belleville	Belleville	Matthew Koch, M.D.	30	72	58	80.00%
O'Fallon Dialysis	O'Fallon	Rashid Dalal, M.D.	29	99	59	82.00%
Collinsville Dialysis	Collinsville	Sriraj (Tim) Kanungo, M.D.	19	122	42	88.00%

Sauget Dialysis serves primarily East St. Louis. Collinsville Dialysis will serve those communities on the east and northeast side of the Metroeast area. O'Fallon Dialysis will serve communities on the southeast edge of the Metroeast area. FMC Belleville will serve communities in the southern part of the Metroeast area. Finally, Foxpoint will almost exclusively serve patients in Granite City. The map showing these distinct service areas is reflective of sound health planning on the part of the area operators who are spacing the small facilities in areas to ensure that people burdened by routine and exhausting dialysis

treatments have care in an area that reduces travel demands which cost both families and the State of Illinois time and money.”

As of September 30, 2016, the facilities in other communities around Granite City collectively operated just below the State’s 80% target utilization standard. Related to that, the ESRD patient census within the service area increased 23% from 2013 to 2016. Importantly, the growth experienced in the Foxpoint service area is nearly twice that of the Statewide average during the same period”

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 note: *“The purpose of the project is to improve access to life sustaining dialysis services to the residents of Granite City and the surrounding area.”*

PUBLIC HEARING/COMMENT:

- There was no public hearing requested or opposition letters received by State Board Staff. Letters of support were received from
 - Dan Beiser, State Representative, 11th District
 - Ed Hagnauer, Mayor, Granite City

SUMMARY:

The December 2016 Revised Bed/Station Need Determination shows a projected excess of twenty-one (21) stations in the HSA XI ESRD Planning Area by CY 2018. Dr. Anahit Cheema, M.D., Medical Director for the proposed facility and practicing physician with Gateway Nephrology, attests to caring for one hundred fifty-two (152) Stage 3,4, and 5 chronic kidney disease patients living within the ten-minute service area of the proposed facility. Dr. Cheema anticipates at least fifty-eight (58) of these patients will require dialysis services within the twelve (12) to twenty-four (24) months following project completion.

CONCLUSIONS:

The applicants addressed twenty one (21) criteria and two were not met. The applicants did not meet the following criteria.

State Board Standards Not Met	
Criteria	Reasons for Non-Compliance
Criterion 1110.1430 (c)(1), (2), (3) and(5) – Planning Area Need	There are excess stations in HSA-XI, per the December 2016 Inventory Update (21 stations)
Criterion 1110.1430(d)(1)(2)(3) – Unnecessary Duplication of Service/Maldistribution/Impact on Other Facilities	There is an excess of twenty-one (21) stations in the planning area (HSA-XI), and the proposed project will contribute to this overage.

STATE BOARD STAFF REPORT
DaVita Foxpoint Dialysis
PROJECT #16-037

APPLICATION SUMMARY/CHRONOLOGY	
Applicants	DaVita, Inc. Total Renal Care, Inc.
Facility Name	Foxpoint Dialysis
Location	1300 Schaefer Road, Granite City
Application Received	September 6, 2016
Application Deemed Complete	September 7, 2016
Review Period Ends	January 5, 2017
Permit Holder	Total Renal Care Inc.
Operating Entity	Total Renal Care, Inc.
Owner of the Site	Granite Sand Realty, LLC
Project Financial Commitment Date	January 24, 2018
Gross Square Footage	6,400 GSF
Project Completion Date	July 31, 2018
Expedited Review	No
Can Applicants Request a Deferral?	No –Would Require Board Deferral
Has the Application been extended by the State Board?	No

I. The Proposed Project

The applicants (DaVita, Inc., and Total Renal Care, Inc.) are proposing to establish a 12-station ESRD facility in 6,400 GSF of leased space. The cost of the project is \$2,473,399, and the completion date is July 31, 2018.

II. Summary of Findings

- A. The State Board Staff finds the proposed project **is not** in conformance with the provisions of Part 1110.
- B. The State Board Staff finds the proposed project is in conformance with the provisions of Part 1120.

III. General Information

The applicants are DaVita, Inc. and Total Renal Care, Inc. As of December 31, 2015, DaVita, Inc. operated or provided administrative services to a total of 2,251 U.S. outpatient dialysis centers. 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. Total Renal Care, Inc. is also the operating entity, and the owner of the site is Granite Sand Realty, LLC. The proposed facility will be located at 1300 Schaefer Road, Granite City, Illinois in the HSA XI ESRD Planning Area. This is a substantive project subject to an 1110 and 1120 review. Financial commitment of the project will occur after permit issuance.

Substantive projects include no more than the following:

(a) Projects to construct a

- (1) new or replacement facility located on a new site or
- (2) replacement facility located on the same site as the original facility and the cost of the replacement facility exceeds the capital expenditure minimum, which shall be reviewed by the Board within 120 days;

(b) Projects proposing a

- (1) new service within an existing healthcare facility or
- (2) discontinuation of a service within an existing healthcare facility, which shall be reviewed by the Board within 60 days; or

(c) Projects proposing a change in the bed capacity of a health care facility by an increase in the total number of beds or by a redistribution of beds among various categories of service or by a relocation of beds from one physical facility or site to another by more than 20 beds or more than 10% of total bed capacity, as defined by the State Board, whichever is less, over a 2-year period. (20 ILCS 3960/12 (8))

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
14-042	Tinley Park Dialysis	Establishment	4/30/2017
15-003	Vermillion County Dialysis	Establishment	04/30/2017
15-004	Machesney Park 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
15-048	Park Manor Dialysis	Establishment	02/28/2018
15-049	Huntley Dialysis	Establishment	02/28/2018
15-052	Sauget Dialysis	Expansion	08/31/2017
15-054	Washington Heights Dialysis	Establishment	09/30/2017
16-004	O'Fallon Dialysis	Establishment	9/30/2017
16-015	Forest City Dialysis	Establishment	6/30/2018
16-016	Jerseyville Dialysis	Add One Station	6/30/2017
16-020	Collinsville Dialysis	Establishment	11/30/2017
16-023	Irving Park Dialysis	Establishment	8/31/2018
16-033	Brighton Park Dialysis	Establishment	10/31/2018
16-036	Springfield Central Dialysis	Discontinuation/Establishment	03/31/2019
16-040	Jerseyville Dialysis	Expansion	07/31/2018
16-041	Taylorville Dialysis	Expansion	07/31/2018
Source: Application for Permit Whiteside Dialysis page 59			

IV. HSA XI ESRD Planning Area

For planning purposes for ESRD services the State Board uses Health Service Areas as the planning area. These areas provide a geographic frame of reference which allows the State Board to make an estimate of capacity. There are eleven (11) Health Service Areas in the State of Illinois (See Table Seven at end of this report). HSA XI ESRD Planning Area consists of the following Illinois counties: Madison, Clinton, St. Clair, and Monroe. There is a current calculated excess of twenty-one (21) ESRD stations in this planning area, per the December 2016 Revised Bed/Station Need Determination. The HSA XI ESRD planning area has seen a growth in the number of ESRD patients as reported to the State Board of approximately 6% compounded annually for the period 2012-2016.

Need Methodology HSA XI ESRD Planning Area	
Planning Area Population – 2013	605,500
In Station ESRD patients -2013	693
Area Use Rate 2013 ⁽¹⁾	1.145
Planning Area Population – 2018 (Est.)	613,100
Projected Patients – 2018 ⁽²⁾	701.7
Adjustment	1.33x
Patients Adjusted	933
Projected Treatments – 2018 ⁽³⁾	145,548
Existing Stations	215
Calculated Stations Needed-2018	194
Calculated Number of Stations In Excess	21
1. Usage rate determined by dividing the number of in-station ESRD patients in the planning area by the 2013 planning area population per thousand. 2. Projected patients calculated by taking the 2018 projected population per thousand x the area use rate. Projected patients are increased by 1.33 for the total projected patients of 916 for 2018. 3. Projected treatments are the number of patients adjusted x 156 treatments per year per patient.	

IV. Project Costs

The applicants are funding this project with cash and securities in the amount of \$1,975,767 and the fair market value of leased space and equipment of \$497,632. The estimated start-up cost and operating deficit is 388,328.

TABLE TWO Project Costs and Sources of Funds			
USE OF FUNDS	Reviewable	Non Reviewable	Total
Modernization Contracts	\$919,473	\$199,217	\$1,118,690
Contingencies	\$90,000	\$20,000	\$110,000
Architectural/Engineering Fees	\$100,000	\$20,000	\$120,000
Consulting & Other Fees	\$80,000	\$16,000	\$96,000
Movable or Other Equipment (not in construction contracts)	\$451,200	\$79,877	\$531,077
Fair Market Value of Leased Space & Equipment	\$415,523	\$82,109	\$497,632
TOTAL USES OF FUNDS	\$2,056,196	\$417,203	\$2,473,399
SOURCE OF FUNDS	Reviewable	Non Reviewable	Total
Cash and Securities	\$1,640,673	\$335,094	\$1,975,632
Leases (fair market value)	\$415,523	\$82,109	\$497,632
TOTAL SOURCES	\$2,056,196	\$417,203	\$2,473,399
Source: Page 6 of the Application for Permit.			

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

Reviewer Note: These three (3) criteria are informational only and no determination is made by the State Board Staff on whether the criteria have been met.

A) Criterion 1110.230(a) Purpose of the Project

To demonstrate compliance with this criterion the applicants must provide documentation that

1. Documents that the project will provide health services that improve the health care or well-being of the market area population to be served.
2. Defines the planning area or market area, or other, per the applicant's definition.
3. Identifies the existing problems or issues that need to be addressed, as applicable and appropriate for the project.
4. Details how the project will address or improve the previously referenced issues, as well as the population's health status and well-being.
5. Provides goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals as appropriate.

The applicants state the purpose of the project is to improve access to life sustaining dialysis services to the residents of Granite City and the surrounding area. The applicants identified twelve (12) dialysis facilities within thirty (30) minutes of the proposed Foxpoint Dialysis and note that these facilities were operating at 63.71% as of June 30, 2016. Excluding the recently approved dialysis facilities, average utilization increases to 77.45%, or just below the State Board's utilization standard. The applicants also note that patient census among the existing facilities within the Foxpoint GSA has increased approximately 7% annually over the prior three years, with each facility seeing double digit increases over that three-year period. This growth is anticipated to continue to increase for the foreseeable future. Dr. Anahit Cheema's practice, Gateway Nephrology, is currently treating 152 Stage 3,4,and 5 CKD patients living within 10 minutes of the proposed site of Foxpoint Dialysis, and based upon attrition due to patient death, transplant, return of function, or relocation, Dr. Cheema anticipates that at least 58 of these patients will initiate dialysis within 12 to 24 months following project completion.

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

To demonstrate compliance with this criterion the applicants must document

1. The project's material impact, if any, on essential safety net services in the community, and
2. The project's impact on the ability of another provider or health care system to cross-subsidize safety net services, if reasonably known to the applicant.

The applicants stated the following:

This criterion is required for all substantive and discontinuation projects. [DaVita 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 2015 Community Care report, which details DaVita's commitment to quality, patient centric focus and community outreach, is included as part of Applicant's application for Project #16-023. As referenced in the report, DaVita led the industry in quality, with twice as many Four-and-Five-Star centers than other major dialysis providers...The proposed facility will not impact the ability of other healthcare providers or healthcare systems to cross subsidize safety net services...Further, patient census among the existing facilities within the Foxpoint GSA has increased approximately 7% annually over the prior three years, with each facility seeing double digit increases over that three year period, except two facilities operating above the State Board standard in 2013. This growth is anticipated to continue to increase for the foreseeable future.” [Application, p. 125]

TABLE THREE ⁽¹⁾			
SAFETY NET INFORMATION			
DaVita Facilities in Illinois			
	2013	2014	2015
Net Revenue	\$228,115,132	\$266,319,949	\$311,351,089
CHARITY			
Charity (# of self-pay patients)	187	146	109
Charity (self-pay) Cost	\$2,175,940	\$2,477,363	\$2,791,566
% of Charity Care to Net Rev.	0.9%	0.9%	0.8%
MEDICAID			
Medicaid (Patients)	679	708	422
Medicaid (Revenue)	\$10,371,416	\$8,603,971	\$7,381,390
% of Medicaid to Net Revenue	4.5%	3.2%	2.3%
1. Source: Pages 126-127 of the Application for Permit.			

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

To demonstrate compliance with this criterion the applicants must

1. Identify all alternatives;
2. Provide a comparison of the project to alternative options. The comparison shall address issues of total costs, patient access, quality and financial benefits in both the short term (within one to three years after project completion) and long term;
3. For every alternative considered the total project costs and the reason for the rejection must be provided; and,
4. For the selected alternative the reasons for the selection must be provided

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

1. Do Nothing/Maintain Status Quo
2. Utilizing Existing Facility
3. Establish a New Facility

Do Nothing/Maintain Status Quo/Utilize Existing Facility

The applicants rejected the above-mentioned option. Dr. Cheema currently refers patients to three dialysis facilities within the Foxpoint GSA, (Granite City Dialysis, Maryville Dialysis, and FMC Southwestern Illinois), and notes these facilities are highly utilized, operating above or immediately below the State Board standard (80%). Dr. Cheema estimates that his projected patient referrals (58 patients), cannot be accommodated by the existing facilities within the GSA. No capital cost was identified with this alternative. (*Application, p. 71*).

Utilize Existing Facility

The applicants identified 12 existing dialysis facilities within the prescribed GSA for Foxpoint Dialysis, and determined that collectively, these facilities were operating at 77.45%, which is just below the State standard (80%). Taking into account the historical increase in utilization at area facilities (5% over the last 2 years), the projected growth in utilization may be due to better access to primary care and kidney screening, and the number of anticipated patient referrals from Dr. Cheema's practice (58 by the second year after project completion), the applicants rejected this alternative. No capital cost was identified with this alternative. (*Application, p. 71*).

Establish New Facility

Taking into account the high utilization at existing facilities, the projected growth in utilization at dialysis facilities in the service area, and the number of Dr. Cheema's referral patients (58), the applicants concluded the most viable alternative would be to establish a 12-station facility in leased space, in Granite City. Capital cost identified for this option: \$2,473,399.

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

A) Criterion 1110.234(a) - Size of Project

To demonstrate compliance with this criterion, the applicants must document that the proposed gross square footage does not exceed the State Board Standards in Part 1110.Appendix B.

The applicants are proposing to construct 6,400 GSF of space (5,346 GSF/clinical, 1,054 non-clinical), for twelve (12) stations or 446 GSF per station.

The State Board standard is 450-650 BGSF per station. (See Application for Permit page 74)

Reviewer Note: For new construction, the standards are based upon the inclusion of all building components and are expressed in building gross square feet (bgsf). For modernization projects, the standards are based upon interior build-out only and are expressed in departmental gross square feet (dgsf). [Part 1110.Appendix B]

B) Criterion 1110.234(b) – Projected Utilization

To demonstrate compliance with this criterion, the applicants must document that by the second year after project completion the applicants will be at target occupancy.

The Medical Director and referring physician for Foxpoint Dialysis (Dr. Anahit Cheema), has identified one hundred fifty-two (152) pre-ESRD patients from his practice who live within a 10-minute commute of the proposed facility. Of these patients, Dr. Cheema conservatively estimates fifty-eight (58) will require dialysis services within the next twelve (12) to twenty-four (24) months. (See Application for Permit page 75)

$$\begin{aligned} 58 \text{ patients} \times 156 \text{ treatment per year} &= 9,048 \text{ treatments} \\ 12 \text{ stations} \times 936 \text{ treatments per stations per year} &= 11,232 \text{ treatments} \\ 9,048 \text{ treatments} / 11,232 \text{ treatments} &= 80.5\% \text{ utilization} \end{aligned}$$

C) Criterion 1110.234(e) – Assurances

To demonstrate compliance with this criterion, the applicants must attest that the proposed project, by the end of the second year of operation after the project completion, will meet or exceed the utilization standards specified in Part 1110 Appendix B.

The applicants provided the necessary assurance that they will be at target occupancy within two years after project completion. (See Application for Permit page 105)

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

VII. In-Center Hemo-dialysis Projects

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

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 to access information in order to verify any documentation or information submitted in response to the requirements of the application for permit.

The applicants provided sufficient background information, to include a list of facilities and the necessary attestations as required by the State Board at *pages 51-67 of the application for permit*. The State Board Staff concludes the applicants have met this criterion.

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

B) Criterion 1110.1430(c) - Planning Area Need

To demonstrate compliance with this criterion, the applicants must document

1. the number of stations needed in the planning area,
2. the proposed facility will provide service to planning area residents,
3. that there is demand for the service; and,
5. the proposed facility will improve service access

1) 77 Ill. Adm. Code 1100 (Formula Calculation)

To demonstrate compliance with this sub-criterion, the applicants must demonstrate there is a calculated need in the ESRD planning area HSA XI.

The proposed facility will be located in the HSA XI ESRD Planning Area. There is calculated excess of twenty-one (21) ESRD stations in this planning area by CY 2018, per the December 2016 ESRD Inventory Update.

2) Service to Planning Area Residents

To demonstrate compliance with this sub-criterion, the applicants must document that fifty percent (50%) or more of the expected referrals will come from the HSA XI ESRD Planning Area.

The Medical Director for the proposed facility and referring physician has identified one hundred fifty-two (152) pre-ESRD patients suffering from Stage 3, 4, and 5 CKD, and conservatively estimates that fifty-eight (58) of these patients will require dialysis from the proposed facility within two years of project completion. The one hundred fifty-two (152) pre-ESRD patients reside within ten (10) minutes of the proposed in the 62040 – Granite City and 62060 – Madison, Illinois

3) Service Demand – Establishment of In-Center Hemodialysis Service

To demonstrate compliance with this sub-criterion, the applicants must document that there is sufficient demand for the proposed service by providing historical and projected referrals.

Dr. Anahit Cheema, M.D., the referring physician, has identified that one hundred fifty-two (152) Stage 3,4, and 5 CKD patients currently under his care, and conservatively estimates that fifty-eight (58) of these patients will

require dialysis by the facilities second year of operation. Page 79 of the application contains zip code origins of projected patient referrals from the Granite City area.

5) Service Accessibility/Service Restrictions

To demonstrate compliance with this sub-criterion, the applicants must document one of the following:

1. There is an absence of the proposed service within the HSA XI ESRD planning area;
2. There is 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;
3. There is restrictive admission policies of existing providers;
4. The area population and existing care system exhibit indicators of medical care problems, such as an average family income level below the State average poverty level, high infant mortality, or designation by the Secretary of Health and Human Services as a Health Professional Shortage Area, a Medically Underserved Area, or a Medically Underserved Population;
5. For purposes of this subsection (c)(5) only, all services within the 30-minute normal travel time meet or exceed the utilization standard specified in 77 Ill. Adm. Code 1100.

There is no absence of service in the HSA XI ESRD Planning Area or access limitations due to payor status. No restrictive admission policies of existing service providers have been identified by the applicants nor does the area population exhibit indicators of medical care providers. Existing providers in the thirty (30) minute service area are not at target occupancy (See Table Four).

The applicants state the proposed facility is necessary to maintain the provision of dialysis services to the residents of Granite City and the Metro-East St. Louis area. The applicants identified 12 facilities within an established service area (GSA) that are operating near the State Board standard (80%). The applicants cite a steady 7% growth in utilization of said facility annually over the last three years, and predict this trend to continue. The applicants also note that the current complement of dialysis stations/facilities in the service area is unable to accommodate the number of referral patients from Dr. Cheema's practice.

There is a calculated excess of twenty-one (21) stations in HSA-XI ESRD Planning Area and there is no evidence of service access issues in the thirty (30) minutes service area.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION PLANNING AREA NEED (77 IAC 1110.1430(c)(1), (2), (3) and (5))

C) Criterion 1110.1430(d)(1), (2) and (3) - Unnecessary Duplication/Maldistribution/Impact on Other Facilities

- 1) The applicants shall document that the project will not result in an unnecessary duplication.
 - 2) The applicants shall document that the project will not result in maldistribution of services.
 - 3) The applicants 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. Table Four shows that there are underutilized facilities in the service area, with four of the twelve (33%) identified facilities operating at or in excess of the 80th percentile. Average utilization of these twelve facilities is approximately eighty percent (80%). Despite the underutilized facilities in the planning area, it does not appear that the proposed facility will have an impact on the underperforming facilities because the 58 pre-ESRD patients under the care of Dr. Cheema will be new patients and will not transfer from any of the existing facilities.
 2. The ratio of ESRD stations to population in the geographical service area (GSA) of Foxpoint Dialysis is 1 station per 5,412 residents according to the 2010 census. The State ratio is 1 station per 2,900 residents (based on US Census projections for 2015 and the December 2016 State Board Station Inventory). Based upon this comparison there is no surplus of stations in the HSA XI ESRD Planning Area.
 3. The proposed project will contribute to an excess of stations in the planning area, which ultimately contribute to the existence of underperforming facilities in the planning area.

TABLE FOUR						
Facilities within thirty (30) minutes of the proposed facility and utilization						
Facility	City	Time (1)	Stations	Medicare Star Rating (2)	Utilization (3)	Met Standard?
DaVita Granite City Dialysis	Granite City	8	20	2	78.30%	No
Fresenius Southern IL Dialysis	Alton	19	19	3	71%	No
DaVita Maryville Dialysis	Maryville	19	14	4	88.30%	Yes
DaVita Edwardsville Dialysis	Edwardsville	21	8	3	77%	No
DaVita Sauget Dialysis (4)	Sauget	24	24	3	58.30%	No
DaVita Alton Dialysis	Alton	26	14	3	73.80%	No
Fresenius Regency Park	O'Fallon	27	20	3	93.30%	Yes
DaVita Shiloh Dialysis	Shiloh	29	12	2	97.20%	Yes
DaVita Renal Care of Illinois	Belleville	30	36	2	80%	Yes
Total Stations/Average Utilization			167		79.69%	

TABLE FOUR						
Facilities within thirty (30) minutes of the proposed facility and utilization						
DaVita Collinsville Dialysis*	Collinsville	19	8	N/A	0.00%	No
DaVita O’Fallon Dialysis*	O’Fallon	29	12	N/A	0.00%	No
Fresenius Belleville*	Belleville	30	12	N/A	0.00%	No
Total Stations/Average Utilization			199		61.30%	
*Recently approved, in 2-year ramp-up						
>Average Utilization Minus 3 Facilities in Ramp-Up						
February 2016 - DaVita Sauget approved to add eight (8) stations as Permit #15-052.						

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION OF SERVICE/MADISTRIBUTION/IMPACT ON OTHER FACILITIES (77 IAC 1110.1430 (d)(1), (2) and (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(j) – Relocation of Facilities**
- J) Criterion 1110.1430(k) – Assurances**

The proposed facility will be certified by Medicare if approved. Therefore, appropriate staffing is required for certification. Support services including nutritional counseling, psychiatric/social services, home/self training, and clinical laboratory services will be provided at the proposed facility. The following services will be provided via referral to St. Elizabeth Medical Center, Belleville: blood bank services, rehabilitation services and psychiatric services. The applicants are proposing twelve (12) stations and the minimum number of stations in an MSA is eight (8) stations. Continuity of care will be provided at St. Elizabeth Medical Center, Belleville as stipulated in the agreement provided in the application for permit. Additionally, the proposed 12-station ESRD facility will serve 58 new referral patients currently under the care of Dr. Anahit Cheema, after project completion. Lastly, 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 for Permit Pages 85-106)

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION STAFFING, SUPPORT SERVICES, MINIMUM NUMBER OF STATIONS, CONTINUITY OF CARE, AND ASSURANCES (77 IAC 1110.1430(f), (g), (h), (i), (j) and (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 in the amount of \$1,975,767 and the fair market value of leased space and equipment of \$497,632. A review of the 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 Five below outlines DaVita Inc.'s Credit Rating.¹

TABLE FIVE			
DaVita, Inc.			
Credit Rating			
	Standard & Poor's	Moody's	Fitch ⁽¹⁾
Corporate credit rating	BB	Ba3	
Outlook	stable	stable	
Secured debt	BB	Ba1	
Unsecured debt	B+	B1	

Source: The Applicant

1. Davita is not followed by Fitch

1 An obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments.

An obligor rated 'B' is more vulnerable than the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.

The ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories

Ba Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.

Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. Additionally, a "(hyb)" indicator is appended to all ratings of hybrid securities issued by banks, insurers, finance companies, and securities firms.

TABLE SIX DaVita, Inc. (Dollars in thousands) 31-Dec-15			
	2015	2014	2013
Cash	\$1,499,116	\$965,241	\$946,249
Current Assets	\$4,503,280	\$3,876,797	\$2,472,278
Current Liabilities	\$2,399,138	\$2,088,652	\$2,462,049
LTD	\$9,001,308	\$8,383,280	\$8,141,231
Net Patient Service Revenue	\$9,052,419	\$8,501,454	\$8,013,649
Total Revenue	\$13,781,837	\$12,795,106	\$11,764,050
Operating Expenses	\$12,611,142	\$10,979,965	\$10,213,916
Net Income	\$427,410	\$723,114	\$633,446

Source: DaVita, Inc. 2015 10K

IX. ECONOMIC FEASIBILITY

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

The applicants provided a copy of a lease of 6,400 GSF rentable contiguous square feet with an initial lease term of ten (10) years with three (3) five (5) year renewal options. The lease rate per gross square foot is \$11.00/psf for years 1–5, and \$12.00/psf for years 6-10. The applicants attested that entering into a lease (borrowing) is less costly than liquidating existing investments, which would be required for the applicants to buy the property and build a structure itself to house a dialysis clinic. (See Application for Permit pages 108-115)

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

Only Clinical Costs are reviewed in this criterion.

Modernization and Contingencies Costs are \$1,009,473 or \$188.82 per GSF for 5,346 GSF of clinical space. This appears reasonable when compared to the State Board Standard of \$189.19 per GSF, when projecting 2017 as the mid-point of modernization.

Contingencies – These costs total \$90,000, and are 9.7% of the modernization costs identified for this project. This is in compliance with the State standard of 10-15%.

Architectural Fees are \$100,000 and are 9.9% of modernization and contingencies. This appears reasonable when compared to the State Board Standard of 6.9% to 10.36%.

Movable or Other Equipment – These costs are \$451,200 or \$37,600 per station (12 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 \$415,523. The State Board does not have a standard for these costs.

D) Criterion 1120.140(d) - Direct Operating Costs

The applicants are estimating \$183.09 per treatment in direct operating costs. This appears reasonable when compared to previously approved projects of this type.

Operating Expenses:	\$1,933,671
Treatments:	9,048
Cost Per Treatment:	\$213.71

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

The applicants are estimating \$16.60 in capital costs. This appears reasonable when compared to previously approved projects of this type.

Depreciation	\$187,240
Amortization	\$9,203
Total Capital Costs:	\$196,443
Treatments:	9,048
Capital Cost per Treatment	\$21.71

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, AND TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS (77 IAC 1120.120, 130, 140(a), (b), (c), (d) and (e))

TABLE SEVEN ESRD Planning Areas	
HSA I	Boone, Carroll, DeKalb, Jo Daviess, Lee, Ogle, Stephenson, Whiteside, and Winnebago
HSA II	Bureau, Fulton, Henderson, Knox, LaSalle, Marshall, McDonough, Peoria, Putnam, Stark, Tazewell, Warren, and Woodford
HSA III	Adams, Brown, Calhoun, Cass, Christian, Greene, Hancock, Jersey, Logan, Macoupin, Mason, Menard, Montgomery, Morgan, Pike, Sangamon, Schuyler, and Scott
HSA IV	Champaign, Clark, Coles, Cumberland, DeWitt, Douglas, Edgar, Ford, Iroquois, Livingston, Macon, McLean, Moultrie, Piatt, Shelby, and Vermilion
HSA V	Alexander, Bond, Clay, Crawford, Edwards, Effingham, Fayette, Franklin, Gallatin, Hamilton, Hardin, Jackson, Jasper, Jefferson, Johnson, Lawrence, Marion, Massac, Perry, Pope, Pulaski, Randolph, Richland, Saline, Union, Wabash, Washington, Wayne, White, and Williamson
HSA VI	City of Chicago
HSA VII	DuPage County and Suburban Cook County
HSA VIII	Kane, Lake, and McHenry
HSA IX	Grundy, Kankakee, Kendall, and Will
HSA X	Henry, Mercer, and Rock Island
HSA XI	Clinton, Madison, Monroe, and St. Clair

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