



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-06	BOARD MEETING: January 24, 2017	PROJECT NO: 16-040	PROJECT COST: Original: \$2,228,757
FACILITY NAME: DaVita Jerseyville Dialysis		CITY: Jerseyville	
TYPE OF PROJECT: Non-Substantive			HSA: III

PROJECT DESCRIPTION: The applicants (DaVita Inc and Total Renal Care, Inc.) are proposing to modernize and expand an existing nine (9) station End Stage Renal Dialysis facility in Jerseyville, Illinois through the addition of eight (8) stations, resulting in a seventeen (17) station facility. The cost of the project is \$2,228,757, and the completion date is July 31, 2018.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicants (DaVita Inc and Total Renal Care, Inc.) are proposing to modernize and expand an existing nine (9) station End Stage Renal Dialysis facility in Jerseyville, Illinois through the addition of eight (8) stations, resulting in a seventeen (17) station facility. The cost of the project is \$2,228,757, and the completion date is July 31, 2018.
- On April 22, 2016 the State Board Chair approved the addition of one (1) station to this facility for a total of nine (9) stations.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The project is before the State Board because the project proposes to Substantially Change the Scope or Change the Functional Operation of the Facility by adding ESRD stations in excess of the lesser of ten percent (10%) or three (3) stations every two (2) years as defined at 77 IAC 1130.140 – Definitions.

PURPOSE OF THE PROJECT:

- The applicants propose to add eight (8) dialysis stations to its existing nine (9) station complement, in an effort to meet the growing need for dialysis services in Jerseyville and the surrounding area. Between July 1, 2015, and June 30, 2016, the applicant's facility has added nine (9) patients (38 to 47) to its service, an increase of twenty-four percent (24%). On two (2) separate occasions in the past, the applicants have added stations using the State Board's 10% rule, in an effort to address this increased demand. The applicants note the need for additional stations has again presented itself, leaving the applicants to either add stations or operate a fourth shift. The applicants state the implementation of a fourth shift is suboptimal for patients, staff, and operational logistics of the facility.

PUBLIC HEARING/COMMENT:

- No public hearing was requested. No support or opposition letters were received by the State Board Staff.

SUMMARY:

- By rule the addition of ESRD stations to an existing facility does not require the State Board to consider the calculated need or excess of stations in the ESRD Planning Area.
- The Jerseyville facility currently has forty-seven (47) patients. This is a twenty-four percent (24%) increase in the past year which has elevated the facility current utilization to eighty-three percent (83%); exceeding the State Board standard of eighty percent (80%). The applicants note that seven (7) additional patient referrals will have the facility operating at 100%, resulting in the need to operate a 4th shift. The application contains a referral letter from Dr. Felicia R. Bentley, M.D., predicting the referral of thirty-nine (39) additional ESRD patients under her care to the facility within two (2) years of project completion.

CONCLUSIONS:

- The applicants addressed fifteen (15) criteria and have met them all.

STATE BOARD STAFF REPORT
DaVita Jerseyville Dialysis
PROJECT #16-040

APPLICATION SUMMARY/CHRONOLOGY	
Applicants	DaVita, Inc. Total Renal Care, Inc.
Facility Name	Jerseyville Dialysis
Location	917 South State Street, Jerseyville
Application Received	September 21, 2016
Application Deemed Complete	September 28, 2016
Review Period Ends	January 2, 2017
Permit Holder	Total Renal Care, Inc.
Operating Entity	Total Renal Care, Inc.
Owner of the Site	Jerseyville Mall, LLC
Project Financial Commitment Date	January 24, 2019
Gross Square Footage	8,400 GSF
Project Completion Date	July 31, 2018
Expedited Review	No
Can Applicants Request Another Deferral?	Yes
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 modernize and expand an existing nine (9) station ESRD facility in Jerseyville, through the addition of eight (8) stations, resulting in a seventeen (17) station facility. The cost of the project is \$2,228,757, and the project completion date is July 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 DaVita Inc. and Total Renal Care, Inc. As of December 31, 2015, DaVita Healthcare Partners, 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 Jerseyville Mall, LLC. The proposed facility will be located at 917 South State Street, Jerseyville, Illinois in the HSA III ESRD Planning Area.

HSA III ESRD Planning Area consists of the following Illinois counties: Adams, Brown, Calhoun, Cass, DeWitt, Douglas, Edgar, Ford, Iroquois, Livingston, Macon, McLean,

Moultrie, Piatt, Shelby, and Vermillion. There is a current calculated excess of twenty nine (29) ESRD stations in the HSA III ESRD Planning Area, per the December 2016 Revised Bed/Station Need Determination. This is a non-substantive project subject to an 1110 and 1120 review. Financial commitment of the project will occur after permit issuance.

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
15-004	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
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

IV. Project Costs

The applicants are funding this project with cash and securities of \$1,937,807 and the fair market value of leased space and equipment of \$290,950. There is no estimated start-up cost or operating deficit.

TABLE TWO			
Project Costs and Sources of Funds			
USE OF FUNDS	Clinical	Non Clinical	Total
Modernization Contracts	\$1,015,000	\$300,000	\$1,315,000
Contingencies	\$101,500	\$30,000	\$131,500
Architectural/Engineering Fees	\$70,000	\$20,000	\$90,000
Consulting & Other Fees	\$65,000	\$20,000	\$85,000
Movable or Other Equipment (not in construction contracts)	\$258,604	\$57,703	\$316,307
Fair Market Value of Leased Space & Equipment	\$204,531	\$86,419	\$290,950
TOTAL USES OF FUNDS	\$1,714,635	\$514,122	\$2,228,757
SOURCE OF FUNDS	Reviewable	Non Reviewable	Total
Cash and Securities	\$1,510,104	\$427,703	\$1,937,807
Leases (fair market value) ⁽¹⁾	\$204,531	\$86,419	\$290,950
TOTAL SOURCES	\$1,714,635	\$514,122	\$2,228,757
Source: Page 6 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 propose to add 8 dialysis stations to Jerseyville Dialysis to meet the growing need for dialysis services in Jerseyville and its surrounding communities. Over the past year, Jerseyville has experienced tremendous growth. From July 1, 2015 to June 30, 2016, patient census at Jerseyville Dialysis increased 24% (from 38 patients as of July 1, 2015 to 47 patients as of June 30, 2016). To address the growing need for dialysis services in Jerseyville, Jerseyville Dialysis added and eighth station under the State Board’s 10% Rule in December 2015, and the State Board approved a ninth station in April 2016. The additional stations lowered utilization to 87%, which exceeds the State Board’s standard. The proposed stations will lower utilization to allow Jerseyville Dialysis to operate at an optimal level while accommodating future need for dialysis services in the Jerseyville Area”.

The applicants cite a history of utilization above the State standard, and Board Staff confirms this attestation in Table Three. It appears Jerseyville Dialysis has operated over the State standard for four (4) of the last five (5) quarters, with an average operational capacity of 87.1%.

TABLE THREE Historical Utilization Data DaVita Jerseyville Dialysis	
<i>September 2015</i>	<i>95.2%</i>
<i>December 2015</i>	<i>100%</i>
<i>March 2016</i>	<i>70.3%</i>
<i>June 2016</i>	<i>87%</i>
<i>September 2016</i>	<i>83.3%</i>
<i>Average Utilization</i>	<i>87.1%</i>
<i>Source: HFSRB Quarterly Survey for ESRD Facilities</i>	

B) Criterion 1110.230 (b) - Safety Net Impact Statement/Charity Care

The proposed project is classified as non-substantive, and a Safety Net Impact Statement is not required. The applicants supplied applicable charity care information in Table Four below.

TABLE FOUR ⁽¹⁾ CHARITY CARE INFORMATION DaVita Facilities in Illinois			
	2013	2014	2015
Net Patient 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
Cost of Charity Care	\$2,175,940	\$2,477,363	\$2,791,566
% of Charity Care to Net Rev.	0.9%	0.9%	0.8%
1. Source: Page 242 of the Application for Permit.			

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

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

1. Do Nothing/Maintain Status Quo
2. Utilizing Existing Facilities
3. Expand/Modernize Jerseyville Dialysis

Do Nothing/Maintain Status Quo

The applicants rejected the above mentioned option, because the facility is currently operating at eighty-seven percent (87%); and will require the operation of a 4th shift if seven (7) more patients are admitted for dialysis. The applicants note Dr. Felecia Bentley, M.D. is proposing to refer at least thirty-nine (39) ESRD

patients to the facility in the next 12-24 months, making the need for additional stations imminent. There were no costs identified with this alternative.

Utilize Existing Facilities

The applicants determined this was not a feasible option, based on the fact that there are only two (2) dialysis facilities located in the thirty (30) minute service area, and both are located at least twenty-five (25) minutes away in Madison County. The existing nine (9) station facility is already at the State Board's prescribed operational capacity, and it is expected that this facility; and the others would be responsible to serve an additional thirty-nine (39) ESRD patients within 12 to 24 months. Failure to expand Jerseyville Dialysis will result in over-utilized facilities in this service area. There were no costs identified with this alternative.

Expand/Modernize Jerseyville Dialysis

The applicants determined this option to be most feasible, based on the imminent need for additional stations in the Jerseyville area. Cost associated with this option: \$2,228,757.

VI. Project Scope and Size, Utilization and Assurances

A) Criterion 1110.234 (a) - Size of Project

The applicants are proposing to modernize/expand 5,905 GSF of clinical space for seventeen (17) stations or 347 GSF per station. The State Board standard is 360-520 DGSF per station. (See Application for Permit page 141)

B) Criterion 1110.234 (b) – Projected Utilization

The referring physician for Jerseyville Dialysis (Dr. Felecia Bentley, M.D.), has identified one hundred forty-one (141) pre-ESRD patients under her care, and ninety-one (91) patients who suffer from Stage 4-5 CKD, and live within a twenty (20) minute commute of the proposed facility. Of these patients, Dr. Bentley conservatively estimates thirty-nine (39) patients will require dialysis services within the next 12 to 24 months. These patients, combined with the forty-seven (47) patients currently being served at the existing facility, will result in utilization surpassing the 80th percentile. (See Application for Permit page 142)

86 patients x 156 treatment per year = 13,416 treatments
17 stations x 936 treatments per stations per year = 15,912 treatments
13,416 treatments/15,912 treatments = 84.3% 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 160)

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

VII. 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 121-134 of the application for permit*. 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) (2) (4) - Planning Area Need – Expansion of Existing Services

The applicant shall document the following:

- 2) Service to Planning Area Residents
 - 4) Service Demand – Expansion of In-Center Hemodialysis Service
- 2) The applicants note the service area comprises Jerseyville and surrounding communities within a thirty (30) minute travel radius. Dr. Bentley reports having referred thirty-nine (39) new patients for dialysis services in the last eighteen (18) months, and notes that twenty-nine (29) or seventy-four percent (74%) of these patients reside within the Jerseyville Geographic Service area. (Application, p. 145).
- 4) Within the past year, Jerseyville Dialysis has experienced significant growth, with nine (9) new patients (38 to 47), receiving services at this facility. This patient increase has resulted in the facility exceeding the State prescribed standard for occupational capacity for a nine (9) station facility, and increases the need for additional stations exponentially. Dr. Felecia Bentley, M.D., reports having referred thirty-nine (39) new ESRD patients for dialysis services in the last eighteen (18) months, from zip codes in the service area for Jerseyville Dialysis. Table Five lists the zip code and city of origin for each of these historically referred patients. Dr. Bentley notes that twenty-nine (29) or seventy-four percent (74%) of these referred patients reside in the Jerseyville geographic service area. Dr Bentley, through her referral letter on page 244 of the application, anticipates the referral of an additional thirty-nine (39) ESRD patients to Jerseyville dialysis in the next 18-24 months, which would result in the proposed seventeen (17) station facility treating eighty-six (86) patients, and operating at approximately eighty-four percent (84%) capacity.

TABLE FIVE		
Historical Referrals from Dr. Bentley, M.D.		
Zip Code	City	Patients
62002	Alton	8
62010	Bethalto	2
62016	Carrollton	1
62021	Dorsey	1
62022	Dow	1
62024	East Alton	4
62025	Edwardsville	3
62034	Glen Carbon	2
62035	Godfrey	1
62040	Granite City	3
62047	Hardin	2
62052	Jerseyville	6
62074	New Douglas	1

TABLE FIVE		
Historical Referrals from Dr. Bentley, M.D.		
Zip Code	City	Patients
62094	Witt	1
62095	Wood River	3
Total		39

Based upon the information provided in the application for permit, the proposed project will serve the residents of the planning area and will address the service demand identified by the applicants within two (2) years after project completion. A positive finding results for this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PLANNING AREA NEED (77 IAC 1110.1430 (c) (1) (2) (4))

- C) Criterion 1110.1430 (f) - Staffing**
- D) Criterion 1110.1430 (g) - Support Services**
- F) Criterion 1110.1430 (k) – Assurances**

The proposed facility is certified by Medicare and appropriate staffing requirements have been met. Jerseyville Dialysis, in concert with all DaVita facilities, utilizes an electronic dialysis data system. Support services provided to the facility include nutritional counseling, psychiatric/social services, home/self training, and clinical laboratory services. Lastly, the appropriate assurances have been provided by the applicants asserting the expanded/modernized 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 146-161))*

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERIA STAFFING, SUPPORT SERVICES, ASSURANCES (77 IAC 1110.1430 (f) (g) (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 \$1,937,807 and the fair market value of leased space and equipment of \$290,950. 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. Tables Six and Seven below outlines DaVita Inc. Credit Rating.

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
<i>Source: DaVita, Inc. 2015 10K</i>			

TABLE SEVEN 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	
<i>Source: The Applicant</i> <i>1. Davita is not followed by Fitch</i>			

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 leases securing the original 3,500 GSF property, and the new lease for 4,900 GSF contiguous square feet with an initial lease term of ten (10) years from the commencement date of the expansion, with three (3) five (5) year renewal options. The lease rate per gross square foot is \$5.00. The applicants have attested that the entering into of 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. The expenses incurred with leasing the proposed facility and cost of leasing the equipment is less costly than constructing a new facility or purchasing new equipment. (See Application for Permit pages 163-232)

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

Only Clinical Costs are reviewed in this criterion.

Modernization and Contingencies Costs are \$1,116,500 or \$189.08 per GSF for 5,905 GSF. This appears reasonable when compared to the State Board Standard of \$189.19 per GSF, when projecting 2017 as the mid-point of construction.

Contingencies – These costs total \$101,500, and are 10% of the modernization costs identified for this project. This is in compliance with the State standard of 10-15%.

Architectural Fees are \$70,000 and are 6% 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 \$258,604 or \$32,325 per station (8 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 \$204,531. 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:	\$2,069,657
Treatments:	13,416
Cost Per Treatment:	\$154.27

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	\$141,805
Amortization	\$7,334
Total Capital Costs:	\$149,139
Treatments:	13,416
Capital Cost per Treatment	\$11.12

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERIA 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))**

16-040 DaVita Jerseyville Dialysis - Jerseyville

