



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: I-01	BOARD MEETING: April 17, 2018	PROJECT NO: 17-039	PROJECT COST:
FACILITY NAME: Alpine Dialysis		CITY: Rockford	Original: \$2,837,776
TYPE OF PROJECT: Substantive			HSA: I

PROJECT DESCRIPTION: The Applicants (DaVita Inc. and Total Renal Care, Inc.) propose to establish an eight station ESRD facility in 6,050 GSF of leased space located at 3157 Alpine Road, Rockford, Illinois. The cost of the project is \$2,837,776 and the completion date is November 30, 2019.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (DaVita Inc. and Total Renal Care, Inc.) propose to establish an eight station ESRD facility in 6,050 GSF of leased space located at 3157 South Alpine Road, Rockford, Illinois. The cost of the project is \$2,837,776 and the completion date is November 30, 2019.
- This project received an Intent to Deny at the November 14, 2017 State Board Meeting. Additional information was provided on December 29, 2017 to address the Intent to Deny. The transcript from the November 2017 State Board Meeting and the response to the Intent to Deny are included at the end of this report.
- The **two** criteria that were not successfully addressed in the Original State Board Staff Report will be discussed in this Supplemental Report. All other criteria have been successfully addressed as stated in the Original State Board Staff Report. The Original State Board Staff Report is included in the packet of material (CD) that was forwarded to the State Board Members.
- The cost, size and scope of the project remain unchanged from the Original State Board Staff Report.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The Applicants are proposing to establish a health care facility as defined by the Illinois Health Facilities Planning Act. (20 ILCS 3960/3)
- One of the objectives of the Health Facilities Planning Act is *“to assess the financial burden to patients caused by unnecessary health care construction and modification. Evidence-based assessments, projections and decisions will be applied regarding **capacity, quality, value and equity** in the delivery of health care services in Illinois. Cost containment and support for safety net services must continue to be central tenets of the Certificate of Need process.”* [20 ILCS 3960/2]

PURPOSE OF PROJECT

- **The Applicants stated the following:**
“The purpose of the project is to improve access to life sustaining dialysis services to the residents of Rockford Illinois and the surrounding area. There are seven dialysis facilities within 30 minutes of the proposed Alpine Dialysis (the Alpine GSA). Collectively, these facilities were operating at 65.44%, as of March 31, 2017. Excluding the recently approved dialysis facilities, average utilization increases to 83.33%, exceeding the State Board’s utilization standard. Based on June 2017 data from the Renal Network, 456 ESRD patients live within 30 minutes of the proposed facility. This translates to a need for 95 stations, assuming 80% utilization. Currently, there are only 73 stations within 30 minutes of the proposed facility. The proposed Alpine Dialysis facility is needed to ensure ESRD patients on the southeast side of Rockford has adequate access to dialysis services, which is essential to their well-being.”

PUBLIC HEARING/COMMENT:

A public hearing was offered in regard to the proposed project, but none was requested. **Letters of support** were received from residents of the community, a vascular surgeon, SwedishAmerican Hospital, the United Way, and a city councilman all urging the State Board to approve the proposed project because the community needs access to dialysis services. The support letters emphasized *“the area (61109) does not have a local clinic, and dialysis patients have to travel to other parts of Rockford. This can be very challenging for those who rely on public transportation because an eight mile bus ride can easily become a 45 minute trip. It would be much more prudent for this area — where so many require dialysis — to have a dialysis clinic.”* **No letters of opposition** were received by the State Board Staff.

SUMMARY:

- The State Board, as of the February 2018 ESRD Update, has **estimated an excess of 4 ESRD stations** in the HSA I ESRD Planning Area by 2020. The State Board is estimating the growth in the **population** in this ESRD planning area of less than 1% for the period 2015 to 2020. Growth in the number of **dialysis patients** has been approximately 5.7% for the period 2013 thru 2017.
- The Applicants will be providing services to residents of the HSA I ESRD planning area. The Applicants have identified 44 patients that they believe will require dialysis within 12-24 months after project completion.
- There are 7 facilities with 109 stations within 30 minutes with an average utilization of approximately 62%. Of these seven facilities two facilities are in ramp-up and one facility is waiting Medicare certification. Of the remaining four facilities the average utilization is approximately 83%.
- The Applicants stated in part when addressing the Intent to Deny ***“that the seven facilities within this 30 minute service area are all operated by DaVita.*** *This is important because there is no incentive to shift patients away from any existing facility as a competitive tactic. Also note that each of these facilities will serve a distinct patient base and the need for these facilities was demonstrated with different chronic kidney disease ("CKD") patients being treated by different nephrologists in Rockford. As shown in the table, each of these other facilities is being established based on the CKD patient caseload of different nephrologists who have committed to referring patients to these other facilities. As indicated on the table, each of these facilities is expected to exceed the State Board's 80% utilization standard by the time proposed Alpine Dialysis is operational. Finally, each facility has a distinct patient service area. Accordingly, the proposed Alpine Dialysis will not create an unnecessary duplication of services.”*
- Based upon the information in the Application for Permit, the Testimony provided at the November 2017 State Board Meeting and the response to the Intent to Deny the State Board Staff finds that the Original State Board Staff Report remains unchanged.

Criteria	Reasons for Non-Compliance
77 ILAC 1110.1430(c)(1), (2), (3) and (5) – Planning Area Need	The State Board has calculated an excess of four ESRD stations in the HSA I ESRD Planning Area.
77 ILAC 1110.1430(d)(1), (2) and (3) - Unnecessary Duplication of Service, Maldistribution of Service, Impact on Other Providers	There are seven facilities within thirty minutes with an average utilization of approximately 62%. Two of the seven facilities are still in ramp-up and one is waiting Medicare Certification. The four remaining facilities the average utilization is approximately 83%. There appears to be sufficient capacity at the existing seven facilities to accommodate the demand identified by this project.

**SUPPLEMENTAL
STATE BOARD STAFF REPORT
Project #17-039
DaVita Alpine Dialysis**

APPLICATION/CHRONOLOGY/SUMMARY	
Applicants(s)	DaVita Inc., and Total Renal Care, Inc.
Facility Name	Alpine Dialysis
Location	3157 South Alpine Road, Rockford, Illinois
Permit Holder	DaVita Inc., and Total Renal Care, Inc.
Operating Entity	Total Renal Care, Inc.
Owner of Site	Dyn Commercial Holdings, LLC
Description	Establish an eight (8) station ESRD facility
Total GSF	6,050 GSF
Application Received	August 21, 2017
Application Deemed Complete	August 23, 2017
Review Period Ends	December 21, 2017
Financial Commitment Date	November 30, 2019
Project Completion Date	November 30, 2019
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	Yes
Expedited Review?	No

I. Project Description

The Applicants (DaVita Inc., and Total Renal Care, Inc.) are proposing to establish an eight station ESRD facility in 6,050 GSF of leased space located at 3157 South Alpine Road, Rockford, Illinois. The cost of the project is \$2,837,776 and the completion date is November 30, 2019.

II. Summary of Findings

- A. State Board Staff finds the proposed project does not appear to be in conformance with the provisions of 77 ILAC 1110 (Part 1110).
- B. State Board Staff finds the proposed project appears to be in conformance with the provisions of 77 ILAC 1120 (Part 1120).

III. General Information

The Applicants are DaVita Inc., and Total Renal Care, Inc. DaVita, Inc. is a Fortune 500 company established in Delaware, and is the parent company of Total Renal Care, Inc. Total Renal Care, Inc. is incorporated in California and licensed in Illinois and is a leading provider of kidney care, delivering dialysis services to patients with chronic kidney failure and end stage renal disease. DaVita serves patients with low incomes, racial and ethnic minorities, women, handicapped persons, elderly, and other underserved persons in its facilities in the State of Illinois.

Financial commitment will occur after permit issuance. This project is a substantive project subject to a Part 1110 and 1120 review.

Substantive Projects are projects that are defined in the Act and classified as substantive. *Substantive projects shall include no more than the following:*

Projects to construct a new or replacement facility located on a new site; or a replacement facility located on the same site as the original facility and the costs of the replacement facility exceed the capital expenditure minimum.

Projects proposing a new service or a discontinuation of a service; shall be reviewed by the Board within 60 days.

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 facility to another by more than 20 beds or more than 10% of total bed capacity, as defined by the State Board in the Inventory, whichever is less, over a 2-year period. [20 ILCS 3960/12]

IV. Project Costs and Sources of Funds

The Applicants are funding the project with cash of \$1,887,387 and the FMV of leased space of \$950,389. The operating deficit and start-up costs are \$1,593,307.

TABLE ONE
Project Costs and Sources of Funds

USE OF FUNDS	Reviewable	Non Reviewable	Total	% of Total
New Construction Contracts	\$883,000	\$277,000	\$1,160,000	40.88%
Contingencies	\$88,300	\$27,700	\$116,000	4.09%
Architectural/Engineering Fees	\$71,800	\$30,800	\$102,600	3.62%
Consulting & Other Fees	\$40,933	\$17,543	\$58,476	2.06%
Movable or Other Equipment (not in construction contracts)	\$372,594	\$77,717	\$450,311	15.87%
Fair Market Value of Leased Space & Equipment	\$723,395	\$226,994	\$950,389	33.49%
TOTAL USES OF FUNDS	\$2,180,022	\$657,754	\$2,837,776	100.00%
SOURCE OF FUNDS	Reviewable	Non Reviewable	Total	% of Total
Cash and Securities	\$1,456,627	\$430,760	\$1,887,387	66.51%
Leases (fair market value)	\$723,395	\$226,994	\$950,389	33.49%
TOTAL SOURCES	\$2,180,022	\$657,754	\$2,837,776	100.00%

Source: Page 6 of the Application for Permit.

V. Health Planning Area

The proposed facility will be located in the HSA I ESRD Planning Area. The HSA I ESRD Planning Area includes Boone, Carroll, DeKalb, Jo Daviess, Lee, Ogle, Stephenson, Whiteside, and Winnebago counties. As of February 2018 there is a **calculated excess of 4 ESRD stations** in this planning area by 2020. There are currently 15 dialysis facilities in this planning area with 196 ESRD stations. The State Board is estimating 923 patients will need dialysis by 2020. The State Board is estimating less than 1% growth compounded annually in the population in this planning area for the

period 2015 to 2020¹. There has been a growth in the dialysis patients of 5.7% for the period 2013 to 2017² in this ESRD Planning Area. As of December 31, 2017 there were 701 patients³ receiving dialysis service in this planning area.

TABLE TWO	
Need Methodology HSA I ESRD Planning Area	
Planning Area Population – 2015	673,500
In Station ESRD patients -2015	694
Area Use Rate 2013 ⁽¹⁾	.975
Planning Area Population – 2020 (Est.)	711,700
Projected Patients – 2020 ⁽²⁾	694
Adjustment	1.33x
Patients Adjusted	923
Projected Treatments – 2020 ⁽³⁾	143,991
Existing Stations	196
Stations Needed-2018	192
Number of Stations in Excess	4
<ol style="list-style-type: none"> 1. Usage rate determined by dividing the number of in-station ESRD patients in the planning area by the 2015 – planning area population per thousand. 2. Projected patients calculated by taking the 2020 projected population per thousand x the area use rate. Projected patients are increased by 1.33 for the total projected patients. 3. Projected treatments are the number of patients adjusted x 156 treatments per year per patient 	

VI. In-Center Hemodialysis Projects

A) Criterion 1110.1430 (c) - Planning Area Need

To demonstrate compliance with this criterion the Applicants must document that the number of stations to be established or added is necessary to serve the planning area's population.

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

To demonstrate compliance with this sub-criterion the Applicants must document that the number of stations to be established is in conformance with the projected station need.

There is a **calculated excess of four ESRD stations** in the HSA I ESRD Planning Area per the February 2018 Revised Station Need Determination.

2) Service to Planning Area Residents

To demonstrate compliance with this sub-criterion the Applicants must document that the primary purpose is to serve the residents of the planning area.

The primary purpose of the proposed project is to maintain access to life-sustaining dialysis services to the residents of Rockford and the surrounding area. As evidenced in the physician referral letter 569 pre-ESRD patients reside within the same zip code as the proposed facility (61109), or the next closest zip code (61104). Of these 569

¹ Source: Inventory of Health Care Facilities and Services and Need Determinations 2017 page A-5.

² Source: Inventory of Health Care Facilities and Services and Need Determinations 2015 pageA-5

³ Source: State Board Quarterly Dialysis Report

patients, 69 residents are reported to suffer from Stage 4 or 5 CKD. Accounting for patient attrition, the Applicants are projecting 44 patients will need dialysis by the second year after project completion. The 44 patients will come from the zip codes identified below. It would appear that the proposed facility will provide dialysis services to the residents of the planning area.

Zip Code	City	County	Patient #
61109	Rockford	Winnebago	59
61104	Rockford	Winnebago	10
Total			69

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 to justify the twelve stations being proposed.

The Applicants have submitted a referral letter from Dr. Syed Ahmed, M.D., a nephrologists practicing with Rockford Nephrology Associates, LLC, who will serve as the facility's Medical Director upon project completion. In his letter, Dr Ahmed provides historical referral data (zip codes), from the last three years, as well as zip codes of pre-ESRD patients expected to initiate dialysis within 12-24 months after project completion (application pgs. 195-211).

5) Service Accessibility

To demonstrated compliance with this sub-criterion the Applicants must document that the number of stations being established or added for the subject category of service is necessary to improve access for planning area residents. The applicant must document one of the following:

- i) The absence of the proposed service within the planning area;
 - ii) 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;
 - iii) Restrictive admission policies of existing providers;
 - iv) 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;
 - iv) 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.
1. There is no absence of the proposed service within the planning area. There is no absence of the proposed service within the planning area. *(There are 15 ESRD facilities in the HSA I ESRD Planning Area.)*
 2. There has been no evidence of access limitations due to payor status of patients.
 3. There has been no evidence of restrictive admission policies of existing providers.
 4. There has been no evidence that the area population and existing care system exhibits indicators of medical care problems.

There are seven facilities within thirty minutes with an average utilization of approximately 62%. Three of the seven facilities are not operational or are in their first

two years (ramp up) of operation. The two facilities most proximal to the applicant facility are operating in excess of the State standard [See Table Six]

Summary

The State Board is estimating **an excess of four ESRD stations** in the HSA I ESRD Planning Area by CY 2020. There has been no evidence provided of access limitations in the planning area, or evidence of access limitations due to payor status of patients or evidence that the area population exhibits indicators of medical care problems.

From the information provided reviewed by the State Board Staff the proposed facility will provide dialysis service to the residents of the HSA I ESRD Planning Area. There are 7 facilities with 109 stations within 30 minutes with an average utilization of approximately 62% (total existing capacity within the 30-minute service area). Of these seven facilities two facilities are in ramp-up and one is waiting Medicare Certification. Of the remaining four facilities the average utilization is approximately 83%. There appears to be sufficient capacity to accommodate the workload identified by this project.

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

TABLE THREE
Facilities within thirty (30) minutes of proposed facility

Name	City	HSA	Stations (1)	Adjusted Time (2)	Patients	Utilization (3)	Star Rating (4)
DaVita Roxbury Dialysis	Rockford	1	16	10	89	92.71%	5
DaVita Stonecrest Dialysis	Rockford	1	11	11	69	95.83%	4
DaVita Churchview Dialysis	Rockford	1	24	13	92	63.89%	3
DaVita Rockford Dialysis	Rockford	1	22	18	102	77.27%	3
Total Stations, Patients, Average Utilization			73		352	82.43%	
DaVita Belvidere Dialysis * (Completion 3/28/16)	Belvidere	1	12	19	29	40.28%	N/A
DaVita Forest City Dialysis *(Completion 6/30/18)	Rockford	1	12	17	3	4.17%	N/A
DaVita Machesney Park Dialysis *(Completion 10/7/16)	Machesney Park	1	12	17	42	58.33%	N/A
Total Stations, Patients, Average Utilization			109		74	61.78%	

1. Adjusted time taken from Map Quest and adjusted per 77 ILAC 1100.510 (d)
2. Information as of December 31, 2017
3. Star Rating taken from Medicare Compare Website
4. *Facility under construction or in ramp-up phase

B) Criterion 1110.1430(d) - Unnecessary Duplication/Mal-distribution

To demonstrate compliance with this criterion the Applicants must document that the proposed project will not result in

1. An unnecessary duplication of service
2. A mal-distribution of service
3. An impact on other area providers

1. To determine if there is an unnecessary duplication of service the State Board identifies all facilities within thirty (30) minutes and ascertains if there is existing capacity to accommodate the demand identified in the application for permit. There are 7 facilities within 30 minutes with an average utilization of approximately 62%. One of the seven facilities is not operational and two are in their initial two years of operation (ramp-up) phases. The four remaining facilities average utilization is approximately eighty three percent (83%). [See Table Above]
2. To determine a mal-distribution (i.e. surplus) of stations in the thirty (30) minute service area the State Board compares the ratio of the number of stations per population in the thirty (30) minute service area to the ratio of the number of stations in the State of Illinois to the population in the State of Illinois. To determine a surplus of stations, the number of stations per resident in the thirty (30) minute service area must be 1.5 times the number of stations per resident in the State of Illinois.

	Population	Stations	Ratio
30 Minute Service Area	269,009	109	1 Station per every 2,468 resident
State of Illinois (2015 est.)	12,978,800	4,704	1 Station per every 2,760 resident

The population in the 30 minute service area is 269,009 residents (Application, p. 139). The number of stations in the 30 minute service area is 109. The ratio of stations to population is one station per every 2,468 residents. The number of stations in the State of Illinois is 4,704 stations (*as of February 2018*). The 2015 estimated population in the State of Illinois is 12,978,800 residents (*Illinois Department of Public Health Office of Health Informatics Illinois Center for Health Statistics - 2014 Edition*). The ratio of stations to population in the State of Illinois is one (1) station per every 2,760 resident. To have a surplus of stations in this 30 minute service area the number of stations per population would need to be one station per every 1,804 residents. Based upon this methodology there is not a surplus of stations in this service area.

3. The Applicants stated the following regarding the impact on other facilities.
"The proposed dialysis facility will not have an adverse impact on existing facilities in the GSA. As discussed throughout this application, the utilization of existing dialysis facilities within the Alpine GSA that have been operational for at least 2 years is 83.33%. Further, patient census across the GSA has increased 5.4% since March 31, 2015. Based upon historical utilization trends, average utilization should continue to meet the State Board standard by the time the proposed Alpine Dialysis is projected to come online. No patients are expected to transfer from the existing dialysis facilities to the proposed Alpine Dialysis. There are seven dialysis facilities within the Alpine GSA. Collectively, these facilities were operating at 65.44% as of March 31, 2017. Excluding the recently approved dialysis facilities, average utilization increases to 83.33%, exceeding the State Board's utilization standard. Furthermore, patient census among the existing facilities within the Alpine GSA has increased 5.4% since March 31, 2015. This growth is anticipated to continue to increase for the foreseeable future. Due to health care reforms like the ACA and the transition to Medicaid managed care, more individuals in high risk groups have better access to primary care and kidney

screening. As a result of these health care reform initiatives, DaVita anticipates continued increases in newly diagnosed cases of CKD in the years ahead. Once diagnosed, many of these patients are further along in the progression of CKD due to the lack of nephrologists' care prior to diagnosis. It is imperative that enough stations are available to treat this new influx of ESRD patients, who will require dialysis. Accordingly, the proposed facility is needed to ensure sufficient capacity exists for Dr. Ahmed's projected ESRD patients."

Although the Applicants cite sufficient utilization data for the 4 functioning facilities in the service area, and increased utilization across the GSA, the establishment of an eight station ESRD facility in the service area may adversely impact existing facilities, and contribute to an existing overage of stations in the service area.

Response to the Intent to Deny

The Applicants stated in the information submitted in response to the Intent to Deny *"that the seven facilities within this 30 minute service area are operated by DaVita. This is important because there is no incentive to shift patients away from any existing facility as a competitive tactic. Also note that each of these facilities will serve a distinct patient base and the need for these facilities was demonstrated with different chronic kidney disease ("CKD") patients being treated by different nephrologists in Rockford. As shown in the table, each of these other facilities is being established based on the CKD patient caseload of different nephrologists who have committed to referring patients to these other facilities. As indicated on the table, each of these facilities is expected to exceed the State Board's 80% utilization standard by the time proposed Alpine Dialysis is operational. Finally, each facility has a distinct patient service area. Accordingly, the proposed Alpine Dialysis will not create an unnecessary duplication of services."*

Additionally the Applicants stated:

"First, once patients are enrolled at a dialysis facility, they visit the facility very frequently for treatment. Specifically, ESRD patients dialyze three times per week or 156 times per year. Many patients rely on family, friends or caregivers and government funded transport services to transport them to and from their dialysis treatments. Transportation issues are directly related to patient non-compliance with the prescribed treatment protocol. To minimize transportation difficulties and other access issues, using proprietary software DaVita locates its facilities as proximately to patients' homes as is supported by population density and disease incidence and prevalence.

Second, this project is put forth based on an extremely well-vetted financial model. We appreciate the State Board's rules but also want to point out that DaVita places facilities to meet demand based on a tried and true financial and operational model. Any potential over projection of patients does not harm payors or patients because the facilities are not reimbursed on a cost basis. Further, the national companies primarily driving the delivery of dialysis have become so efficient that the government reimbursement for dialysis treatments has been reduced over time to reflect such efficiencies."

The State Board Staff notes that the seven facilities within the 30 minute service area are all within 20 minutes of the proposed facility and the existing facilities can accommodate an additional 89 patients before reaching target occupancy. All of the dialysis facilities that have been approved by the State Board attest that they will maintain an open medical staff allowing any nephrologist to round at that facility.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION OF SERVICE, MALDISTRIBUTION OF SERVICE IMPACT ON OTHER FACILITIES (77 ILAC 1110.1430(d)(1), (2) and (3))

17-039 DaVita Alpine Dialysis - Rockford

