STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-06	BOARD MEETING: February 25, 2020	PROJECT NO: 19-055	PROJECT COST:
FACILITY NAME: DaVita Forest City Dialysis		CITY: Rockford	Original: $1,001,365
TYPE OF PROJECT: Non-Substantive			HSA: I

PROJECT DESCRIPTION: The Applicants (Machesney Bay Dialysis, LLC and DaVita, Inc.) propose to add 4 stations to its existing 12-station facility located at 198 North Springfield Avenue, Rockford, Illinois. The cost of the project is $1,001,365. The expected completion date is January 31, 2021.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Machesney Bay Dialysis, LLC and DaVita, Inc.) propose to add 4 stations to its existing 12-station facility located at 198 North Springfield Avenue, Rockford, Illinois. The cost of the project is $1,001,365. The expected completion date is January 31, 2021.
- The 12-station facility was initially established per project #16-015, received its permit on June 21, 2016, and was completed on December 17, 2017-the date of CMS certification. The project cost was $2,742,857.
- The Applicants propose to modernize 6,700 GSF of existing space to accommodate a total of 16 ESRD stations. No new construction will occur.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The project is before the State Board because the project proposes substantial change in scope of a health care facility (increase of more than 3-ESRD stations) as defined at 20 ILCS 3960/5.

PURPOSE OF THE PROJECT:

- According to the Applicants the purpose of the project is to accommodate a need for 5 additional ESRD stations in HSA-1, and the west side of Rockford, which is designated as a low-income/primary health care professional shortage area.

PUBLIC HEARING/COMMENT:

- A public hearing was offered but was not requested. The project file contains no letters of support and no letters of opposition.

SUMMARY:

- To add stations to an existing ESRD facility the State Board does not consider the need or excess of the stations in the ESRD Planning Area (Planning Area Need) or the number of existing ESRD facilities and their utilization (Unnecessary Duplication/Maldistribution). The Applicants must provide documentation that the proposed number of stations will serve the residents of the planning area and there is enough patient volume (demand) to reach target occupancy within two years after project completion.
- DaVita Forest City Dialysis is currently operating at approximately 36% (December 31, 2019) utilization which is two years after certification of the stations by CMS (December 17, 2017). At the time of approval of #16-015, the Applicants believed that approximately 68 patients would require dialysis within 12-24 months of project completion. As of December 31, 2019, the Applicants are dialyzing 23 patients at this facility. To reach target occupancy for a 16-station facility, 76 patients would need to be dialyzing as of January 2023 (two-years after stated completion). Fifty-three additional patients (total 76 patients (23 patients+53 patients) would need to be dialyzing by January 2023.
- The Applicants have addressed a total 18 criteria and have not met the following.

Criterion	Reasons for Non-Compliance
77 ILAC 1110. 120 (b) – Projected Utilization **77 ILAC 1110.230 (j) – Assurances**	From the data reviewed it does not appear to be reasonable for the 16-station facility to reach target occupancy within two years after project completion. (See page 9 of this report). The number of dialysis patients would need to increase 50% annually for this 16-station facility to be at target occupancy by 2023.

STATE BOARD STAFF REPORT
Project #19-055
DaVita Forest City Dialysis, Rockford

APPLICATION/CHRONOLOGY/SUMMARY	
Applicants(s)	Machesney Bay Dialysis, LLC, DaVita, Inc.
Facility Name	Forest City Dialysis
Location	198 North Springfield Avenue, Rockford, Illinois
Permit Holder	Machesney Bay Dialysis, LLC, DaVita, Inc.
Operating Entity	Machesney Bay Dialysis, LLC
Owner of Site	Dyn Commercial Holdings, LLC
Description	Addition of 4-ESRD Stations
Total GSF	6,700 GSF
Application Received	October 30, 2019
Application Deemed Complete	October 30, 2019
Review Period Ends	December 29, 2019
Financial Commitment Date	January 31, 2021
Project Completion Date	January 31, 2021
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	Yes
Expedited Review?	No

I. Project Description

The Applicants (Machesney Bay Dialysis, LLC and DaVita, Inc.) propose to add 4 stations to its existing 12-station ESRD facility located at 198 Springfield Avenue, Rockford, Illinois. The cost of the project is $1,001,365. The expected completion date is January 31, 2021.

II. Summary of Findings

A. State Board Staff finds the proposed project appears does **not** to be in conformance with the provisions of Part 1110.

B. 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 Machesney Bay Dialysis, LLC. DaVita Inc. (a Fortune 500 company) is a leading provider of kidney care in the United States, delivering dialysis services to patients with chronic kidney failure and end stage renal disease. DaVita operates in 45 states and the District of Columbia. The five states where DaVita is not located are: Alaska, Delaware, Mississippi, Vermont, and Wyoming. 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. The operating entity will be Machesney Bay Dialysis, LLC. and the owner of the site is Dyn Commercial Holdings,

LLC. This project is subject to a Part 1110 and Part 1120 review. Financial commitment will occur within 12-months after permit approval.

IV. Project Uses and Sources of Funds

The Applicants are funding the project with cash in the amount of $100,355 and the FMV of leased space of $901,010.

TABLE ONE
Project Uses and Sources of Funds

Uses of Funds	Reviewable	Total	% of Total
Modernization Contracts	$4,340	$4,340	.4%
Contingencies	$650	$650	.1%
Consulting/Other Fees	$17,000	$17,000	1.7%
Movable or Other Equipment (not in construction contracts)	$78,365	$78,365	7.8%
Fair Market Value of Leased Space or Equipment	$901,010	$901,010	90%
TOTAL USES OF FUNDS	**$1,001,365**	**$1,001,365**	**100.00%**
SOURCE OF FUNDS	**Reviewable**	**Total**	**% of Total**
Cash and Securities	$100,355	$100,355	10%
Leases (fair market value)	$901,010	$901,010	90%
TOTAL SOURCES OF FUNDS	**$1,001,365**	**$1,001,365**	**100.00%**

V. Health Planning Area

The existing facility is in Rockford, Illinois in the HSA I ESRD Planning Area. HSA I include the Illinois counties of Jo Davies, Stephenson, Winnebago, Boone, Carroll, Ogle, DeKalb, Whiteside and Lee counties.

From 2008 to 2018 there has been a 4% average increase in the number of ESRD patients in this Planning Area. The State Board is estimating an increase in the population of 5.65% in this Planning Area from 2017-2022. As of January 2020, the State Board is estimating a need for an additional 5 stations in this Planning Area.

TABLE ONE	
Need Methodology HSA I ESRD Planning Area	
Planning Area Population – 2017	665,800
In Station ESRD patients -2017	702
Area Use Rate 2017(1)	1034.71
Planning Area Population – 2022 (Est.)	702,200
Projected Patients – 2022 (2)	740.4
Adjustment	1.33
Patients Adjusted	985
Projected Treatments – 2022 (3)	153,614
Calculated Station Needed (4)	205
Existing Stations	200
Stations Needed 2022	**5**

1. Usage rate determined by dividing the number of in-station ESRD patients (2017) in the planning area by the 2017 – planning area population per thousand.
2. Projected patients calculated by taking the 2022 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
4. 153,614/747 = 205
5. 936 x 80% = 747 [Number of treatments per station operating at 80%]

VI. Background of the Applicants

A) Criterion 1110.110 (a)(1) & (3) – Background of the Applicants

An applicant must demonstrate that it is fit, willing and able, and has the qualifications, background and character to adequately provide a proper standard of health care service for the community. **To demonstrate compliance with this criterion the Applicants must provide**

A) A listing of all health care facilities currently owned and/or operated by the applicant in Illinois or elsewhere, including licensing, certification and accreditation identification numbers, as applicable;

B) A listing of all health care facilities currently owned and/or operated in Illinois, by any corporate officers or directors, LLC members, partners, or owners of at least 5% of the proposed health care facility;

C) Authorization permitting HFSRB and IDPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. Failure to provide the authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.

D) An attestation that the Applicants have had no *adverse action*[1] taken against any facility they own or operate or a certified listing of any adverse action taken.

[1]Adverse action is defined as a disciplinary action taken by IDPH, CMMS, or any other State or federal agency against a person or entity that owns or operates or owns and operates a licensed or Medicare or Medicaid certified healthcare facility in the State of Illinois. These actions include, but are not limited to, all Type "A" and Type "AA" violations." (77 IAC 1130.140)

1. The Applicants attested that there has been no adverse action taken against any of the facilities owned or operated by Machesney Bay Dialysis, LLC or DaVita, Inc. during the three (3) years prior to filing the application. [Application for Permit page 113]

2. The Applicants have authorized the Illinois Health Facilities and Services Review Board and the Illinois Department of Public Health to have access to any documents necessary to verify information submitted in connection to the Applicants' certificate of need to add four ESRD stations. The authorization includes, but is not limited to: official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. [Application for Permit page 113]

3. The site is owned by Dyn Commercial Holdings, LLC. This facility is currently operating, and a copy of the building lease is provided on page 31 of the application.

4. This is a modernization project and evidence of compliance with Executive Order #2006-05 and the Illinois State Agency Historic Resources Preservation Act is not required.

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

The following three (3) criteria are informational; no conclusion on the adequacy of the information submitted.

A) Criterion 1110.110 (b) Purpose of the Project

To demonstrate compliance with this criterion the Applicants must document that the project will provide health services that improve the health care or well-being of the market area population to be served.

The purpose of this project is as stated:
"The purpose of this project is to address the need for 6 dialysis stations in HSA-01, and more specifically on the west side of Rockford where Forest City Dialysis is located. In Particular, the Forest City in-center hemodialysis clinic complements the large home dialysis training and support program that DaVita operates in the Rockford area. Currently, there are about 120 patients enrolled in the Rockford area home dialysis program which operates out of three different area locations, and is significantly invested in supporting all patients who opt for the home modalities to be successful with this method. With regard to these additional stations, DaVita has launched a transitional care unit program which provides for certain clinics to have a small unit dedicated to patients who have opted for the home dialysis hemodialysis modality or are considering this modality. The transitional care program is intended to reduce hospitalizations during the first 90 days of treatment and to enhance modality education to promote hemodialysis. This program will also support patients who commence dialysis with little pre-dialysis education due to being "crashers" and will also support patients with severe uremic symptoms who could benefit from more intensive initial treatment support. This project will address a need for stations in HSA-01, and more specifically on the west side of Rockford, which is an HRSA designated low-income HPSA." [Application for Permit page 114]

B) Criterion 1110.110 (c) - Safety Net Impact Statement

To demonstrate compliance with this criterion the Applicants must document that the project will provide health services that improve the health care or well-being of the market area population to be served.

Information regarding the Safety Net Impact Statement was not required as this is a non-substantive application. The Applicants did provide Charity Care information in Table Two.

TABLE TWO [1] SAFETY NET INFORMATION DaVita Inc. of Illinois			
	2016	**2017**	**2018**
Net Revenue	**$353,226,322**	**$357,821,315**	**$394,665,458**
CHARITY			
Amount of Charity Care (charges)	$2,400,299	$2,818,603	$2,711,788
Charity (self-pay) Cost	$2,400,299	$2,818,603	$2,711,788
% of Charity Care to Net Rev.	.67%	.78%	.68%

1. *Source: Page 216 of the Application for Permit.*
2. Charity Care is defined by the State Board as *care provided by a health care facility for which the provider does not expect to receive payment from the patient or a third party payer*. [20 ILCS 3960/3]. As a for profit entity DaVita, Inc does not provide charity care the numbers reported are for self-pay patients.

C) Criterion 1110.110 (d) - Alternatives to the Project

To demonstrate compliance with this criterion the Applicants must document all alternatives to the proposed project that were considered.

The applicants considered two alternatives:

1) **Do Nothing/Maintain Status Quo**
The applicants rejected this alternative, as it would do nothing to address the current need for six additional ESRD stations in the planning area. There were no costs identified with this alternative.

2) **Project as Proposed/Expand Forest City Dialysis**
The applicants deemed this alternative as most acceptable, due to the immediate need for additional stations in HSA-01, and the west side of Rockford. The option of adding four stations to the existing twelve-station Forest City dialysis facility was seen as most effective way to serve an area deemed as underserved. Cost of this alternative: $1,001,365.

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

A) Criterion 1110.120 (a) - Size of Project

To demonstrate compliance with this criterion the Applicants must document that the proposed size of the project is in compliance with Part 1110 Appendix B.

The Applicants are proposing to add 4 ESRD stations resulting in a 16-ESRD station facility, in 6,700 BGSF of clinical space. This addition equates to approximately 418.75 BGSF per station. The State Board standard is 450-650 GSF per station or 10,400 BGSF. The Applicants have successfully addressed this criterion. (See Application for Permit page 126)

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION SIZE OF PROJECT (77 ILAC 1110.120 (a))

B) Criterion 1110.120 (b) – Projected Utilization

To demonstrate compliance with this criterion the Applicants must document that the proposed project will be at the target occupancy of 80% within two years after project completion.

Per the Applicants there are 38 existing ESRD patients, and 118 Stage 4/5 pre-ESRD patients under the care of Dr. Murdakes and Rockford Nephrology Associates. Taking patient attrition into account, the applicants predict to be serving 73 of these patients by the second year after project completion, resulting in an operational capacity of 77%.

76 patients x 156 treatments = 11,856 treatments
16 stations x 936 treatments = 14,976 treatments
80%

In addition, the applicants note the need to identify those patients not receiving nephrology care that "crash" into dialysis presenting in a hospital emergency department with acute kidney failure as additional patients who would eventually require services at the Forest City facility, resulting in increased operational capacity.

As of December 31, 2019 – most recent data available, DaVita Forest City facility had 23 patients dialyzing in 12 stations, resulting in a utilization of approximately 37% for the ESRD facility. To obtain target occupancy within two years of January 2021(stated completion date-or January 2023) the Applicants would need to increase the number of patients by 53 patients by January 2023. This is an increase of approximately 50% annually in the number of patients at this facility. This does not appear to be reasonable given the historical growth (approximately 4%) in this Planning Area. The State Board Staff is unable to make a positive finding on this criterion.

Year	2020	2021	2022	2023
50%	23	35	53	79.5
Stations	5	8	11	17

STATE BOARD STAFF FINDS THE PROPOSED PROJECT <u>NOT</u> IN CONFORMANCE WITH CRITERION PROJECTED UTILIZATION (77 ILAC 1110.120 (b))

C) Criterion 1110.120 (e) – Assurances

To demonstrate compliance with this criterion the Applicants must document that the proposed facility will be at target occupancy two years after project completion.

The Applicants provided the necessary assurance that they will be at target occupancy within two years after project completion. However, it appears to be unreasonable to increase utilization at the facility by over 200% by January 2023. (See Application for Permit page 146)

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION ASSURANCES (77 ILAC 1110.120(e))

VIII. In-Center Hemo-dialysis Projects

A) Criterion 1110.230 (b)(2) & (4) - Planning Area Need
The Applicants must document the following:

2) Service to Planning Area Residents
To demonstrate compliance with this sub-criterion the Applicants must document that the proposed dialysis facility will provide service to the residents of the proposed ESRD Planning Area.

All 23 of the current patients dialyzing at the facility reside in the immediate planning area, which is considered to be a low-income health care shortage area, with a growing population of residents aged 65 years or older. The Applicants also note that all the 118 pre-ESRD patients reside within this Planning Area.

4) Service Demand – Expansion of In-Center Hemodialysis Service
To demonstrate compliance with this sub-criterion the Applicants must document that the number of stations to be added for each category of service is necessary to reduce the facility's experienced high utilization and to meet a projected demand for service.

Historical Utilization

Over the past 24-months, the facilities had operational capacities outlined in Table Three. Current operational capacities for these facilities are also included in Table Three.

TABLE THREE
Historical Utilization
DaVita Forest City Dialysis

	Forest City Dialysis
January 2018	3/4.17%
March 2018	16/22.2%
June 2018	20/27%
September 2018	26/36.1%
December 2018	23/31.9%
March 2019	22/30.5%
June 2019	29/40.2%
September 2019	30/41.67%
December 2019	23/37%
Average Patients/Utilization	**22/23%**

Projected Referrals

The Applicants provided a referral letter from Dr. Charlene Murdakes, M.D. of Rockford Nephrology Associates, and Medical Director of the DaVita Forest City dialysis facility. In her referral letter, Dr. Murdakes identified 30 ESRD patients currently receiving dialysis, and an additional 73 pre-ESRD patient expected to present for dialysis services at DaVita Forest City upon project completion. It is estimated that these 103 patients will result in an operational capacity of 107% after project completion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PLANNING AREA NEED (77 ILAC 1110.230 (b)(2) and (4))

B) Criterion 1110.230 (e) - Staffing

C) Criterion 1110.230(f) - Support Services

The 12-station facility is certified by Medicare/Medicaid and if approved the 4-station addition will be certified as well. Dr. Charlene Murdakes, M.D, is the Medical Director. Support services including nutritional counseling, psychiatric/social services, and clinical laboratory services will be provided at the proposed facility, while home therapies/home training will be provided at DaVita Forest City Dialysis. The following services will be provided via referral to Javon Bea Hospital-Rockford, blood bank services, rehabilitation services and psychiatric services.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERIA STAFFING, SUPPORT SERVICES, ASSURANCES (77 ILAC 1110.230 (e), (f))

D) Criterion 1110.230 (j) – Assurances

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 Page 146)

As of December 31, 2019 – most recent data available, DaVita Forest City facility had 23 patients dialyzing in 12 stations, resulting in a utilization rate at approximately 37% for the ESRD facility. To obtain target occupancy within two years of January 2021. The Applicants would need to increase the number of patients by 53 patients an increase of over 200% by January 2023. This appears to be unreasonable. The State Board Staff is unable to make a positive finding on this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT <u>NOT</u> IN CONFORMANCE WITH CRITERION ASSURANCES (77 ILAC 1110.230 (j))

IX. FINANCIAL VIABILITY

A) Criterion 1120.120 – Availability of Funds

B) Criterion 1120.130 – Financial Viability

To demonstrate compliance with these two criteria the Applicants must document if the resources are available to fund the proposed project.

The Applicants are funding this project with cash and securities in the amount of $100,355 and the fair market value of leased space totaling $901,010. A review of the 2015/2016/2017/2018 audited financial statements indicates there is enough cash to fund the project. Leased Space is an operating lease and not a capital lease and is paid over the term of the lease from cash generated by operation of the facility. Because the project will be funded with cash no viability ratios need to be provided because the Applicants have qualified for the financial viability waiver.

TABLE FOUR
DaVita Audited Financial Statements
Ending December 31st
(in thousands (000))

	2018	2017	2016	2015
Cash	$323,038	$508,234	$674,776	$1,499,116
Current Assets	$8,424,159	$8,744,358	$3,994,748	$4,503,280
Total Assets	$19,110,252	$18,948,193	$18,755,776	$18,514,875
Current Liabilities	$4,891,161	$3,041,177	$2,710,964	$2,399,138
LTD	$8,172,847	$9,158,018	$8,944,676	$9,001,308
Patient Service Revenue	$10,709,981	$9,608,272	$9,269,052	$9,480,279
Total Net Revenues	$11,404,851	$10,876,634	$10,707,467	$13,781,837
Total Operating Expenses	$9,879,027	$9,063,879	$8,677,757	$12,611,142
Operating Income	$1,525,824	$1,812,755	$2,029,710	$1,170,695
Net Income	$333,040	$830,555	$1,033,082	$427,440

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERIA AVAILABILITY OF FUNDS FINANCIAL VIABILITY (77 ILAC 1110.140(a) & (b))

X. ECONOMIC FEASIBILITY

A) Criterion 1120.140(a) – Reasonableness of Financing Arrangements

B) Criterion 1120.140(b) – Terms of Debt Financing

To demonstrate compliance with these criteria the Applicants must attest that a lease is less costly and that the terms of the lease are reasonable.

The applicant is paying for the project with cash on hand, and not borrowing any funds for the project. However, per the Board's rules the entering of a lease is treated as borrowing. As such, we are attesting 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. [Application for Permit page 209]

Based upon the information provided in the Application for Permit; the Applicants have met the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERIA REASONABLENESS OF FINANCING TERMS OF DEBT FINANCING (77 ILAC 1110.140(a) & (b))

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

To demonstrate compliance with this criterion the Applicant must document that the costs are reasonable.

Modernization Costs - are $4,340 or $0.65 per GSF. This is in compliance with the State Board Standard of $206.74 (2020 mid-point). [$4,340÷6,700 GSF for modernization = $0.65 per GSF]

Contingencies Costs are $650 or 14.9% of modernization costs. This appears reasonable when compared to the State Board Standard of 10%-15%.

Consulting and Other Fees – These costs are $17,000. The State Board does not have a standard for this criterion.

Movable Equipment - is $78,365 for four additional stations. This is in compliance with the State Board Standard of $56,952 per station.

Fair Market Value of Leased Space is $901,010. The State Board does not have a standard for this criterion.

D) Criterion 1120.140(d) - Direct Operating Costs

To demonstrate compliance with this criterion the Applicants must provide the direct operating cost for the first year when the Applicants reach target occupancy but no more than two years after project completion.

The Applicants are estimating $33.59 per treatment in direct operating costs. The State Board does not have a standard for these costs.

Estimated Personnel Expense:	$251,012
Estimated Benefits Expense:	$119,654
Estimated Other Supplies (Exc. Dep/Amort):	$169,009
Total	$539,675
Estimated Annual Treatments:	16,068
Cost Per Treatment:	**$33.59**

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

The Applicants are estimating $0.74 in capital costs. The State Board does not have a standard for these costs.

Depreciation	$11,836
Amortization	$36
Total Capital Costs:	$11,872
Treatments:	16,068
Capital Cost per Treatment	**$0.74**

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