



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-02	BOARD MEETING: December 15, 2020	PROJECT NO: 20-027	PROJECT COST: Original: \$1,668,277
FACILITY NAME: Dialysis Care Center Western		CITY: Chicago	
TYPE OF PROJECT: Substantive			HSA: VI

PROJECT DESCRIPTION: The Applicants (Dialysis Care Center Holdings, LLC, Dialysis Care Center Western, LLC, and Meridian Investment Partners, LLC) propose to establish a 12-station ESRD facility in Chicago, Illinois. The cost of the project is \$1,668,277 and the expected completion date is December 30, 2022.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION

- The Applicants (Dialysis Care Center Holdings, LLC, Dialysis Care Center Western, LLC, and Meridian Investment Partners, LLC) propose to establish a 12-station ESRD facility in Chicago, Illinois. The cost of the project is \$1,668,277 and the expected completion date is December 30, 2022.
- Dialysis Care Center Holdings, LLC owns the following ESRD facilities in Illinois:

Facility	City
Dialysis Care Center Rockford	Rockford
Dialysis Care Center Beverly	Beverly
Dialysis Care Center of Oak Lawn	Oak Lawn
Dialysis Care Center of Olympia Fields	Olympia Fields
Dialysis Care Center Hazel Crest	Hazel Crest
Dialysis Care Center Evergreen Park	Evergreen Park
Dialysis Care Center Elgin	Elgin
Dialysis Care Center McHenry	McHenry

PURPOSE OF THE PROJECT

- The purpose of this project is to address the calculated need for 52 stations in the HSA VI ESRD Planning Area.

SUMMARY

- There is a calculated need for 52 ESRD stations in the HSA IV ESRD Planning Area by 2022. HSA VI consists of the City of Chicago. There has been a 3.10% historical annual growth in the number of ESRD patients in this planning area. The geographical service area (GSA) for a project located in the City of Chicago is 5 miles. There are 21 ESRD facilities with 391-stations within the 5-Mile GSA with an average occupancy of approximately 54%. Three (3) of the existing 21 facilities are at target occupancy in this - five-mile GSA. There is one station per every 1,734 residents in this 5-mile GSA. There is a surplus of stations in this 5-mile GSA and based upon the current utilization (November 2020) there is currently 120 excess stations at the 80% target occupancy within this 5-mile GSA.
- In a letter dated September 29, 2020 the State Board Staff extended the review period to allow the Applicants additional time to provide the information required by the State Board.
- The Applicants have not provided the following:
 - The Addition of Meridian Investment Partners, LLC as a co-applicant.
 - A signed letter of intent to lease the property.
 - Number of ESRD facilities within the 5-mile GSA.
 - The Population within the 5-mile GSA.
 - A signed and notarized referral letter.
 - A signed transfer agreement with a Hospital as required.
 - Medicaid and Charity Care Information as required.

- Audited financial statements as required.
- Financial ratio information as required.

Criterion	Non-Compliance
77 ILAC 1110.120 (b) - Project Utilization	Without a sign and notarized referral letter the Board Staff could not determine if the Applicants will be at the 80% target occupancy.
77 ILAC 11120.120 (e) - Assurance	Without a sign and notarized referral letter the Board Staff could not determine if the Applicants will meet be at target occupancy of 80% two years after project completion.
77 ILAC 1110.230 (b) – Planning Area Need	Without a sign and notarized referral letter the Board Staff could not determine if the Applicants will be providing service to area residents as required.
77 ILAC 1110.230 (c) Unnecessary Duplication/Maldistribution	The Applicants did not provide the population within the 5-mile GSA or the name of the facilities within the 5-mile GSA.
77 ILAC 1110.230 (h) – Continuity of Care	A signed Hospital transfer agreement was not provided as required.
77 ILAC 1110.230 (i) - Assurances	Without a sign and notarized referral letter the Board Staff could not determine if the Applicants will meet be at target occupancy of 80% two years after project completion.
77 ILAC 1120.120 – Availability of Funds	The Applicants did not provide audited financial statements as required.
77 ILAC 1120.130 – Financial Viability	Financial ratios were not provided as required.

STATE BOARD STAFF REPORT
Project #20-027
Dialysis Care Center Western

APPLICATION/CHRONOLOGY/SUMMARY	
Applicants	Dialysis Care Center Holdings, LLC, Dialysis Care Center Western, LLC, and Meridian Investment Partners, LLC
Facility Name	Dialysis Care Center Western, LLC
Location	7733 S Western Ave, Chicago, Illinois
Permit Holder	Dialysis Care Center Holdings, LLC, Dialysis Care Center Western, LLC, and Meridian Investment Partners, LLC
Operating Entity	Dialysis Care Center Western, LLC
Owner of Site	Meridian Investments Partners, LLC
Total GSF	4,900 GSF
Application Received	June 24, 2020
Application Deemed Complete	June 24, 2020
Review Period Extended by the State Board Staff?	Yes
Review Period Ends	October 22, 2020
Financial Commitment Date	December 31, 2022
Project Completion Date	December 31, 2022
Can the Applicants request a deferral?	No
Expedited Review?	No

I. Project Description

The Applicants (Dialysis Care Center Holdings, LLC, Dialysis Care Center Western, LLC, and Meridian Investment Partners, LLC) propose to establish a 12-station ESRD facility in Chicago, Illinois. The cost of the project is \$1,668,277 and the expected completion date is December 30, 2022.

II. Summary of Findings

- A. State Board Staff finds the proposed project is **not** in conformance with the provisions of 77 ILAC 1110 (Part 1110).
- B. State Board Staff finds the proposed project is **not** in conformance with the provisions of 77 ILAC 1120 (Part 1120).

III. General Information

The Applicants are Dialysis Care Center Holdings, LLC, Dialysis Care Center Frankfort, LLC, and Meridian Investment Partners, LLC. Dialysis Care Center Holdings, LLC, Dialysis Care Center Frankfort, LLC, and Meridian Investment Partners, LLC are owned equally by Morufu Alausa M.D. (50%) and Sameer M. Shafi M.D (50%). Financial commitment will occur after permit approval.

IV. Health Planning Area

The proposed facility will be in the HSA VI ESRD Planning Area. The HSA VI ESRD Planning Area includes the City of Chicago. There has been increase in ESRD patients of approximately of 3.10% annually since 2008 to 2018.

V. Project Uses and Sources of Funds

The Applicants are funding this project with cash in the amount of \$1,132,625 and the Fair Market Value of a Lease of \$535,652. The lease is with a related party that is a co-applicant on this Application for Permit.

TABLE ONE		
Project Uses and Sources of Funds		
Project Uses of Funds	Total	% of Total
New Construction Contracts	\$612,500	36.71%
Contingencies	\$55,125	3.30%
Architectural/Engineering Fees	\$45,000	2.70%
Moveable and Other Equipment		
Communications	\$11,000	
Water Treatment	\$160,000	
Clinical Furniture	\$18,000	
Bio-Medical Equipment	\$13,500	
Clinical Equipment	\$165,500	
Office Furniture	\$23,000	
Office Equipment	\$29,000	
Total Moveable and Other Equipment	\$420,000	25.18%
Fair Market Value of Leased Space	\$535,652	32.11%
Total Project Cost	\$1,668,277	100.00%
Cash	\$1,132,625	67.89%
Fair Market Value of Leased Space	\$535,652	32.11%
Total Project Sources	\$1,668,277	100.00%

V. Criterion 1110.110 (a) - Background of the Applicants

The Applicants have attested that there has been no adverse action¹ taken against any of the facilities owned or operated by the Applicants and 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. Certificates of Good Standing have been provided for the three Applicants as required.

VI. Purpose, Safety Net Impact Statement, Alternatives

A) Criterion 1110.110 (b) – Purpose of the Project

B) Criterion 1110.110 (c) – Safety Net Impact

C) Criterion 1110.110 (d) – Alternatives to the Proposed Project

A) The purpose of the project is to address the calculated need for 52 ESRD stations in the City of Chicago (HSA VI ESRD Planning Area).

B) The Applicants stated the following: *“The establishment of Dialysis Care Center Western will not have any impact on safety net services in the Western service area. Outpatient dialysis facilities services are not typically considered or viewed as safety net services. As a result, the presence of Dialysis Care Center Western as a provider is not expected to alter the way any other healthcare providers function in the community. Dialysis Care Center Western has no reason to believe that this project would have any adverse impact on any provider or health care system to cross-subsidize safety net services. Dialysis Care Center Western will be committed to providing ESRD services to all patients with or without insurance or patients to no regards for source of payment. Dialysis Care Center Western will not refuse any patients. Medicaid patients wishing to be served at Dialysis Care Center Western will not be denied services. Because of the Medicare guidelines for qualification for ESRD, a few patients' with ESRD are left uninsured for their care.”* (See Application for Permit page 188-189)

C) The Applicants considered **three alternatives** to the proposed project. The **do nothing** alternative was rejected because it would not address the calculated need for 52-stations in HSA VI ESRD Planning Area by 2022. **Pursuing a project of greater or lesser scope** was rejected because the proposed facility that has been identified for Dialysis Care Center Western is a shell ready facility. According to the Applicants, by using this site the costs associated with this project are significantly lower compared to other ESRD projects brought to the board. This cost-effective method will ensure the need for the

¹ 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)

additional stations are met with a reduced cost for the facility. The **joint venture option** was rejected because a joint venture does not provide the physicians with the independence to make quality clinical decisions and does not maximize patient care. According to the Applicants the proposed facility will be 100% owned and operated by physicians. The Medical Director and the physician partners identified in the Application for Permit that will refer their ESRD patients to Dialysis Care Center Frankfort have no current options where they can refer their patients in which they have the independence they need to make quality clinical decisions and can focus on maximizing patient care.

VII. Project Size, Projected Utilization, Assurances

- A. Criterion 1110.120 (a) – Project Size**
 - B. Criterion 1110.120 (b) – Projected Utilization**
 - C. Criterion 1110.120 (e) – Assurances**
- A) The proposed 12-station facility will be approximately 4,900 GSF of space. The State Board standard is 470 GSF per station or 5,640 GSF of space. The Applicants have successfully addressed this requirement.
 - B) The Applicants did not provide a revised physician letter that was signed and notarized that documents the number of pre-ESRD patients that will be utilizing the proposed facility within two years after project completion.
 - C) The Applicants provided assurance that the project will be at target occupancy within two years after project completion. However, without a revised referral letter the assurance was not accepted.

IX. In-Center Hemodialysis Projects

- 1) Criterion 1110.230 (b) (1) - Planning Area Need
- 2) Criterion 1110.230 (b) (2)- Service to Planning Area Residents
- 3) Criterion 1110.230 (b) (3) - Service Demand – Establishment of In-Center Hemodialysis Service
- 5) Criterion 1110.230 (b) (5) - Service Accessibility

There is a **calculated need for 52 ESRD stations** in the HSA VI ESRD Planning Area. Dr. Tauseff Sargurch is estimating that 111 patients will utilize the proposed facility within two years after project completion. The Applicants did not provide a revised physician letter as requested. The Board Staff could not determine if the proposed patients will be coming from the planning area nor could Board Staff determine if there was enough demand to justify the number of stations being requested. Without the appropriate referral letter to determine the demand service accessibility can be accommodated with the existing facilities.

Requirements for Referral Letters

- i) The physician's total number of patients (by facility and zip code of residence) who have received care at existing facilities located in the area, as reported to The Renal

Network at the end of the year for the most recent 3 years and the end of the most recent quarter;

- ii) The number of new patients (by facility and zip code of residence) located in the area, as reported to The Renal Network, that the physician referred for in-center hemodialysis for the most recent year;
- iii) An estimated number of patients (transfers from existing facilities and pre-ESRD, as well as respective zip codes of residence) that the physician will refer annually to the applicant's facility within a 24-month period after project completion, based upon the physician's practice experience. The anticipated number of referrals cannot exceed the physician's documented historical caseload;
- iv) An estimated number of existing patients who are not expected to continue requiring in-center hemodialysis services due to a change in health status (e.g., the patients received kidney transplants or expired);
- v) The physician's notarized signature, the typed or printed name of the physician, the physician's office address and the physician's specialty;
- vi) Verification by the physician that the patient referrals have not been used to support another pending or approved CON application for the subject services; and

TABLE TWO					
Facilities within 5-mile GSA					
ESRD Name	City	Stations	Patients	Utilization	Star Rating?
DaVita Auburn Park Dialysis	Chicago	12	0	0.00%	NA
DaVita Beverly	Chicago	16	75	78.13%	3
Fresenius Kidney Care Southside	Chicago	39	167	71.37%	3
Fresenius Kidney Care Marquette Park	Chicago	16	80	83.33%	3
DaVita West Lawn Dialysis	Chicago	12	53	73.61%	3
Fresenius Kidney Care Greenwood	Chicago	28	110	65.48%	3
Fresenius Kidney Care Evergreen Park	Evergreen Park	30	99	55.00%	3
US Renal Care Scottsdale	Chicago	36	100	46.30%	2
Dialysis Care Center Evergreen Park	Evergreen Park	14	1	1.19%	NA
Fresenius Kidney Care Chatham	Chicago	16	85	88.54%	3
Fresenius Kidney Care Ross-Englewood	Chicago	24	67	46.53%	3
Ford City Dialysis	Chicago	12	21	29.17%	NA
Dialysis Care Center Beverly	Chicago	14	29	34.52%	2
Dialysis Care Center of Oak Lawn	Oak Lawn	11	69	104.55%	1
Fresenius Kidney Care Burbank	Burbank	26	109	69.87%	3
Fresenius Kidney Care Beverly	Chicago	16	29	30.21%	4
Fresenius Kidney Care New City	Chicago	16	51	53.13%	3
US Renal Care West Chicago	Chicago	13	49	62.82%	2
Brighton Park Dialysis	Chicago	16	32	33.33%	NA

TABLE TWO Facilities within 5-mile GSA					
ESRD Name	City	Stations	Patients	Utilization	Star Rating?
DaVita Oak Meadows Dialysis	Oak Lawn	12	8	11.11%	NA
Grand Crossing Dialysis	Chicago	12	66	91.67%	3
Total Stations/Number of Patients/Average Occupancy		391	1300	53.80%	

B) Unnecessary Duplication/Maldistribution

There are 21 ESRD facilities within the 5-mile GSA with 391 stations with an average occupancy of approximately 54%. Three of the facilities within the 5-mile GSA are at the target occupancy of 80%.

The ratio of stations to population in the 5-mile GSA is one station for every 1,734 residents. The State of Illinois ratio is one station for every 2,545 residents. To have a surplus of stations in this 5-mile GSA the ratio is 1.5 times the State of Illinois ratio. There is a surplus of stations in this 10-mile GSA. Currently there is an excess of 120 stations in this 5-mile GSA at the 80% target occupancy. Based upon a 3.10% growth in the number of ESRD patients in HSA VI the 12-stations would not be needed until 2032 in the 5-mile GSA.

TABLE THREE Estimate of the Number of Dialysis Patients and Stations Needed in the 5-mile GSA,						
Year	2020	2021	2022	2023	2024	2025
Patients	1,300	1,340	1,382	1,425	1,469	1,514
Stations	271	279	288	297	306	315
Year	2026	2027	2028	2029	2030	2031
Patients	1,561	1,610	1,660	1,711	1,764	1,819
Stations	325	335	346	356	368	379

C) Criterion 1110.230 (e) - Staffing

The Applicants provided the following narrative: Dialysis Care Center Frankfort will be staffed in accordance with all state and Medicare staffing guidelines and requirements. Dr. Tauseef Sarguroh M.D. will serve as the Medical Director for Dialysis Care Center Frankfort. Upon opening, the facility will hire a Clinic Manager who is a Registered Nurse (RN), this nurse will have at least a minimum of twelve months experience in a hemodialysis center. Additionally, the Applicants will hire one Patient Care Technician (PCT). After more than one patient begins dialysis, the Applicants will hire another RN and another PCT. All personnel will undergo an orientation process, led by the Medical Director and experienced members of the nursing staff prior to participating in any patient care activities.

- Upon opening we will also employ:
- Part-Time Registered Dietician
- Part-Time Registered Master Level Social Worker (MSW)
- Part-Time Equipment Technician
- Part-Time Secretary

These positions will go full time as the clinic census increases. Additionally, the patient care staff will increase to the following:

- One Clinic Manager - Registered Nurse
- Four Registered Nurses
- Ten Patient Care Technicians

The facility will be certified by Medicare. The Survey and Certification Program certifies ESRD facilities for inclusion in the Medicare Program by validating that the care and services of each facility meet specified safety and quality standards, called "Conditions for Coverage." The Survey and Certification Program provides initial certification of each dialysis facility and ongoing monitoring to ensure that these facilities continue to meet these basic requirements (*source: medicare.gov*). The Applicants have met the requirements of this criterion.

D) Criterion 1110.230(f) - Support Services

The Applicants provided a signed attestation documenting the ancillary and support services including utilizing a dialysis electronic patient data tracking system, nutritional counseling, clinical laboratory services, blood bank, rehabilitation, psychiatric services, and social services training for self-care dialysis, self-care instruction, and home hemodialysis and peritoneal dialysis.

E) Criterion 1110.230 (g) - Minimum Number of Stations

The Applicants are proposing 12 stations. One of the stations will be an isolation station. The proposed facility will be in the Metropolitan Statistical Area. The Chicago-Naperville-Evanston, IL Metropolitan Statistical Area as defined by the United States Census Bureau, is an area consisting of six counties (Cook, DuPage, Will, McHenry, Grundy, and Lake counties). The Applicants have successfully addressed this criterion.

F) Criterion 1120.230 (h) - Continuity of Care

The Applicants did not provide a signed affiliation agreement with a hospital as required. The Applicants have not met the requirements of this criterion.

G) Criterion 1110.230 (i) – Assurances

The Applicants have provided the necessary attestation at page 133 of the Application for Permit. The Applicants have met the requirements of this criterion.

XI. Financial Viability

A) Criterion 1120.120 – Availability of Funds

The Applicants are funding this project with cash in the amount of \$1,132,625 and the fair market value of a lease in the amount of \$535,652. The Applicants provided their 2018 Audited Financial Statements as well as their **2019 Accountant's Review Report**². State Board rules require an audit and not an Accountant's Review Report. A positive recommendation could not be made.

B) Criterion 1120.130 - Financial Viability

The Applicants are funding this project with cash in the amount of \$1,132,625 and the fair market value of a lease (FMV) of \$535,652. Without an audit report the Board Staff was not able to make a positive recommendation on this criterion.

XII. Economic Feasibility

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

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

The Applicants are funding this project with cash in the amount of \$1,132,625 and the fair market value of a lease in the amount of \$535,652. The operating lease (NNN)³ is for 10-years at a base rent of \$16.50/psf⁴ for the first year and a 2.5% increase annually.

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

To demonstrate compliance with this criterion the Applicants must document that the project costs are reasonable by the meeting the State Board Standards in Part 1120 Appendix A.

² There are several key differences between an audit, a review, and compilation. Essentially, a compilation requires the auditor to simply present financial statements based on the representations made by management, with no effort to verify this information. In a review engagement, the auditor conducts analytical procedures and makes inquiries to ascertain whether the information contained within the financial statements is correct. The result is a **limited level of assurance** that the financial statements being presented do not require any material modifications. In an audit engagement, the auditor must corroborate the ending balances in the client's accounts and disclosures. This calls for the examination of source documents, third party confirmations, physical inspections, tests of internal controls, and other procedures as needed. Thus, the differences between an audit, a review, and a compilation are as follows:

Level of assurance. The level of assurance that the financial statements of a client are fairly presented is at its highest for an audit and at its lowest (none) for a compilation, with a review somewhere in between.

Reliance on management. In all three cases, the auditor begins with the account balances provided by management, but an audit requires in a significant amount of corroboration of this information. A review requires some testing of the information, while a compilation almost entirely relies on the presented information.

Understanding of internal control. The auditor only tests the internal controls of the client in an audit; no testing is conducted for a review or a compilation.

Work performed. An audit requires a significant number of hours to complete, since there are many audit procedures to be performed. A review requires substantially fewer hours, while the effort associated with a compilation is relatively minor.

Price. It requires vastly more effort for an auditor to complete an audit, so audits are much more expensive than a review, which in turn is more expensive than a compilation.

Another issue is the level of demand for each of these services. The users of financial statements, such as investors and lenders, nearly always demand an audit, since it provides the greatest assurance that what they are reading is a fair representation of the financial results, financial position, and cash flows of the reporting entity. (Source: cpajournal.com)

³ A triple net lease is a lease agreement that designates the lessee, which is the tenant, as being solely responsible for all the costs relating to the asset being leased, in addition to the rent fee applied under the lease. The structure of this type of lease requires the lessee to pay the net amount for three types of costs, including net real estate taxes on the leased asset, net building insurance and net common area maintenance. The lease is an operating lease and the lease expense is paid over the life of the lease and not depreciated.

⁴ Price per square foot

Only Clinical Costs are reviewed in this criterion. As shown below, the Applicants have met all the State Board Standards published in Part 1120, Appendix A. The Applicants are proposing 4,900 GSF of clinical space. *"Modernization" means modification of an existing health care facility by means of building, alteration, reconstruction, remodeling, replacement and/or expansion, the erection of new buildings, or the acquisition, alteration or replacement of equipment. Modification does not include a substantial change in either the bed count or scope of the facility (See 77 ILAC 1100.220).*

New Construction and Contingency Costs total \$667,625 or \$136.25 per GSF. This appears reasonable when compared to the State Board Standard of \$212.94 per GSF or \$667,625 (4,900 GSF x \$212.94 = \$1,043,406).

TABLE FOUR
New Construction and Contingency Costs ⁽³⁾

Year	2015	2016	2017	2018	2019	2020	2021 ⁽¹⁾	2022
Cost per GSF	\$178.33 ⁽²⁾	\$183.68	\$189.19	\$194.87	\$200.71	\$206.73	\$212.94	\$219.32

1. Midpoint of the construction
2. 2015 is based year costs and inflated by 3% per year.
3. See Part 1120 Appendix A Modernization and Contingency Costs ESRD

Contingency Costs are \$55,125 or 9% of new construction costs. This appears reasonable when compared to the State Board Standard of 10% of new construction costs or \$61,250.

Architectural/Engineering Fees are \$45,000 or 6.74% of new construction and contingency costs of \$667,625. This is reasonable when compared to the State Board Standard of 7.36-11.06% or \$73,839.

Movable or Other Equipment Costs not in Construction Contracts are \$420,000 or \$35,000 per station (\$420,000 ÷ 12 stations). This appears reasonable when compared to the State Board standard of \$56,952 or \$683,424 (\$56,952 x 12 stations = \$683,424).

TABLE FIVE
Movable or Other Equipment Costs ⁽³⁾

Year	2008	2016	2017	2018	2019	2020	2021
Cost per Station	\$39,945 ⁽¹⁾	\$49,127	\$50,601	\$52,119	\$53,683	\$55,293	\$56,952

1. 2008 is base year inflated by 3% per year to midpoint of construction.
2. 2020 midpoint of construction
3. See Part 1120 Appendix A – Movable or Other Equipment not in Construction Contracts

Fair Market Value of Leased Space of \$535,652. The State Board does not have a standard for this cost.

D) Criterion 1120.140(d) – Projected Operating Costs

The Applicants are projecting \$260.40 operating expense per treatment. The Applicants have addressed this criterion.

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

The Applicants are projecting capital costs of \$11.22 per treatment. The Applicants have addressed this criterion.

#20-027 - DCC Western Dialysis

