

April 7, 2017

Via Federal Express

Ms. Kathryn J. Olson
Chair
Illinois Health Facilities and Services Review
Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

RECEIVED

APR 11 2017

HEALTH FACILITIES &
SERVICES REVIEW BOARD

Re: Dialysis Care Center McHenry (Proj. No. 16-058)

Dear Ms. Olson:

I am a Vice President with DaVita Inc. ("DaVita"), and I oppose the above-referenced project, a 14-station dialysis facility to be located in McHenry, Illinois. As discussed in greater detail below, there is no need for a 14-station dialysis facility in McHenry, and approval of the proposed facility will result in unnecessary duplication and maldistribution of dialysis services within HSA 8. Furthermore, only 3 of 15 existing dialysis facilities within 30 minutes of the proposed Dialysis Care Center McHenry are operating above the Illinois Health Facilities and Services Review Board ("State Board") utilization standard. In fact, the two existing McHenry facilities are only operating at 43% utilization. Finally, the applicants have not provided evidence that they can generate sufficient referrals to meet the State Board's standard by the second year of the proposed facility's operation. Accordingly, approval of a third dialysis facility in McHenry is unwarranted and will result in yet another underutilized facility. For these reasons, DaVita respectfully requests the State Board deny Dialysis Care Center McHenry's application for a 14 station dialysis facility.

1. Need for the Proposed Dialysis Facility/Unnecessary Duplication of Services

There is no need for the proposed dialysis facility, and it will create unnecessary duplication of services in the McHenry service area. Based upon the applicants own drive time analysis, there are presently 16 approved or operational dialysis facilities within 30 minutes of the proposed Dialysis Care Center McHenry. Average utilization of these 16 facilities, is only 61%, significantly below the State Board's 80% utilization standard. See Attachment – 1. Excluding Huntley Dialysis, which is projected to come online during the first quarter of 2018, average utilization only increases to 65%. Moreover, only three facilities are currently operating

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above the State Board's 80% utilization standard, and five of the operational facilities (or 33%) are operating below 50% utilization. Finally, the two existing McHenry Facilities (FMC McHenry and ARA McHenry County) are operating at 43% utilization. Accordingly, there is no need for a third facility in McHenry, and the establishment of Dialysis Care Center McHenry will result in unnecessary duplication of services.

2. Physician Referral Letters

The applicants submitted three referral letters with their application; however, the letters are deficient in several respects. First, the applicants conservatively anticipate 77 patients will be referred to the proposed Dialysis Care Center McHenry within the first two years of operation; however, historical referrals do not support the projections. See Application p 65. Importantly, the three referring physicians collectively referred only 31 patients for dialysis in 2016. See Application pp 71, 80, 83. Assuming historical referral patterns continue, the referring physicians' project to refer only 62 new patients for dialysis within the first two years of operation, which amounts to 74% utilization, below the 80% State Board standard.

The inability to reach the State Board's 80% utilization standard by the second year of operation is further bolstered by the referring physicians' current case load. Collectively, the three referring physicians treat 35 dialysis patients. See Application pp 70-71, 80, 83. However, it must be noted, the referring physicians failed to provide their 2016 patient census as required by the State Board's rules. Therefore, 2016 patient census was calculated by adding the 2016 new patient data to 2015 patient census. Importantly, the applicants' projected 77 referrals contravenes the State Board rules, which state, "anticipated number of referrals cannot exceed the physician's documented historical caseload." (77 Ill. Admin 1110.1430(c)(3) (B)(iii)). Based upon current caseload, it is hard to find the three referring physicians will refer a sufficient number of patients to justify the proposed 14 station facility.

Finally, the physician referral letter from Dr. Farhan Bangash, D.O. incorrectly characterizes his chronic kidney disease ("CKD") patient base that will justify the proposed Dialysis Care Center McHenry. In the letter, Dr. Bangash states, "[w]e currently have 110 CKD 4 preESRD patients in my practice, this does not include any patients that are CKD 3, the list is provided for these patients as well but have not been accounted for in [*sic*] any calculation purposes." See Application p 66. Upon inspection of the actual CKD data provided, there are only 37 CKD 4 patients listed. Further, aggregating the three referring physicians' data, they collectively only have 57 CKD 4 patients. While the number of CKD 4 patients is consistent with historical referrals, it does not support the applicants' projected 77 referrals by the second year after operation.

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3. Technical Deficiencies with the Application

a. Fair Market Value of the Leased Space

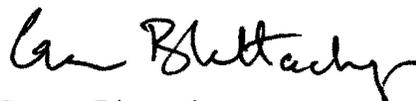
In response to State Board staff's request for additional information regarding the fair market value of the leased space, the applicants state, "The fair market value of the space was calculated using the lease terms and the discount rate of 8% over the term of the lease." See Applicants' Letter p 2. Based upon its lease capitalization, the applicants calculate the fair market value of the leased space at \$147,000. The applicants need to provide more detail on their calculation. Using the base rent of \$12 per gross square foot for a 5,000 square foot facility with an annual escalation factor of 3% over a five year term, we determined the fair market value of this lease is \$253,214.22. See Attachment – 2.

b. Patient Transfer Agreement

All applicants are required to provide "a signed, written affiliation agreement or arrangement is in effect for the provision of inpatient care and other hospital services." (77 Ill. Admin 1110.1430(i)(3) emphasis added). While the applicants provided a transfer agreement, it was signed by neither the applicant nor Centegra Health System. See Application pp 115.

DaVita opposes Dialysis Care Center McHenry's proposed project establish a 14 station dialysis facility in McHenry, Illinois. A new facility in McHenry is not warranted at this time. DaVita respectfully requests the State Board to deny this project

Sincerely,



Gaurav Bhattacharyya
Division Vice President
DaVita, Inc.

Attachments

Attachment – 1

Facility	Address	City	12-31-2016 Stations	12-31-2016 Patients	12-31-2016 Utilization
DaVita Huntley	10350 Haligus Road	Huntley	12	0	0%
DaVita Carpentersville	2203 Randall Road	Carpentersville	13	77	99%
Fresenius Medical Care-Elgin	2130 Point Blvd.	Elgin	20	85	71%
ARA-South Barrington Dialysis	33 W. Higgins Road	S. Barrington	14	52	62%
Barrington Creek	28214 W Northwest Highway	Lake Barrington	12	24	33%
FMC Palatine	605-691 East Dundee Road	Palatine	14	78	93%
DaVita Marengo	910 Greenlee Unit #B	Marengo	10	23	38%
ARA- Crystal Lake Dialysis	6220 Northwest Highway	Crystal Lake	16	29	30%
ARA- McHenry County	4209 West Shamrock Lane	McHenry	12	31	43%
FMC McHenry	4312 W. Elm Street	McHenry	14	36	43%
FMC Round Lake	401 West Nippersink Road	Round Lake	16	74	77%
FMC Antioch	311 Depot Street	Antioch	12	36	50%
FMC Mundelein	1400 Townline Road	Mundelein	14	56	67%
FMC Hoffman Estates	3150 West Higgins Road	Hoffman Estates	20	110	92%
DaVita Crystal Springs	4900 South Route 31	Crystal Lake	14	63	75%
Lake Villa Dialysis	37809 N. Route 59	Lake Villa	12	51	71%
Total			225	825	61%

Attachment – 2

Initial Base Rent \$ 12.00
Escalation 3%
Rentable Square Feet 5,000
Term 5
Discount Rate 8%

Year	Annual Rent	Discount Factor	Present Value of Rent
1	\$60,000	0.9259	\$55,554.00
2	\$61,800	0.8573	\$52,981.14
3	\$63,654	0.7938	\$50,528.55
4	\$65,564	0.7350	\$48,189.26
5	\$67,531	0.6806	\$45,961.28
FMV of Lease			\$253,214.22