STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-01	BOARD MEETING: January 9, 2018	PROJECT NO: 17-029	PROJECT COST: Original: $3,341,748
FACILITY NAME: Melrose Village Dialysis		CITY: Melrose Park	
TYPE OF PROJECT: Substantive			HSA: VII

PROJECT DESCRIPTION: The Applicants (DaVita Inc. and Adiron Dialysis, LLC) propose to establish a 12-station dialysis facility located at 1985 North Mannheim Road, Melrose Park, Illinois. The proposed dialysis facility will include a total of 8,052 gross square feet of space and cost $3,341,748. The anticipated completion date as stated in the application for permit is June 30, 2019.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (DaVita Inc. and Adiron Dialysis, LLC) propose to establish a twelve (12) station dialysis facility located at 1985 North Mannheim Road, Melrose Park, Illinois. The proposed dialysis facility will include a total of 8,052 gross square feet of space and cost $3,341,748. The anticipated completion date as stated in the application for permit is June 30, 2019.

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)

PUBLIC HEARING/COMMENT:

- A public hearing was offered in regard to the proposed project, but none was requested. Letters of support and opposition were received by the State Board Staff. Support and Opposition Comments are provided in Appendix V below.

SUMMARY:

- There is a calculated need for fifty-one (51) ESRD stations in the HSA VII ESRD Planning Area, per the November 2017 ESRD Inventory Update.
- It appears that the Applicants will be providing services to residents of the planning area, and based upon the number of physician referrals there appears to be sufficient demand for the number of stations requested. There are 31 dialysis facilities within 30 minutes of the proposed facility with an average utilization of approximately 61%. Three of the 31 facilities are not operational and one facility is in ramp-up (Fresenius Medical Care Summit) and two (2) facilities did not provide utilization information for the 3rd Quarter of 2017 (Loyola University Dialysis and Nocturnal Dialysis Spa). The remaining 25 facilities are operating at an average occupancy of 74.3 %.
- The Applicants addressed a total of twenty-one (21) criteria and have failed to adequately address the following:

Criteria	Reasons for Non-Compliance
Criterion 77 ILAC 1110.1430 (d) (1) (2) (3) Unnecessary Duplication of Service, Mal-distribution and Impact on Other Facilities	There are 25 facilities within 30 minutes of the proposed facility operating at an average occupancy of 74.3% for the 3rd quarter of the 2017. These 25 facilities can accommodate an additional 175 patients before reaching the State Board's target occupancy of 80%.

STATE BOARD STAFF REPORT
Project #17-029
Melrose Village Dialysis

APPLICATION/CHRONOLOGY/SUMMARY	
Applicants	DaVita Inc. and Adiron Dialysis, LLC D/B/A Melrose Village Dialysis
Facility Name	Melrose Village Dialysis
Location	1985 North Mannheim Road, Melrose Park, Illinois
Permit Holder	Adiron Dialysis, LLC
Operating Entity	Adiron Dialysis, LLC
Owner of Site	V & V, LLC
Total GSF	8,052 GSF
Application Received	July 12, 2017
Application Deemed Complete	July 12, 2017
Review Period Ends	November 9, 2017
Financial Commitment Date	November 14, 2019
Project Completion Date	June 30, 2019
Review Period Extended by the State Board Staff?	Yes
Can the Applicants request a deferral?	Yes
Expedited Review?	No

I. Project Description:

The Applicants (DaVita Inc. and Adiron Dialysis, LLC) propose to establish 12-station dialysis facility located at 1985 North Mannheim Road, Melrose Park, Illinois. The proposed dialysis facility will include a total of 8,052 gross square feet of space and cost $3,341,748. The anticipated completion date as stated in the application for permit is June 30, 2019.

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 in conformance with the provisions of 77 ILAC 1120 (Part 1120).

III. General Information

The Applicants are DaVita Inc. and Adiron Dialysis, LLC D/B/A Melrose Village Dialysis. DaVita Inc, a Fortune 500 company, is the parent company of DaVita Kidney Care and HealthCare Partners, a DaVita Medical Group. DaVita Kidney Care 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 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.

Adiron Dialysis, LLC D/B/A Melrose Village Dialysis is a Delaware Limited Liability Company that has been approved to transact business in Illinois and is in good standing with the State of Illinois. Ownership of Adiron Dialysis, LLC is as follows:

Name	Ownership Interest
DaVita Inc.	51% (Indirect)
Total Renal Care Inc.	51% (Direct)
DuPage Medical Group, Ltd.	25% (Direct)
Primecare Nephrology and Hypertension	14% (Direct)
Dr. Osvaldo Wagener	7% (Indirect)
Dr. Rajani Kosuri	7% (Indirect)
Cocao Associates Inc.	10% (Direct)
Dr. Ogbonnaya Aneziokoro	5% (Indirect)
Dr. Isabella Gurau	5% (Indirect)

Financial commitment will occur after permit issuance. This project is a substantive project subject to a Part 1110 and 1120 review. 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 discontinuation of a service, which 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]

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**
15-020	Calumet City Dialysis	Establishment	1/31/2018
15-025	South Holland Dialysis	Discontinuation/Establishment	4/30/2018
15-048	Park Manor Dialysis	Establishment	2/28/2018
15-049	Huntley Dialysis	Establishment	2/28/2018
15-054	Washington Heights Dialysis	Establishment	3/31/2018
16-009	Collinsville Dialysis	Establishment	11/30/2017
16-015	Forest City Dialysis	Establishment	6/30/2018
16-023	Irving Park Dialysis	Establishment	8/31/2018
16-033	Brighton Park Dialysis	Establishment	10/31/2018
16-037	Fox Point Dialysis	Establishment	7/31/2018
16-040	Jerseyville Dialysis	Establishment	7/31/2018
16-041	Taylorville Dialysis	Expansion	7/31/2018
16-051	Whiteside Dialysis	Relocation	3/31/2018
17-031	Illini Dialysis	Relocation/Expansion	5/31/2019

IV. Project Costs and Sources of Funds

The Applicants are funding this project with cash of $2,478,255 and a lease with a FMV of $863,493. Start-up and operating deficit is projected to be $ 2,738,928.

TABLE TWO Project Costs And Sources Of Funds				
	Reviewable	**Non-Reviewable**	**Total**	**% of Total**
Modernization Contracts	$846,244	$518,184	$1,364,428	40.83%
Contingencies	$125,000	$75,000	$200,000	5.98%
Architectural/Engineering Fees	$97,152	$59,472	$156,624	4.69%
Consulting and Other Fees	$67,977	$32,131	$100,108	3.00%
Movable or Other Equipment (not in construction contracts)	$536,973	$120,122	$657,095	19.66%
Fair Market Value of Leased Space or Equipment	$535,554	$327,939	$863,493	25.84%
TOTAL USES OF FUNDS	**$2,208,900**	**$1,132,848**	**$3,341,748**	
SOURCE OF FUNDS	Reviewable	Non-Reviewable	Total	% of Total
Cash and Securities	$1,673,346	$804,909	$2,478,255	74.16%
Leases (fair market value)	$535,554	$327,939	$863,493	25.84%
TOTAL SOURCES OF FUNDS	**$2,208,900**	**$1,132,848**	**$3,341,748**	

V. Heath Service Area VII

The proposed facility will be located in the HSA VII ESRD Planning Area. The HSA VII ESRD Planning Area includes Suburban Cook and DuPage Counties. As of November 2017 there is a calculated need for 51 ESRD stations in this planning area. There are currently 76 dialysis facilities in this planning area with 1,379 ESRD stations. Growth in the number of patients in the HSA VII ESRD Planning Area has increased 11.27% from 2011-2016 and the number of stations have increased 16.05% over this same period.

State Board Staff Notes: The State Board approved the 2017 Inventory of Health Care Facilities and Services and Need Determinations at the September 2017 State Board Meeting. This document estimated the growth in the population from 2015 to 2020 (i.e. five years) and the estimated growth in the number of dialysis patients that will need outpatient dialysis in the HSA VII ESRD Planning Area based upon the 2015 usage. This resulted in an estimate in the number of stations (51 Stations) needed by 2020 in the HSA VII ESRD Planning Area.

TABLE THREE

Need Methodology HSA VII ESRD Planning Area

Planning Area Population – 2015	3,466,100
In Station ESRD patients -2015	5,163
Area Use Rate 2015 (1)	1.472
Planning Area Population – 2020 (Est.)	3,508,600
Projected Patients – 2020 (2)	5,163
Adjustment	1.33x
Patients Adjusted	6,867
Projected Treatments – 2020 (3)	1,071,219
Existing Stations	1,379
Stations Needed-2020	1,430
Number of Stations Needed	**51**

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. Background of the Applicants

A) Criterion 1110.1430(b)(1) - (3) – Background of the Applicants

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 has been no *adverse action*[1] taken against the any facility owned or operated by applicants.

1. The Applicants have provide the necessary attestation that no adverse action has been taken against any facility owned or operated by the Applicants and authorization allowing the State Board and IDPH access to all information to verify information in the application for permit. [Application for Permit page 68]

2. The site is owned by V & V, LLC and evidence of this can be found at page 31-41 of the application for permit in the Letter of Intent to lease the property at 1985-1997 N. Mannheim Rd, Melrose Park, IL 60160

3. The Applicants provided evidence that they were in compliance with Executive Order #2006-05 that requires *all State Agencies responsible for regulating or permitting development within Special Flood Hazard Areas shall take all steps within their authority to ensure that such development meets the requirements of this Order. State Agencies engaged in planning programs or programs for the promotion of development shall inform participants in their programs of the existence and location of Special Flood Hazard Areas and of any State or local floodplain requirements in effect in such areas. Such State Agencies shall ensure that proposed development within Special Flood Hazard Areas would meet the requirements of this Order.*

4. The proposed location of the ESRD facility is in compliance with the Illinois State Agency Historic Resources Preservation Act which requires *all State Agencies in consultation with the Director of Historic Preservation, institute procedures to ensure that State projects consider the preservation and enhancement of both State owned and non-State owned historic resources* (20 ILCS 3420/1).

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION BACKGROUND OF THE APPLICANTS (77 ILAC 1110.1430(b)(1) - (3))

[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)

VII. Purpose of Project, Safety Net Impact Statement, Alternatives to the Proposed Project

These 3 criteria are for informational purposes only.

A) Criterion 1110.230(a) - Purpose of the Project

To demonstrate compliance with this criterion the Applicants must document

1. **That the project will provide health services that improve the health care or well-being of the market area population to be served.**
2. **Define the planning area or market area, or other relevant area, per the applicant's definition.**
3. **Identify the existing problems or issues that need to be addressed as applicable and appropriate for the project.**
4. **Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being.**
5. **Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals as appropriate.**

The Applicants stated the following:

"The purpose of the project is to improve access to life sustaining dialysis services to the residents of near west suburbs of Chicago. Excluding the 3 facilities that are not yet open/operational for 2 years and 2 stations from 1 facility that recently added them, there are 27 dialysis facilities within 30 minutes of the proposed Melrose Village Dialysis that have been operational for at least 2 years. Collectively, the 27 facilities were operating at 74.1% as of March 31, 2016, and the existing facilities lack sufficient capacity to accommodate the projected ESRD patients from Dr. Aneziokoro and DuPage Medical Group. Dr. Aneziokoro's practice, Northwest Medical Associates of Chicago, and DuPage Medical Group's patient bases currently include 145 combined CKD[2] patients residing within 30 minutes of the proposed site for Melrose Village Dialysis. Conservatively, based upon attrition due to patient death, transplant, return of function, or relocation, Dr. Aneziokoro and DuPage Medical Group collectively anticipate that at least 68 of these patients will require dialysis within 12 to 24 months following project completion. Based upon March 31, 2017 data from The Renal Network, for ZIP codes containing 10 or more total ESRD patients, there were 2,439 ESRD patients residing within 30 minutes of the proposed Melrose Village Dialysis, and this number is projected to increase. The U.S. Centers for Disease Control and Prevention estimates 10% of American adults have some level of CKD. Further, the National Kidney Fund of Illinois estimates over 1 million Illinoisans have CKD and most do not know it. Kidney disease is often silent until the late stages when it can be too late to head off kidney failure. As more working families have obtained health insurance through the Affordable Care Act (or ACA) and 1.5 million Medicaid beneficiaries transition from traditional fee for service Medicaid to Medicaid managed care, more individuals in high-risk groups will have better access to primary care and kidney screening. As a result of these health care reform initiatives, there ***will*** *likely be tens of thousands of newly diagnosed cases of CKD in the years*

[2] National Kidney Foundation (NKF) created a guideline to help doctors identify each level of kidney disease. The NKF divided kidney disease into five stages. Glomerular filtration rate (GFR) is the best measure of kidney function. The GFR is the number used to figure out a person's stage of kidney disease. A math formula using the person's age, race, gender and their serum creatinine is used to calculate a GFR. A doctor will order a blood test to measure the serum creatinine level. Creatinine is a waste product that comes from muscle activity. When kidneys are working well they remove creatinine from the blood. As kidney function slows, blood levels of creatinine rise. Below shows the five stages of CKD and GFR for each stage:

- **Stage 1** with normal or high GFR (GFR > 90 mL/min)
- **Stage 2** Mild CKD (GFR = 60-89 mL/min)
- **Stage 3A** Moderate CKD (GFR = 45-59 mL/min)
- **Stage 3B** Moderate CKD (GFR = 30-44 mL/min)
- **Stage 4** Severe CKD (GFR = 15-29 mL/min)
- **Stage 5** End Stage CKD (GFR <15 mL/min)

ahead. Once diagnosed, many of these patients will be 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 in the next couple of years.

Per the 2010-2014 American Community Services 5-Year Estimates, the ZIP code of 60160 has 18.2% of its residents living below the federal poverty level, compared with 14.4% of total Illinois residents. According to a 2014 study, the rate of ESRD was four times higher among people with annual household incomes of less than $20,000 compared to those making more than $75,000. Due to lack of health insurance prior to ACA, many of these residents may have lacked access to primary care and kidney screening in the early stages of CKD when adverse outcomes of CKD can be prevented and delayed. Further, the zip code of 60160 reported over 69% of residents identified as Hispanic or Latino on the 2010 US Census. Per the National Kidney Foundation, Hispanics are at greater risk for kidney disease and kidney failure, being 1½ times more likely to have kidney failure compared to other Americans. Accordingly, there are likely hundreds of residents with undiagnosed CKD who will require dialysis in the near future. An optimal care plan for patients with CKD includes strategies to slow the loss of kidney function, manage co morbidities, and prevent or treat cardiovascular disease and other complications of CKD, as well as ease the transition to kidney replacement therapy. Early identification of CKD and deliberate treatment of ESRD by multidisciplinary teams leads to improved disease management and care, mitigating the risk of disease advancement and patient mortality. Accordingly, timely referral to and treatment by a multidisciplinary clinical team may improve patient outcomes and reduce cost. Indeed, research has found that late referral and suboptimal care result in higher mortality and hospitalization rates. Deficient knowledge about appropriate timing of patient referrals and poor communication between PCPs and nephrologists has been cited as key contributing factors. Critically, addressing the failure of communication and coordination among primary care physicians ("PCPs"), nephrologists, and other specialists may alleviate a systemic barrier to mitigating the risk of patient progression from CKD to ESRD, and to effective care of patients with ESRD. In addition to research emphasizing the value of care coordination among providers, research has generally displayed that the more information on a single EHR, the better the outcomes are for patient care. Patients receiving care on a single integrated EHR often experience reduced clinical errors and better outcomes as a result. With the development of this proposed facility, patient data generated at the dialysis facility will be migrated to the EHR systems accessible by all DMG providers. This data integration ensures a patient's PCP, nephrologists, and other specialists can readily access the patient dialysis records. DaVita and DMG have the ability to design additional functionalities to address communication and coordination issues between physicians. This removes administrative burden and alleviates risks that a patient's PCP or specialist is missing information regarding their care, including dialysis treatments. The tailoring of familiar DaVita and DMG tools eases the burden on physicians and enhances the likelihood of success in improving care coordination and physician communications. The Applicants anticipate the proposed facility will have quality outcomes comparable to Davita's other facilities. Additionally, in an effort to better serve all kidney patients, the Applicants will require all providers measure outcomes in the same way and report them in a timely and accurate basis or be subject to penalty. There are four key measures that are the most common indicators of quality care for dialysis providers - dialysis adequacy, fistula use rate, nutrition and bone and mineral metabolism. Adherence to these standard measures has been directly linked to 15-20 percent fewer hospitalizations. On each of these measures, DaVita has demonstrated superior clinical outcomes, which directly translated into 7 percent reduction in hospitalizations among DaVita patients, the monetary result of which is more than $1.5 billion in savings to the health care system and the American taxpayer from 2010 -2012. The establishment of a 12-station dialysis facility will improve access to necessary dialysis treatment for those individuals in the near western suburbs who suffer from ESRD. ESRD patients are typically chronically ill individuals and adequate access to dialysis services is essential to their well-being." [Application for Permit, pages 70-71]

B) Criterion 1110.230 (b) – Safety Net Impact Statement

To demonstrate compliance with this criterion the Applicants must document

- **The project's material impact, if any, on essential safety net services in the community, to the extent that it is feasible for an applicant to have such knowledge.**
- **The project's impact on the ability of another provider or health care system to cross-subsidize safety net services, if reasonably known to the applicant.**
- **How the discontinuation of a facility or service might impact the remaining safety net providers in a given community, if reasonably known by the applicant.**

The Applicants provided a safety net impact statement as required. (See Appendix I)

C) Criterion 1110.230 (c) – Alternatives to the Proposed Project

To demonstrate compliance with this criterion the Applicants must identify all of the alternatives considered to the proposed project.

1. The Applicants considered, but ultimately rejected, an **8-station in-center hemodialysis facility**. This **was** rejected due to the expected utilization. The Applicants fully expect the facility to reach the required number of patients for a 12-station facility within two years.

2. DaVita Inc., DuPage Medical Group, Ltd., and additional investors have entered into a **joint venture agreement** to combine resources and areas of expertise in order to offer the highest level of patient care**.** Given the historic growth of ESRD patients and the current utilization levels of area clinics, it is expected that area clinics will exceed the 80% utilization mark over the next few years. The Melrose Village Dialysis facility is necessary to address this growth and allow existing facilities to operate at an optimum capacity.

3. **Utilize existing facilities**. This alternative was rejected because there are 27 dialysis facilities within 30 minutes of the proposed Melrose Village Dialysis that have been operational for at least 2 years. Collectively, the 27 facilities were operating at 74.1% as of March 31, 2016, and the existing facilities lack sufficient capacity to accommodate Dr. Aneziokoro and DuPage Medical Group's projected referrals.

VIII. Size of the Project, Projected Utilization and Assurances

A) Criterion 1110.234 (a) - Size of the Project

To demonstrate compliance with this criterion the Applicants must document the size of the proposed facility is in compliance with the State Board Standards published in Part 77 ILAC 1110 Appendix B.

The Applicants are proposing 8,052 GSF of space for the proposed 12-station dialysis facility. Four thousand nine hundred ninety-four (4,994) GSF will be reviewable space and 3,052 GSF will be non reviewable space. The State Board Standard is 520 GSF per station or a total of 6,240 GSF of space for the 12 stations. The Applicants have successfully addressed this criterion. Below are the definitions of reviewable and non reviewable space.

Clinical Service Area [reviewable space] means a department or service that is directly *related to the diagnosis, treatment, or rehabilitation of persons receiving services from the health care facility* [20 ILCS 3960/3]. A clinical service area's physical space shall include those components required under the facility's licensure or Medicare or Medicaid Certification, and as outlined by documentation from the facility as to the physical space required for appropriate clinical practice.

Non-clinical Service Area [non reviewable space] *means an area for the benefit of the patients, visitors, staff or employees of a health care facility and not directly related to the diagnosis, treatment, or rehabilitation of persons receiving services from the health care facility. "Non-clinical service areas" include, but are not limited to, chapels; gift shops; newsstands; computer systems; tunnels, walkways, and elevators; telephone systems; projects to comply with life safety codes; educational facilities; student housing; patient, employee, staff, and visitor dining areas; administration and volunteer offices; modernization of structural components (such as roof replacement and masonry work); boiler repair or replacement; vehicle maintenance and storage facilities; parking facilities; mechanical systems for heating, ventilation, and air conditioning; loading docks; and repair or replacement of carpeting, tile, wall coverings, window coverings or treatments, or furniture. Solely for the purpose of this definition, "non-clinical service area" does not include health and fitness centers.* [20 ILCS 3960/3]

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH SIZE OF THE PROJECT CRITERION (77 ILAC 1110.234(a))

B) Criterion 1110.234(b) – Projected Utilization

To demonstrate compliance with this criterion the Applicants must document that the proposed facility will be in compliance with the State Board Standards published in Part 77 ILAC 1110 Appendix B two (2) years after project completion.

The Applicants expect to be at the target occupancy of 80% by the second year of operation. The Applicants identified 145 pre- ESRD patients. Based upon attrition due to patient death, transplant, return of function, or relocation, the Applicants are estimating 68 of these patients will initiate dialysis within 12 to 24 months following project completion.

68 patients x 156 treatments/year = 10,608 treatments
12 stations x 936 treatments/year = 11,232 treatments
10,608 treatments/11,232 treatments = 94.44%

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH PROJECTED UTILIZATION CRITERION (77 ILAC 1110.234(b))

C) Criterion 1110.234(e) – Assurance

To demonstrate compliance with this criterion the Applicants must document that the proposed facility will be in compliance with the State Board Standards published in Part 77 ILAC 1110 Appendix B two (2) years after project completion.

The Applicants on page 115 of the application for permit attest that they will be at target occupancy within 2 years after project completion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH ASSURANCE CRITERION (77 ILAC 1110.234(e))

IX. In-Center Hemodialysis Projects

A) Criterion 1110.1430(b)(1) - (3) Background of the Applicants

This criterion was addressed earlier in this report.

B) Criterion 1110.1430(c)(1), (2), (3) and (5) – Planning Area Need
To demonstrate compliance with this criterion the Applicants must document

1. Calculated Planning Area Need
To demonstrate compliance with this sub-criterion the Applicants must document that there is a calculated need for stations in the HSA7 ESRD Planning Area.

As of the November 2017 Update to the Inventory of Health Care Facilities and Services and Need Determinations there is a calculated need for 51 ESRD stations in the HSA7 ESRD Planning Area.

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

The Applicants have identified 145 pre-ESRD patients by zip code of residence as required currently receiving care. As can be seen from the table below, approximately 88% of the pre-ESRD patients reside in the HSA7 ESRD Planning Area. [See Appendix II for 30 minute service area]

TABLE FIVE
Pre-ESRD Patients Identified by the Applicants

Zip Code	City	#
60160	Melrose Park	2
60104	Bellwood	5
60164	Melrose Park	3
60171	Schiller Park	1
60153	Maywood	3
60305	River Forest	2
60163	Berkeley	3
60707	Elmwood Park	14
60155	Broadview	3
60162	Hillside	6
60130	Forest Park	1
60301	Oak Park	1
60154	Westchester	21
60176	Schiller Park	1
60302	Oak Park	3
60634	Chicago	17
60126	Elmhurst	24
60304	Oak Park	3
60546	Riverside	13
60513	Brookfield	11
60106	Bensenville	8

TABLE FIVE Pre-ESRD Patients Identified by the Applicants	
Total	**145**

3. Service Demand

To demonstrate compliance with this criterion the Applicants must document that there is demand for the proposed service.

Ogbonnaya Aneziokoro, M.D., Northwest Medical Associates of Chicago, Inc. has provided a referral letter in which he states "*that I have identified 1,079 patients from my practice who are suffering from Stage 3, 4, or 5 CKD. For the purpose of this application, I have identified 30 patients who reside within 5 miles and under 30 minutes of the proposed facility. Conservatively, I predict at least **14 of these patients** will progress to dialysis within 12 to 24 months of completion of Melrose Village Dialysis. My large patient base and the significant utilization at nearby facilities demonstrate considerable demand for this facility."*

DuPage Medical Group, Ltd. ("DMG"), specifically Drs. Barakat, Delaney, Malaria, Rawal, Samad, and Shah, *has provided a referral letter in which they state based on our records, there are 3,529 pre-ESRD patients of DMG who currently have Chronic Kidney Disease ("CKD") Stage 3, 4, or 5. For the purpose of this application, I have identified 115 patients who reside within 6 miles and under 30 minutes of the proposed facility. We conservatively estimate that at least **54 patients** of these patients will be treated by our practice, develop end stage renal disease, and require dialysis within the first 12 to 24 months following the proposed project's completion. We anticipate referring these 54 patients to the proposed Melrose Village Dialysis facility within the first two years following project completion.*

Both referral letters included the following information as required.

- 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, at the end of the year for the most recent three years and the end of the most recent quarter;
- 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;
- 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;
- 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);
- The physician's notarized signature, the typed or printed name of the physician, the physician's office address and the physician's specialty;
- 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
- Each referral letter shall contain a statement attesting that the information submitted is true and correct

The Applicants have identified 68 patients that will utilize the proposed facility within 2 years after completion of the project**.**

5. Service Accessibility

To demonstrate compliance with this sub-criterion the Applicants must document one of the following:

- The absence of the proposed service within the planning area;
- 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;

- Restrictive admission policies of existing providers;
- 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;
- 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.

There is no absence of ESRD service within the HSA7 ESRD planning area as there are 1,379 ESRD stations in this ESRD Planning Area. There have been no access limitations due to payor status of the patients nor have any restrictive admission policies of existing providers been identified by the applicants. There is no indication of medical care problems of the area population.

Summary

The State Board has calculated a need for **51 stations** in the HSA VII ESRD Planning Area by 2020. The Applicants will be serving residents of the HSA VII ESRD Planning Area and there appears to be patients in need of dialysis (68 pre-ESRD patients in need of dialysis within 2 years after project completion).

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH PLANNING AREA NEED CRITERION (77 ILAC 1110.1430(c)(1), (2), (3) and (5))

C) Criterion 1110.1430(d) – Unnecessary Duplication/Maldistribution/Impact on Other Facilities

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 facilities in the area.**

1. The State Board does not define unnecessary duplication of service. The State Board is asked to determine if the establishment of additional ESRD stations within a 30 minute service area will result in **unneeded** ESRD stations given the existing stations utilization. To do this the State Board Staff reviews the most current utilization at existing operating facilities within the 30 minute service area.

There are 31 dialysis facilities within 30 minutes of the proposed facility with an average utilization of approximately 61%. Three (3) of the 31 facilities are not operational and one facility is in ramp-up (Fresenius Medical Care Summit). Two facilities did not report utilization data for the third quarter of 2017 (Loyola Dialysis Center and Nocturnal Dialysis Spa). The remaining 25 facilities are operating at an average occupancy of approximately 74.3%. Based upon this 3rd quarter utilization information the existing 25 facilities can accommodate an additional 175 patients before reaching the State Board's target occupancy of 80%. [See Table below]

2. The population in the 30-minute service area is 1,359,818 [see Appendix II] and there are 605 ESRD stations in the 30-minute service area. The ratio of stations to population in the 30-minute service area is 1 station per 2,248 residents. There are 4,613 stations in the State of Illinois and a population of 12,978,800 (Est. 2015 Population). The ratio of stations to population in the State of Illinois is 1 station per 2,814 residents. A mal-distribution of stations (surplus of stations) exists when the ratio of stations to population

in the 30 minute service area is 1.5 times the ratio of stations in the State of Illinois. For there to be a surplus of stations in the 30 minute service area the ratio must be 1 station for every 1,876 residents. Based upon this ratio there is no surplus of stations in this 30 minute service area.

3. **The Applicants stated:** "*The proposed dialysis facility will not have an adverse impact on existing facilities in the GSA. As discussed throughout this application, the utilization of ICHD* (In-Center Hemodialysis) *facilities operating for over 2 years and within 30 minutes of the proposed Melrose Village Dialysis is 74.1%. 2,439 ESRD patients reside within 30 minutes of the proposed facility and this number is projected to* ***increase.*** *The proposed facility is necessary to allow the existing facilities to operate at an optimum capacity, while at the same time accommodating the growing demand for dialysis services. As a result, the Melrose Village Dialysis facility will not lower the utilization of area provider below the occupancy standards. Excluding the 3 facilities that are not yet open/ operational for 2 years, as well as a recent 2-station expansion, there are 27 existing dialysis facilities that have been operating for 2 or more years within the proposed 30 minute GSA of Melrose Village Dialysis. As of March 31, 2017, the 27 facilities were operating at an average utilization of 74.1%. Based upon March 31, 2017 data from The Renal Network, for ZIP codes containing 10 or more total ESRD patients, there were 2,439 ESRD patients residing within 30 minutes of the proposed Melrose Village Dialysis, and this number is projected to increase. The proposed facility is necessary to allow the existing facilities to operate at an optimum capacity, while at the same time accommodating the growing demand for dialysis services. As a result, the Melrose Village Dialysis facility will not lower, to a further extent, the utilization of area provider below the occupancy standards."*

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS <u>NOT</u> IN CONFORMANCE WITH UNNECESSARY DUPLICATION MALDISTRIBUTION IMPACT ON OTHER FACILITIES CRITERION (77 ILAC 1110.1430(d)(1)-(3))

TABLE SIX
Facilities within 30 minutes (adjusted) of the Proposed Facility

Name	City	Time [1]	HSA	Stations	Star Rating [2]	Occupancy [3]	Met Occupancy
FMC - Berwyn	Berwyn	10.35	7	30	3	85.00%	Yes
Fresenius Medical Care River Forest	River Forest	10.35	7	22	3	65.91%	No
FMC Elmhurst	Elmhurst	11.5	7	24	5	65.48%	No
FMC Rolling Meadows	Rolling Meadows	12.65	7	24	4	75.00%	No
FMC - Westchester	Westchester	12.65	7	22	4	63.14%	No
FMC - Melrose Park	Melrose Park	13.8	7	18	3	69.44%	No
Fresenius Medical Care - Northwest	Norridge	14.95	7	16	5	80.21%	Yes
FMC - North Avenue	Melrose Park	17.25	7	24	5	83.33%	Yes
USRC Oak Brook Dialysis	Downers Grove	18.4	7	13	2	88.46%	Yes
FMC - Downers Grove Dialysis Center	Downers Grove	18.4	7	19	3	72.92%	No
FMC - West Suburban Dialysis Unit	Oak Park	19.55	7	46	3	88.77%	Yes
FMC - North Kilpatrick	Chicago	19.55	6	28	5	82.74%	Yes
NxStage Oak Brook	Oak Brook	19.55	7	8	3	41.67%	No
FMC - Glendale Heights	Glendale Heights	20	7	29	5	77.59%	No
FMC - Oak Park Dialysis Center	Oak Park	20.7	7	12	3	91.67%	Yes
Fresenius Medical Care Des Plaines	Des Plaines	20.7	7	12	3	66.67%	No
FMC - Austin	Chicago	20.7	6	16	3	56.25%	No
FMC - Elk Grove	Elk Grove Village	21.85	7	28	4	83.93%	Yes
Fresenius Medical Care Lombard	Lombard	21.85	7	12	4	68.06%	No
FMC Dialysis Services of Willowbrook	Willowbrook	21.85	7	20	3	65.00%	No
Schaumburg Renal Center	Schaumburg	24.15	7	20	5	69.17%	No
Oak Park Kidney Centers, LLC	Oak Park	24.15	7	18	3	67.59%	No
DaVita - Monteclare Dialysis Center	Chicago	25.3	6	16	4	95.83%	Yes
DSI - Arlington Heights	Arlington Heights	26.45	7	18	5	61.11%	No
FMC West Belmont	Chicago	29.9	6	17	3	92.16%	Yes
Total Stations/Average Occupancy				512		74.30%	

TABLE SIX
Facilities within 30 minutes (adjusted) of the Proposed Facility

Name	City	Time [1]	HSA	Stations	Star Rating [2]	Occupancy [3]	Met Occupancy
U.S. Renal Care Villa Park Dialysis	Villa Park	14.95	7	13	NA	0.00%	
Dialysis Management Services	Chicago	17.25	6	14	NA	0.00%	
Fresenius Medical Care Schaumburg	Schaumburg	20.7	7	12	NA	0.00%	
Fresenius Medical Care Summit	Summit	26.45	7	12	NA	27.78%	
Loyola Dialysis Unit	Maywood	29.9	7	30	3	0.00%	
Nocturnal Dialysis Spa [4]	Villa Park	14.95	7	12	3	0.00%	
Total Stations/Average Occupancy				605		60.53%	

1. Determined by MapQuest and adjusted per 77 ILAC 1100.510(d)
2. Star Rating taken from the Medicare Compare Website
3. As of September 30, 2017
4. Nocturnal Dialysis Spa was completed October 2015. Since March of 2016 (first quarter data was reported) this facility has not reported more than 4 patients for any quarter and did not report patient information for the 3rd quarter of 2017.

D) Criterion 1110.1430(f) - Staffing

To demonstrate compliance with this criterion the Applicants shall document that relevant clinical and professional staffing needs for the proposed project were considered and that licensure and Joint Commission staffing requirements can be met.

The Medical Director will be Rajani Kosuri, M.D. for the proposed facility. A copy of Dr. Kosuri's curriculum vitae has been provided. Initial staffing for the proposed facility will be as follows:

- Administrator (0.98 FTE)
- Registered Nurse (3.88 FTE)
- Patient Care Technician (8.73 FTE)
- Biomedical Technician 0.28FTE)
- Social Worker (licensed MSW) (0.60 FTE)
- Registered Dietitian (0.60 FTE)
- Administrative Assistant (0.87 FTE)

As patient volume increases, nursing and patient care technician staffing will increase accordingly to maintain a ratio of at least one direct patient care provider for every 4 ESRD patients. At least one registered nurse will be on duty while the facility is in operation. All staff will be training under the direction of the proposed facility's Governing Body, utilizing DaVita's comprehensive training program. DaVita's training program meets all State and Medicare requirements. The training program includes introduction to the dialysis machine, components of the hemodialysis system, infection control, anticoagulation, patient assessment, data collection, vascular access, kidney failure, documentation, complications of dialysis, laboratory draws, and miscellaneous testing devices used. In addition, it includes in- depth theory on the structure and function of the kidneys; including, homeostasis, renal failure, ARFICRF, uremia, osteodystrophy and anemia, principles of dialysis; components of hemodialysis system; water treatment; dialyzer reprocessing; hemodialysis treatment; fluid management; nutrition; laboratory; adequacy pharmacology; patient education, and service excellence.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH STAFFING CRITERION (77 ILAC 1110.1430 (f))

E) Criterion 1110.1430 (g) Support Services

To demonstrate compliance with this criterion the Applicants must submit a certification from an authorized representative that attests to each of the following:

1) **Participation in a dialysis data system;**
2) **Availability of support services consisting of clinical laboratory service, blood bank, nutrition, rehabilitation, psychiatric and social services; and**
3) **Provision of training for self-care dialysis, self-care instruction, home and home-assisted dialysis, and home training provided at the proposed facility, or the existence of a signed, written agreement for provision of these services with another facility.**

The Applicants provided a letter from Arturo Sida, Assistant Corporate Secretary of DaVita Inc. and Adiron Dialysis, LLC, attesting that the proposed facility will participate in a dialysis data system, will make support services available to patients,

and will provide training for self-care dialysis, self–care instruction, home and home-assisted dialysis, and home training. [See Application for Permit pages 105-106] The Applicants have successfully addressed this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH SUPPORT SERVICES CRITERION (77 ILAC 1110.1430(g))

F) Criterion 1110.1430 (h) - Minimum Number of Stations

To demonstrate compliance with this criterion the Applicants must document that there will meet the minimum number of in-center hemodialysis stations for an End Stage Renal Disease (ESRD) facility is:

1) **Four dialysis stations for facilities outside an MSA;**
2) **Eight dialysis stations for a facility within an MSA.**

The proposed dialysis facility will be located in the Chicago-Joliet-Naperville metropolitan statistical area ("MSA"). A dialysis facility located within an MSA must have a minimum of eight dialysis stations. The Applicants propose to establish a 12-station dialysis facility. The Applicants have met this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH MINIMUM NUMBER OF STATIONS CRITERION (77 ILAC 1110.1430(h))

G) Criterion 1110.1430(i) - Continuity of Care

To demonstrate compliance with this criterion the Applicants must document that a signed, written affiliation agreement or arrangement is in effect for the provision of inpatient care and other hospital services. Documentation shall consist of copies of all such agreements.

Total Renal Care Inc., a subsidiary of DaVita Inc., has an agreement with Community First Healthcare of Illinois, Inc. d/b/a Community First Medical Center to provide inpatient care and other hospital services for the patients of Melrose Village Dialysis. [Application for Permit pages 98-104]

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CONTINUITY OF CARE CRITERION (77 ILAC 1110.1430(i))

H) Criterion 1110.1430(j) - Relocation of Facilities

The Applicants are proposing to establish a 12-station ESRD facility and will not be relocating an existing facility

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH RELOCATION OF FACILITIES CRITERION (77 ILAC 1110.1430(j))

I) Criterion 1110.1430 (k) - Assurances

To demonstrate compliance with this criterion the applicant representative who signs the CON application must submit a signed and dated statement attesting to the applicant's understanding that:

1) **By the second year of operation after the project completion, the applicant will achieve and maintain the utilization standards specified in 77 Ill. Adm. Code 1100 for each category of service involved in the proposal; and**
2) **An applicant proposing to expand or relocate in-center hemodialysis stations will achieve and maintain compliance with the following adequacy of hemodialysis outcome measures for the latest 12-month period for which data are available:**
   ≥ 85% of hemodialysis patient population achieves urea reduction ratio (URR) ≥ 65% and
   ≥ 85% of hemodialysis patient population achieves Kt/V Daugirdas II 1.2.

The Applicants attested:
"*By the second year after project completion, Melrose Village Dialysis expects to achieve and maintain 80% target utilization; and Melrose Village Dialysis also expects hemodialysis outcome measures will be achieved and maintained at the following minimums:*

- *> 85% of hemodialysis patient population achieves urea reduction ratio (URR) > 65%*[3] *and*
- *>85% of hemodialysis patient population achieves Kt/V Daugirdas II .1.2"*[4]

The Applicants have successfully addressed this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH ASSURANCES CRITERION (77 ILAC 1110.1430(k))

[3] **Urea**: A nitrogen-containing substance normally cleared from the blood by the kidney into the urine. **URR** stands for urea reduction ratio, meaning the reduction in urea as a result of dialysis. The URR is one measure of how effectively a dialysis treatment removed waste products from the body and is commonly expressed as a percentage. If the initial, or pre-dialysis, urea level was 50 milligrams per deciliter (mg/dL) and the post-dialysis urea level was 15 mg/dL, the amount of urea removed was 35 mg/dL. The amount of urea removed (35 mg/dL) is expressed as a percentage of the pre-dialysis urea level (50 mg/dL). Although no fixed percentage can be said to represent an adequate dialysis, patients generally live longer and have fewer hospitalizations if the URR is at least 60 percent. As a result, some experts recommend a minimum URR of 65 percent. The URR is usually measured only once every 12 to 14 treatments, which is once a month. The URR may vary considerably from treatment to treatment. Therefore, a single value below 65 percent should not be of great concern, but a patient's average URR should exceed 65 percent.

[4] The **Kt/V** is more accurate than the URR in measuring how much urea is removed during dialysis, primarily because the Kt/V also considers the amount of urea removed with excess fluid. Consider two patients with the same URR and the same post-dialysis weight, one with a weight loss of 1 kg—about 2.2 lbs—during the treatment and the other with a weight loss of 3 kg-about 6.6 lbs. The patient who loses 3 kg will have a higher Kt/V, even though both have the same URR. The fact that a patient who loses more weight during dialysis will have a higher Kt/V does not mean it is better to gain more water weight between dialysis sessions so more fluid has to be removed, because the extra fluid puts a strain on the heart and circulation. However, patients who lose more weight during dialysis will have a higher Kt/V for the same level of URR. On average, a Kt/V of 1.2 is roughly equivalent to a URR of about 63 percent. Thus, another standard of adequate dialysis is a minimum Kt/V of 1.2. The Kidney Disease Outcomes Quality Initiative (KDOQI) group has adopted the Kt/V of 1.2 as the standard for dialysis adequacy.[1] Like the URR, the Kt/V may vary considerably from treatment to treatment because of measurement error and other factors. So while a single low value is not always of concern, the average Kt/V should be at least 1.2. In some patients with large fluid losses during dialysis, the Kt/V can be greater than 1.2 with a URR slightly below 65 percent—in the range of 58 to 65 percent. In such cases, the KDOQI guidelines consider the Kt/V to be the primary measure of adequacy. **[CMS Center for Clinical Standards and Quality]**

VIII. Financial Viability

This Act shall establish a procedure (1) which requires a person establishing, constructing or modifying a health care facility, as herein defined, to have the qualifications, background, character and financial resources to adequately provide a proper service for the community; (2) that promotes the orderly and economic development of health care facilities in the State of Illinois that avoids unnecessary duplication of such facilities; and (3) that promotes planning for and development of health care facilities needed for comprehensive health care especially in areas where the health planning process has identified unmet needs. ***Cost containment and support for safety net services must continue to be central tenets of the Certificate of Need process."*** (20 ILCS 3960)

A) Criterion 1120.120 – Availability of Funds

To demonstrate compliance with this criterion the Applicants must document that the resources are available to fund the project.

The Applicants are funding this project with cash in the amount of $2,478,255 and a lease with a FMV of $863,493. The Applicants attested that the total estimated project costs and related costs will be funded in total with cash and cash equivalents. A summary of the financial statements of the Applicants is provided below. The Applicants have sufficient cash to fund this project.

TABLE SEVEN
Davita Inc.
December 31,
Audited
(in thousands)

	2016	2015
Cash	$913,187	$1,499,116
Current Assets	$3,980,228	$4,503,280
Total Assets	$18,741,257	$18,514,875
Current Liabilities	$2,696,445	$2,399,138
LTD	$8,947,327	$9,001,308
Patient Service Revenue	$10,354,161	$9,480,279
Total Net Revenues	$14,745,105	$13,781,837
Total Operating Expenses	$12,850,562	$12,611,142
Operating Income	$1,894,543	$1,170,695
Net Income	$1,033,082	$427,440

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION AVAILABILITY OF FUNDS (77 ILAC 1120.120)

B) Criterion 1120.130 - Financial Viability

To demonstrate compliance with this criterion the Applicants must document that they have a Bond Rating of "A" or better, they meet the State Board's financial ratio standards for the past three (3) fiscal years or the project will be funded from internal resources.

The Applicants are funding this project with cash in the amount of $2,478,255 and a lease with a FMV of $863,493. The Applicants have qualified for the financial waiver[5].

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY (77 ILAC 1120.130)

IX. 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 document that leasing of the space is reasonable. The State Board considers the leasing of space as debt financing.

The Applicants are funding this project with cash in the amount of $2,478,255 and a lease with a FMV of $863,493. The lease is for 10 years at a base rent of $15.36/gsf $123,678.72 per year for the first 5 years, with a 10% increase every 5 years. The table below shows the calculation of the FMV of the lease space of 6,250 GSF using 8% discount factor. It appears the lease is reasonable when compared to previously approved projects.

[5] The applicant is NOT required to submit financial viability ratios if:

1) all project capital expenditures, including capital expended through a lease, are completely funded through internal resources (cash, securities or received pledges); or HFSRB NOTE: Documentation of internal resources availability shall be available as of the date the application is deemed complete.
2) the applicant's current debt financing or projected debt financing is insured or anticipated to be insured by Municipal Bond Insurance Association Inc. (MBIA) or its equivalent; or
HFSRB NOTE: MBIA Inc is a holding company whose subsidiaries provide financial guarantee insurance for municipal bonds and structured financial projects. MBIA coverage is used to promote credit enhancement as MBIA would pay the debt (both principal and interest) in case of the bond issuer's default.
3) the applicant provides a third-party surety bond or performance bond letter of credit from an A rated guarantor (insurance company, bank or investing firm) guaranteeing project completion within the approved financial and project criteria.

TABLE EIGHT FMV of Lease			
Year	PV of 8%	Total Base Rent	PV of Total Space Lease
1	0.92593	$123,678.72	$114,517.84
2	0.85734	$123,678.72	$106,034.71
3	0.79383	$123,678.72	$98,179.88
4	0.73503	$123,678.72	$90,907.57
5	0.68058	$123,678.72	$84,173.26
6	0.63017	$136,046.59	$85,732.48
7	0.58349	$136,046.59	$79,381.82
8	0.54027	$136,046.59	$73,501.89
9	0.50025	$136,046.59	$68,057.31
10	0.46319	$136,046.59	$63,015.42
Total [1]			$863,502.18
1.Does not total because of rounding			

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERIA REASONABLENESS OF FINANCING ARRANGEMENTS AND TERMS OF DEBT FINANCING (77 ILAC 1120.140 (a) (b))

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.

As shown in the table below the Applicants have met all of the State Board Standards published in Part 1120, Appendix A. The Applicants are in compliance with all State Board Standards. [See Appendix III at the end of this report for detail of costs]

TABLE NINE

Reasonableness of Project Costs

		State Board Standard			
Use of Funds	Project Costs	GSF/%/Station	Total	Project	Met Standard
Modernization and Contingencies	$971,244	$212.94/GSF	$1,714,593	$120.62/GSF	Yes
Contingencies	$125,000	15%	$126,936.60	14.77%	Yes
Architectural/Engineering Fees	$97,152	10.78%	$104,389.31	10.00%	Yes
Movable or Other Equipment (not in construction)	$536,973	$58,650/station	$703,800.00	$44,748/Station	Yes
Consulting and Other Fees	$67,977	Not Applicable			
Fair Market Value of Leased Space or Equipment	$535,544				

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION REASONABLENESS OF PROJECT COSTS (77 ILAC 1120.140(c))

D) Criterion 1120.140(d) – Projected Operating Costs

To demonstrate compliance with this criterion the Applicants must document that the projected direct annual operating costs for the first full fiscal year at target utilization but no more than two years following project completion. Direct costs mean the fully allocated costs of salaries, benefits and supplies for the service.

The Applicants are projecting $258.19 operating expense per treatment.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PROJECTED OPERATING COSTS (77 ILAC 1120.140(d))

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

To demonstrate compliance with this criterion the Applicants must provide the total projected annual capital costs for the first full fiscal year at target utilization but no more than two years following project completion. Capital costs are defined as depreciation, amortization and interest expense.

The Applicants are projecting capital costs of $24.28 per treatment.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS (77 ILAC 1120.140 (e))

Appendix I
Safety Net Impact Statement

The Applicants stated the following:

"DaVita Inc. and its affiliates are safety net providers of dialysis services to residents of the State of Illinois. DaVita is a leading provider of dialysis services in the United States and is committed to innovation, improving clinical outcomes, compassionate care, education and Kidney Smarting patients, and community outreach. DaVita led the industry in quality, with twice as many Four- and Five-Star centers than other major dialysis providers. DaVita also led the industry in Medicare's Quality Incentive Program, ranking No. 1 in three out of four clinical measures and receiving the fewest penalties. DaVita has taken on many initiatives to improve the lives of patients suffering from CKD and ESRD. These programs include Kidney Smart, IMPACT, CathAway, and transplant assistance programs. Furthermore, DaVita is an industry leader in the rate of fistula use and has the lowest day-90 catheter rates among large dialysis providers. During 2000 - 2014, DaVita improved its fistula adoption rate by 103 percent. Its commitment to improving clinical outcomes directly translated into 7% reduction in hospitalizations among DaVita patients. The proposed project will not impact the ability of other health care providers or health care systems to cross-subsidize safety net services. As shown in Table 1110.1430(b), the utilization of adult ICHD (In-Center Hemodialysis) *facilities operating for over 2 years and within 30 minutes of the proposed Melrose Village Dialysis is 74.1%. There are 145 combined patients from Dr. Aneziokoro's and DuPage Medical Group practices suffering from CKD and residing within 30 minutes of the proposed site for Melrose Village Dialysis. At least 68 of these patients will be expected to require dialysis treatment within 12 to 24 months of project completion. As such, the proposed facility is necessary to allow the existing facilities to operate at a more optimum capacity, while at the same time accommodating the growing demand for dialysis services. Accordingly, the proposed dialysis facility will not impact other general health care providers' ability to cross-subsidize safety net services."*

DaVita, Inc.
Net Revenue, Charity and Medicaid Information for the State of Illinois

	2014	2015	2016
Net Patient Revenue	$266,319,949	$311,351,089	$353,226,322
Amt of Charity Care (charges)	$2,477,363	$2,791,566	$2,400,299
Cost of Charity Care	$2,477,363	$2,791,566	$2,400,299
% of Charity Care/Net Patient Revenue	0.93%	0.90%	0.68%
Number of Charity Care Patients	146	109	110
Number of Medicaid Patients	708	422	297
Medicaid Revenue	$8,603,971	$7,361,390	$4,692,716
% of Medicaid to Net Patient Revenue	3.23%	2.36%	1.33%

Appendix II Thirty (30) minute Service Area		
ZIP Code	**City**	**Population**
60515	Downers Grove	27,503
60559	Westmont	24,852
60514	Clarendon Hills	9,708
60521	Hinsdale	17,597
60558	Western Springs	12,960
60139	Glendale Heights	34,381
60148	Lombard	51,468
60157	Medinah	2,380
60101	Addison	39,119
60191	Wood Dale	14,310
60143	Itasca	10,360
60007	Elk Grove Village	33,820
60523	Oak Brook	9,890
60181	Villa Park	28,836
60126	Elmhurst	46,371
60162	Hillside	8,111
60163	Berkeley	5,209
60164	Melrose Park	22,048
60106	Bensenville	20,309
60173	Schaumburg	12,217
60018	Des Plaines	30,099
60526	La Grange Park	13,576
60513	Brookfield	19,047
60534	Lyons	10,649
60402	Berwyn	63,448
60154	Westchester	16,773
60155	Broadview	7,927
60104	Bellwood	19,038
60165	Stone Park	4,946
60160	Melrose Park	25,432
60153	Maywood	24,106
60141	Hines	224
60546	Riverside	15,668
60130	Forest Park	14,167
60305	River Forest	11,172
60707	Elmwood Park	42,920
60131	Franklin Park	18,097
60176	Schiller Park	11,795
60171	River Grove	10,246
60634	Chicago	74,298
60706	Harwood Heights	23,134
60656	Chicago	27,613
60631	Chicago	28,641
60304	Oak Park	17,231
60301	Oak Park	2,539
60302	Oak Park	32,108

Appendix II Thirty (30) minute Service Area		
ZIP Code	**City**	**Population**
60804	Cicero	84,573
60644	Chicago	48,648
60639	Chicago	90,407
60651	Chicago	64,267
60624	Chicago	38,105
60068	Park Ridge	37,475
Total		**1,359,818**

Appendix III
Star Rating System

Centers for Medicare & Medicaid Services (CMS) Star Ratings

"The star ratings are part of Medicare's efforts to make data on dialysis centers easier to understand and use. The star ratings show whether your dialysis center provides quality dialysis care - that is, care known to get the best results for most dialysis patients. The rating ranges from 1 to 5 stars. A facility with a 5-star rating has quality of care that is considered 'much above average' compared to other dialysis facilities. A 1- or 2- star rating does not mean that you will receive poor care from a facility. It only indicates that measured outcomes were below average compared to those for other facilities. Star ratings on Dialysis Facility Compare are updated annually to align with the annual updates of the standardized measures."

CMS assigns a one to five 'star rating' in two separate categories: best treatment practices and hospitalizations and deaths. The more stars, the better the rating. Below is a summary of the data within the two categories.

- Best Treatment Practices

This is a measure of the facility's treatment practices in the areas of anemia management; dialysis adequacy, vascular access, and mineral & bone disorder. This category reviews both adult and child dialysis patients.

- Hospitalization and Deaths

This measure takes a facility's expected total number of hospital admissions and compares it to the actual total number of hospital admissions among its Medicare dialysis patients. It also takes a facility's expected patient death ratio and compares it to the actual patient death ratio taking into consideration the patient's age, race, sex, diabetes, years on dialysis, and any co-morbidity.

The Dialysis Facility Compare website currently reports on 9 measures of quality of care for facilities. These measures are used to develop the star rating. Based on the star rating in each of the two categories, CMS then compiles an 'overall rating' for the facility. As with the separate categories: the more stars, the better the rating. The star rating is based on data collected from January 1, 2012 through December 31, 2015.

Appendix IV

Moveable and other Equipment Costs		
	Reviewable	Non Reviewable
Communications	$80,144	
Water Treatment	$153,275	
Bio-Medical Equipment	$11,550	
Clinical Equipment	$273,944	
Clinical Furniture/Fixtures	$18,060	
Lounge Furniture/Fixtures		$3,855
Storage Furniture/Fixtures		$5,862
Business Office Fixtures		$49,905
General Furniture/Fixtures		$48,500
Signage		$12,000
Total Moveable and other Equipment	$536,973	$120,122

State Board Standard Calculation of ESRD Modernization and Contingency Costs inflated by 3% per year						
CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021
$178.33	$183.68	$189.19	$194.87	$200.71	$206.73	$212.94

State Board Standard Calculation of Cost per ESRD Station inflated by 3% per year						
CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021
$49,124.31	$50,598.04	$52,115.98	$53,679.46	$55,289.84	$56,948.54	$58,657.00

Appendix V
Support And Opposition Comments

Aneziokoro Ogbonnaya stated in support:

"I am writing to express support of the Certificate of Need request for the development of new In-Center Hemodialysis facility located at 1985 North Mannheim Road, Melrose Park, IL, 60160 to provide life sustaining dialysis treatment, education, and support for patients with kidney disease. I am a physician that is board certified in Nephrology and currently practicing within the market area for this facility. As related within the application, there is an identified need for additional dialysis stations to serve an identified patient population. In-center hemodialysis care is a burdensome and time intensive process for patients. Through this facility, we can transform the lives of patients and their families by having more options in their dialysis care providers, locations, and treatment times. As you know, it is not a simple matter of having one time slot available for a patient, as patients often cannot receive dialysis at the times dictated by limited facility openings. The utilization rate of area facilities is over 74% and it is projected to continue increasing on an annual basis. This will lead to even more competition for dialysis stations by patients and complicate their already difficult lives. Ensuring patients have practical access to dialysis care is a mission we all have a responsibility to support within the community. In partnership with DaVita, DuPage Medical Group, and other minority investors, we can bring high- quality, integrated, and necessary care *to* the Melrose Park and surrounding community. By leveraging the latest technology and care platforms, we will be offering patient-centered care on the forefront of dialysis care. With well-resourced partners, a local focus, and a care model seeking coordination across the metropolitan area, the proposed facility will be a positive step for patients suffering from renal disease and the providers that care for them. For these reasons, I ask that the Illinois Health Facilities & Services Review Board approve the dialysis facility application for the proposed Melrose Village Dialysis facility."

Appendix V
Support And Opposition Comments

Nephrology Associates of Northern Illinois stated in opposition:

"Never in this history of the planning board have so many unnecessary dialysis stations been approved for a single operator in a defined geographic at one time. At the January Board meeting the Board will consider two applications by the applicants for the first time, and will consider four other applications which already received Intent to Deny. However, all of the applications have three things in common: (1) the lack of referral letters to justify the patient population for the facilities; (2) overlapping service areas; and (3) emphasis on market share instead of patient care. It is inexplicable that the applicants would provide no new information to the Board regarding projects: #17-014 Rutgers Park Dialysis, #17-15 Stone Quarry, #17-06 Salt Creek Dialysis. There are still substantial deficiencies that remain as evidenced by this letter and the staff report released for the November Board meeting and that justified the indent-to-deny that the applications received. Further, applications for project #17-029 Melrose Village Dialysis and 17-043 DaVita Romeoville Dialysis have identical deficiencies and introduce even more new problems that Board members cannot overlook. *As* simply as can be put - approving these projects would adversely alter the healthcare delivery system in this HSA in a way that is entirely inconsistent with the HFSRB at its rules. In an effort to help Board members visualize the issue with the applicant's proposal for 72 stations, we have created a map (Attachment A) which plots out each of the proposed facilities and creates a circle around a 10-mile service area per the Board's rule (77 Ill. Admin. 1110.1430.) This picture certainly is worth 1,000 words. You can clearly see how each of the proposed facility service areas completely overlap with one another. There is only one way an applicant could explain this sort of unnecessary duplication of services. An applicant would have to be able to identify patients to fill these stations. But the applicants cannot do that and have refused to comply with the Board's rules. The applicant's referral letter included in these applications and referenced in the SBSR by the applicant's own admission do **not** meet HFSRB standards and serve as an indictment of the applicant's disregard for the HFSRB planning process. The HFSRB has in its possession six copies of the exact same letter (with the date changed on each), that word for word regurgitates the same flawed understanding the HFSRB planning process. It would alter longstanding practice to require referrals sufficient to justify a project - and even more so the express prohibition of utilizing the same patients to justify multiple projects. It is not clear how these "referrals" were accepted by Board staff- but they certainly should not be accepted by this Board. There have been instances in the past when the HFSRB has approved applications for new dialysis facilities with negative findings in an application. In many of those instances the applicant provided context for why they received a negative finding. After several public commenters noted this important issue for the Board at the September Meeting, the applicants responded to the elephant in the room but in the process only obfuscated the truth. The applicant's only explanation was that they expected to fill the facilities with "DMG patients and they are not patients of other providers at this time." With this one statement the applicants managed to not only admit their inability to identify patients for these facilities but they also neglected to mention that some of the "DMG patients" are already seen by other area nephrologists, and those same patients receive dialysis treatments at facilities with excess capacity. The applicant's "innovative" approach for these stations is to plant a flags and siphon patients from existing providers. If you approve it, we will build it, and they will come is not innovative and certainly is not responsible health planning. This will undoubtedly put great strain on other area providers who currently have excess capacity in HSA 7, and unde1mine the cost savings achieved through the area's End Stage Renal Disease (ESRD) Seamless Care Organization (ESCO). This planning process is designed to protect against the very ill-conceived market saturation that the applicants propose. A more practicable approach would be for the applicants to withdraw their applications and assess where there is a true need in the HSA and then submit only necessary applications to this Board. For these reasons, we pray the HFSRB continue to deny these applications and allow for more organized development of ESRD services within these communities."

Appendix V
Support And Opposition Comments

Associates in Nephrology stated in opposition:

"I am writing as the Clinical Operations Director for Associates In Nephrology (AIN), and I am opposed to Project #17-029 Melrose Village Dialysis (a proposed Joint Venture between DaVita, Inc. and DuPage Medical Group, Inc.). Our opposition is based on the fact that this proposed dialysis facility does not provide any new services and only duplicates services as well has a negative impact on other providers. We know the Melrose Park area well because we are already providing services to patients in the community. One of the physicians in AIN, Dr. Constantine Delis is the Medical Director at the Fresenius Medical Care Melrose Park Dialysis Center located at 1111Superior Street, Melrose Park, IL 60160. The new proposed facility would be located a mere 3 mile from this existing 18 station facility. Our Melrose Park Dialysis Center is located on the Westlake Hospital professional building and the facility is currently providing services for 73 patients in an 18 station facility, yielding a utilization of 67.5%. The applicants use information from two physicians in the area Dr. Osvaldo Wagener and Dr. Rajani Kasuri In their application in an attempt to justify this proposed facility. The doctors state they anticipate 68 patients under their care to begin dialysis within 12-24 months. This information demonstrates that there is enough capacity to accommodate both of the doctor's patients at existing facilities. With the current Melrose Park facility at 67.5% utilization, surrounding facilities also with excess capacity, and natural attrition of patients over the next 24 months there is plenty of availability without having to add another dialysis center in HSA 7. Approving new stations would be the exact opposite of the result designed by the Certificate of Need process. The HSFSRB should know that the Fresenius Melrose Park facility has an open medical staff policy. Many of the physicians referenced in the application have privileges at the Melrose Park facility and regularly admit and follow their patients providing them with quality services. Approval of this proposed project would directly support the applicant's attempt to abscond with our patients. The applicants have also submitted **4** other projects (in addition to this one) all within HSA 7. They propose to flood the market with 60 new stations in HSA 7 alone. When you have an infusion of private equity funding, you certainly have the resources to buy your way into the market - but the Certificate of Need Board exits to prevent that from happening when it will adversely disrupt healthcare delivery. That is exactly what will happen if these projects are approved. We have been serving this community for years and understand its needs better than most. The addition of 60 unnecessary stations in HSA 7 will have a detrimental impact on other area providers. It is hard enough for independent providers to exist in this marketplace and in this industry - but giving another Goliath 60 beds could prove to be the straw that breaks the camel's back. The Board raised several serious issues at their September 2017 meeting when these other four projects were considered and all received intent to deny. The Melrose Park Village application has all the same inadequacies that those projects had and more. The idea of bringing all these stations online at once is at best poor planning and at worst outright recklessness."

17-029 DaVita Melrose Village Dialysis - Melrose Park