

Constantino, Mike

From: Joseph Van Leer [JVanLeer@Polsinelli.com]
Sent: Wednesday, June 13, 2012 1:17 PM
To: Constantino, Mike
Cc: Kara Friedman; Anne Cooper
Subject: Evanston Renal Center Relocation (Proj. No. 12-010)
Attachments: Evanston CON Application Modification.pdf

Mike,

DaVita has determined that it no longer desires to expand Evanston Renal Center as part of its CON Application to relocate the facility. Please find a cover letter and the necessary changes to the CON Application enclosed. Please let us know if you have any questions. Thanks so much.

Joe



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Put me in your address book.



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June 13, 2012

VIA ELECTRONIC MAIL

Michael Constantino
Supervisor, Project Review Section
Illinois Department of Public Health
Health Facilities and Services Review Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761

Re: Evanston Renal Center Relocation (Proj. No. 12-010)

Dear Mike:

As you know, DaVita filed a Certificate of Need permit application to relocate and expand Evanston Renal Center by 2 stations. DaVita has determined that it no longer desires to expand the facility as part of the relocation. Thus, enclosed with this letter are the necessary changes to the Evanston Renal Center application. This is a Type B Modification.

The revised application will involve the of the relocation of the existing 18-station facility located at 1715 Central Street, Evanston, Illinois 60201 to a new 18-station facility located at 1922 Dempster Street, Evanston, Illinois 60202. The only changes to the project costs consist of the removal of 2 dialysis machines and 2 chairs from the budget model. Revised project costs are also enclosed.

Also, please note that all of the references to 20 existing stations in the application's narratives should now be to 18 existing stations. If the reference to that fact in this cover letter is not adequate, please let me know and I can send updated replacement pages.

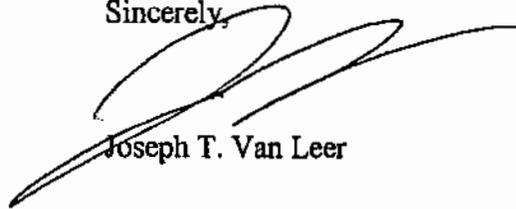
Lastly, we respectfully request that this project remain on the agenda to be considered at the Board's July 23rd and 24th meeting.

June 13, 2012

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Thank you for your continued assistance and please do not hesitate to contact me if you have additional questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Joseph T. Van Leer', written over the typed name.

Joseph T. Van Leer

Encs.

JTV:

2. Narrative Description

Provide in the space below, a brief narrative description of the project. Explain **WHAT** is to be done in **State Board defined terms**, **NOT WHY** it is being done. If the project site does **NOT** have a street address, include a legal description of the site. Include the rationale regarding the project's classification as substantive or non-substantive.

Based on operational limitations at the current site, DaVita Inc. and ISD Renal, Inc. (the "Applicants") seek authority from the Illinois Health Facilities and Services Review Board (the "Board") to relocate their existing 18-station dialysis facility located at 1715 Central Street, Evanston, Illinois 60201 to an 18-station dialysis facility to be located at 1922 Dempster Street, Evanston, Illinois 60202 (the "Replacement Facility"). The proposed dialysis facility will include approximately 10,000 gross square feet.

This project has been classified as substantive because it involves the establishment of a health care facility.

Project Costs and Sources of Funds

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must equal.

| Project Costs and Sources of Funds | | | |
|---|--------------------|--------------------|--------------------|
| USE OF FUNDS | CLINICAL | NONCLINICAL | TOTAL |
| Preplanning Costs | | | |
| Site Survey and Soil Investigation | | | |
| Site Preparation | | | |
| Off Site Work | | | |
| New Construction Contracts | | | |
| Modernization Contracts | \$1,440,200 | | \$1,440,200 |
| Contingencies | \$187,226 | | \$187,226 |
| Architectural/Engineering Fees | \$83,700 | | \$83,700 |
| Consulting and Other Fees | \$40,500 | | \$40,500 |
| Movable or Other Equipment (not in construction contracts) | \$644,838 | | \$644,838 |
| Bond Issuance Expense (project related) | | | |
| Net Interest Expense During Construction (project related) | | | |
| Fair Market Value of Leased Space or Equipment | \$962,926 | | \$962,926 |
| Other Costs To Be Capitalized | | | |
| Acquisition of Building or Other Property (excluding land) | | | |
| TOTAL USES OF FUNDS | \$3,359,390 | | \$3,359,390 |
| SOURCE OF FUNDS | CLINICAL | NONCLINICAL | TOTAL |
| Cash and Securities | \$2,396,464 | | \$2,396,464 |
| Pledges | | | |
| Gifts and Bequests | | | |
| Bond Issues (project related) | | | |
| Mortgages | | | |
| Leases (fair market value) | \$962,926 | | \$962,926 |
| Governmental Appropriations | | | |
| Grants | | | |
| Other Funds and Sources | | | |
| TOTAL SOURCES OF FUNDS | \$3,359,390 | | \$3,359,390 |
| NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. | | | |

G. Criterion 1110.1430 - In-Center Hemodialysis

1. Applicants proposing to establish, expand and/or modernize in-Center Hemodialysis must submit the following information:
2. Indicate station capacity changes by Service: Indicate # of stations changed by action(s):

| Category of Service | # Existing Stations | # Proposed Stations |
|--|---------------------|---------------------|
| <input checked="" type="checkbox"/> In-Center Hemodialysis | 18 | 18 |

3. READ the applicable review criteria outlined below and submit the required documentation for the criteria:

| APPLICABLE REVIEW CRITERIA | Establish | Expand | Modernize |
|---|-----------|--------|-----------|
| 1110.1430(b)(1) - Planning Area Need - 77 Ill. Adm. Code 1100 (formula calculation) | X | | |
| 1110.1430(b)(2) - Planning Area Need - Service to Planning Area Residents | X | X | |
| 1110.1430(b)(3) - Planning Area Need - Service Demand - Establishment of Category of Service | X | | |
| 1110.1430(b)(4) - Planning Area Need - Service Demand - Expansion of Existing Category of Service | | X | |
| 1110.1430(b)(5) - Planning Area Need - Service Accessibility | X | | |
| 1110.1430(c)(1) - Unnecessary Duplication of Services | X | | |
| 1110.1430(c)(2) - Maldistribution | X | | |
| 1110.1430(c)(3) - Impact of Project on Other Area Providers | X | | |
| 1110.1430(d)(1) - Deteriorated Facilities | | | X |
| 1110.1430(d)(2) - Documentation | | | X |
| 1110.1430(d)(3) - Documentation Related to Cited Problems | | | X |
| 1110.1430(e) - Staffing Availability | X | X | |
| 1110.1430(f) - Support Services | X | X | X |
| 1110.1430(g) - Minimum Number of Stations | X | | |
| 1110.1430(h) - Continuity of Care | X | | |
| 1110.1430(j) - Assurances | X | X | X |

APPEND DOCUMENTATION AS ATTACHMENT-26, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

4. Projects for relocation of a facility from one location in a planning area to another in the same planning area must address the requirements listed in subsection (a)(1) for the "Establishment of Services or Facilities", as well as the requirements in Section 1110.130 - "Discontinuation" and subsection 1110.1430(i) - "Relocation of Facilities".

The following Sections **DO NOT** need to be addressed by the applicants or co-applicants responsible for funding or guaranteeing the funding of the project if the applicant has a bond rating of A- or better from Fitch's or Standard and Poor's rating agencies, or A3 or better from Moody's (the rating shall be affirmed within the latest 18 month period prior to the submittal of the application):

- Section 1120.120 Availability of Funds – Review Criteria
- Section 1120.130 Financial Viability – Review Criteria
- Section 1120.140 Economic Feasibility – Review Criteria, subsection (a)

VIII. - 1120.120 - Availability of Funds

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources from the following sources, as applicable: Indicate the dollar amount to be provided from the following sources:

| | | |
|-----------------------------|------------------------------|--|
| \$2,396,464 | a) | Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to: |
| | 1) | the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and |
| | 2) | interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion; |
| _____ | b) | Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience. |
| _____ | c) | Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts; |
| \$962,926 (FMV of Lease) | d) | Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including: |
| | 1) | For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated; |
| | 2) | For revenue bonds, proof of the feasibility of securing the specified amount and interest rate; |
| | 3) | For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.; |
| | 4) | For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment; |
| | 5) | For any option to lease, a copy of the option, including all terms and conditions. |
| _____ | e) | Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent; |
| _____ | f) | Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt; |
| _____ | g) | All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project. |
| \$3,359,390 | TOTAL FUNDS AVAILABLE | |

APPEND DOCUMENTATION AS ATTACHMENT 38 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**Section I, Identification, General Information, and Certification
Project Costs and Sources of Funds**

| Table 1120.110 | | | |
|------------------------------------|--------------------|---------------------|--------------------|
| Project Cost | Clinical | Non-Clinical | Total |
| Modernization Contracts | \$1,440,200 | | \$1,440,200 |
| Contingencies | \$187,226 | | \$187,226 |
| Architectural/Engineering Fees | \$83,700 | | \$83,700 |
| Consulting and Other Fees | \$40,500 | | \$40,500 |
| Moveable and Other Equipment | | | |
| Communications | \$105,115 | | \$105,115 |
| Water Treatment | \$123,585 | | \$123,585 |
| Bio-Medical Equipment | \$11,685 | | \$11,685 |
| Reuse Equipment/Fixtures | \$20,845 | | \$20,845 |
| Clinical Equipment | \$282,870 | | \$282,870 |
| Clinical Furniture/Fixtures | \$22,986 | | \$22,986 |
| Lounge Furniture/Fixtures | \$4,415 | | \$4,415 |
| Storage Furniture/Fixtures | \$7,212 | | \$7,212 |
| Business Office Fixtures | \$13,925 | | \$13,925 |
| General Furniture/Fixtures | \$39,200 | | \$39,200 |
| Signage | \$13,000 | | \$13,000 |
| Total Moveable and Other Equipment | \$644,838 | | \$644,838 |
| Fair Market Value of Leased Space | \$962,926 | | \$962,926 |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Total Project Costs | \$3,359,390 | | \$3,359,390 |

**Section I, Identification, General Information, and Certification
Cost Space Requirements**

| Cost Space Table | | | | | | | |
|---------------------------|--------------------|--------------------------|-----------------|--|-------------------|--------------|----------------------|
| Dept. / Area | Cost | Gross Square Feet | | Amount of Proposed Total Gross Square Feet That Is: | | | |
| | | Existing | Proposed | New Const. | Modernized | As Is | Vacated Space |
| CLINICAL | | | | | | | |
| ESRD | \$3,359,390 | | 10,000 | | 10,000 | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| Total Clinical | \$3,359,390 | | 10,000 | | 10,000 | | |
| NON CLINICAL | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| Total Non-clinical | | | | | | | |
| TOTAL | \$3,359,390 | | 10,000 | | 10,000 | | |

Section III, Project Purpose, Background and Alternatives – Information Requirements
Criterion 1110.230(c), Project Purpose, Background and Alternatives

Alternatives

The Applicants explored several options prior to determining to relocate Evanston Renal Center. After exploring the options below in detail, the Applicants determined to relocate its capacity in order to meet rising demand. A review of each of the options considered and the reasons they were rejected follows.

Do Nothing

This is not a viable option. The Existing Facility is suboptimal for both patients and staff. As the Applicant does not own the building and the lease term is nearing its end, it has determined that it will be better able to serve the needs of its patients if the service is relocated to a modernized facility. The Existing Facility is located in a building that is old, poorly configured, and in need of repair. The Existing Facility presents numerous challenges, as there is no dedicated parking for patients, visitors, or staff, and patients must be dropped off and picked up alongside a congested city street. Unlike most health care facilities that accommodate patients with dedicated parking, patients must utilize metered parking on the street. This is due to the facility's congested and urban location, and poses an inconvenience for patients, many of whom are disabled and/or elderly. Many rely on assistive devices, such as canes and walkers and some have significant visual impairments. Unlike most health care facilities that have special accommodations for impaired patients, there is no dedicated drop-off site for vehicles to drop patients. The lack of a dedicated drop-off area and dedicated adjacent parking creates additional safety hazards when patients are arriving and departing during inclement weather. Also, drivers from nursing homes and other transport companies cannot leave other patients in a distant vehicle to escort patients into the building and this creates limitations on the use of the facility for individuals who are dependent on this type of service.

Additionally, maintenance costs have exceeded reasonable levels. In fact, many walls are in need of repair or replacement, and the entire water treatment system and certain plumbing hardware must be replaced. The building's fire safety system is in need of upgrading. Because it is an existing building, it is not required to have a sprinkler system. However, once relocated, it will be required to have such a system which will enhance fire protection for patients, staff and visitors. Also, there is ongoing water leakage at the Existing Facility and concerns that this may lead to mold problems. Finally, capital improvements cannot address the Existing Facility's accessibility and parking issues. At this time, the dialysis machines are nearing obsolescence and will require replacement shortly regardless of the location of the facility. The new facility will be state-of-art with new machines, monitoring equipment and bio-tech systems and adequate parking including a dedicated pick-up and drop-off location with appropriate curb cuts as well as parking designated for handicapped patients. Thus, relocation of the Existing Facility will ensure that patients receive access to modern, high quality dialysis treatment during the day.

There is no capital cost with this alternative.

Utilize Existing Facilities

There is currently a need for 82 dialysis stations in HSA 7. Currently, the Existing Facility serves 56 ESRD patients. Dr. Sprague, the Medical Director for Evanston Renal Center, anticipates all 56 current patients will transfer to the Replacement Facility. Dr. Sprague is currently treating 52 pre-ESRD patients that reside in and around Evanston. See Attachment – 13A. Based upon attrition due to patient death, transplant, or return of function, it is projected that 42 of the patients will require dialysis within the next 12 to 18 months. Thus, approximately 98 patients will be referred to the Replacement Facility within 12 to 18 months. This represents a 91% utilization rate, which exceeds the State's 80% standard. There is insufficient capacity in the GSA to accommodate projected

demand. Utilization of existing facilities in operation for at least two years is 74%. Thus, the relocation of Evanston Renal Center is necessary to meet the dialysis needs of these patients.

There is no capital cost with this alternative.

Relocate Evanston Renal Center

DaVita determined that the most effective and efficient way to serve its patients and address the need for more stations in HSA 7 is to relocate the existing facility. The proposed site for the Replacement Facility is located just 2.35 miles from the current site, and will adequately serve Evanston Renal Center's current and projected patient-base.

Thus, the Applicants selected this option.

The cost associated with this option is \$3,359,390.

| Table 1110.230(c) | | | | |
|---|-----------------------|---------------|---------------------|---------------|
| Alternatives to Proposed Project | | | | |
| Cost Benefit Analysis | | | | |
| Alternative | Community Need | Access | Capital Cost | Status |
| Do Nothing | Not Met | Decreased | \$0 | Reject |
| Utilize Existing Facilities | Not Met | Decreased | \$0 | Reject |
| Relocate Facility | Met | Increased | \$3,359,390 | Accept |

Section IV, Project Scope, Utilization, and Unfinished/Shell Space
Criterion 1110.234(a), Size of the Project

The Applicants propose to relocate an existing dialysis facility. Pursuant to Section 1110, Appendix B of the HFSRB's rules, the State standard allows for a maximum of 9,360 gross square feet for 18 dialysis stations. The total gross square footage of the proposed dialysis facility is 10,000 gross square feet, which is slightly above this figure (approximately 7%). This allows for additional space which will permit expansion in future years as demand continues to increase.

Section IV, Project Scope, Utilization, and Unfinished/Shell Space
Criterion 1110.234(b), Project Services Utilization

By the second year of operation, the proposed facility's annual utilization shall exceed HFSRB's utilization standard of 80%. Pursuant to Section 1100.1430 of the HFSRB's rules, facilities providing in-center hemodialysis should operate their dialysis stations at or above an annual utilization rate of 80%, assuming three patient shifts per day per dialysis station, operating six days per week.

Dr. Sprague projects that 56 patients currently receiving treatment at the Existing Facility and will continue treatment at the Replacement Facility. Dr. Sprague is currently treating 52 pre-ESRD patients that reside in and around Evanston. See Attachment – 12A. Based upon attrition due to patient death, transplant, or return of function, it is projected that 42 of the patients will require dialysis within the next 12 to 18 months. Thus, approximately 98 patients will be referred to the Replacement Facility within 12 to 18 months. This represents a 91% utilization rate, which exceeds the State's 80% standard.

| | Dept./ Service | Historical Utilization (Treatments) | Projected Utilization | State Standard | Met Standard? |
|------------------------------|---------------------------|--|----------------------------------|---------------------------|--------------------------|
| 2009 | ESRD | 7,641 | N/A | 13,478 | Not Met |
| 2010 | ESRD | 8,380 | N/A | 13,478 | Not Met |
| 2011 (Annualized) | ESRD | 8,334 | N/A | 13,478 | Not Met |
| 2012 | ESRD | N/A | 15,288 | 13,478 | Yes |
| 2013 | ESRD | N/A | 15,288 | 13,478 | Yes |

Section X, Economic Feasibility Review Criteria
Criterion 1120.310(c), Reasonableness of Project and Related Costs

1. The Cost and Gross Square Feet by Department is provided in the table below.

| Table 1120.310(c) | | | | | | | | | |
|--|-------------------------|-----------------|----------------------|--------|-----------------------|--------|----------------------|--------------------|-----------------------|
| COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE | | | | | | | | | |
| Department (list below) | A | B | C | D | E | F | G | H | Total Cost (G + H) |
| | Cost/Square Foot New | Mod. | Gross Sq. Ft. New | Circ.* | Gross Sq. Ft. Mod. | Circ.* | Const. \$ (A x C) | Mod. \$ (B x E) | |
| ESRD | | \$144.00 | | | 10,000 | | | \$1,440,200 | \$1,440,200 |
| Contingency | | \$18.72 | | | 10,000 | | | \$187,226 | \$187,226 |
| TOTALS | | \$162.74 | | | 10,000 | | | \$1,627,426 | \$1,627,426 |

* Include the percentage (%) of space for circulation

2. As shown in Table 1120.310(c) below, the project costs are below the State Standard.

| Table 1120.310(c) | | | |
|--------------------------------|-------------------------|---|-----------------------------------|
| | Proposed Project | State Standard | Above/Below State Standard |
| Modernization Costs | \$1,440,200 | \$149.35 per gross square foot x 10,000 gross square feet = \$1,493,500 | Below State Standard |
| Contingencies | \$187,226 | 10 - 15% of Modernization Costs = 10 - 15% x \$1,440,200 = \$144,020 - \$216,030 | Meets State Standard |
| Architectural/Engineering Fees | \$83,700 | 6.53 - 9.81% x (Construction Costs + Contingencies) = 6.53 - 9.81% x (\$1,440,200 + \$187,226) = 6.53 - 9.81% x \$1,627,426 = \$106,271 - \$159,650 | Below State Standard |
| Consulting and Other Fees | \$40,500 | No State Standard | No State Standard |
| Moveable Equipment | \$644,838 | \$39,945 per station \$39,945 x 18 = \$719,010 | Below State Standard |