PROJECT DESCRIPTION: DaVita HealthCare Partners, Inc., and Total Renal Care, Inc. (the "Applicants"), are proposing to acquire control of Community Dialysis of Harvey, an existing eighteen (18) station end stage renal dialysis ("ESRD") facility located at 16641 Halsted Street, Harvey, Illinois. The proposed cost of the transaction is $4,000,000. The anticipated completion date is December 31, 2014.
EXECUTIVE SUMMARY

PROJECT DESCRIPTION:
- DaVita HealthCare Partners, Inc. and Total Renal Care, Inc. (the "Applicants"), are proposing to acquire control of Community Dialysis of Harvey, an existing eighteen (18) station end stage renal dialysis ("ESRD") facility located at 16641 Halsted Street, Harvey, Illinois. The proposed cost of the transaction is $4,000,000. **The anticipated completion date is December 31, 2014.**
- Community Dialysis of Harvey is an existing 18 station ESRD facility located in Harvey, Illinois. The applicants propose to acquire all assets of the ESRD facility from Community Dialysis, LLC, for $4,000,000. Upon project completion, the facility will be renamed Harvey Dialysis. **Current utilization (March 2014) of the ESRD facility is 64.8%.**

WHY THE PROJECT IS BEFORE THE STATE BOARD:
- The project proposes a change of ownership of a health care facility as defined by the Act. (20 ILCS 3960/3) A change of ownership of a health care facility means a change in the person who has ownership or control of a health care facility's physical plant and capital assets.

PURPOSE OF THE PROJECT:
- The project's purpose is to ensure the ongoing health and well-being of the patients that are currently being served by this eighteen station end stage renal dialysis ("ESRD") facility. The project will create economies of scale, integrate clinical, administrative, and support functions, eliminate functional redundancies, redesign patient care delivery, and allow the systems to share the resources and benefits of DaVita’s infrastructure and quality initiatives.

TRANSACTION:
- The applicants are proposing to purchase the personal property (furniture, fixtures, and equipment) of the existing dialysis facility currently owned by Community Dialysis, LLC at a cost of $4,000,000. Upon State Board approval the applicants will sub lease the space to operate the dialysis center from 167th and Halsted, LLC. The project file contains a copy of the asset purchase agreement for this transaction.

BACKGROUND/COMPLIANCE ISSUES:
- The applicants do not have any outstanding compliance issues

PUBLIC HEARING/COMMENT
- No public hearing was requested and no letters of support or opposition were received by the State Board Staff.

CONCLUSIONS:
- The applicants have met all of the requirements of the State Board.
I. The Proposed Project

DaVita HealthCare Partners, Inc., and Total Renal Care, Inc. (the "Applicants"), are proposing to acquire control of Community Dialysis of Harvey, an existing eighteen (18) station end stage renal dialysis ("ESRD") facility located at 16641 Halsted Street, Harvey, Illinois. The proposed cost of the transaction is $4,000,000. The anticipated completion date is December 31, 2014.

II. Summary of Findings

A. The State Board Staff finds the proposed project appears to be in conformance with the provisions of Part 1110.

B. The State Board Staff finds the proposed project appears to be in conformance with the provisions of Part 1120.

III. General Information

The applicants are DaVita Healthcare Partners, Inc., and Total Renal Care, Inc.. The facility is located at 16641 Halsted Street, Harvey, Illinois in Cook County and the HSA VII ESRD Planning Area. The owner of the site is 167th and Halsted, LLC and the operating entity will be Total Renal Care, Inc.

IV. Project Costs and Sources of Funds

The applicants are funding this transaction in its entirety with cash and securities totaling $4,000,000.
VI. Section 1110.230 - Background, Project Purpose, and Alternatives

A) Criterion 1110.230 (a) - Background of Applicant

1) An applicant must demonstrate that it is fit, willing and able, and has the qualifications, background and character, to adequately provide a proper standard of health care service for the community. [20 ILCS 3960/6] In evaluating the qualifications, background and character of the applicant, HFPB shall consider whether adverse action has been taken against the applicant, or against any health care facility owned or operated by the applicant, directly or indirectly, within three years preceding the filing of the application. A health care facility is considered "owned or operated" by every person or entity that owns, directly or indirectly, an ownership interest. If any person or entity owns any option to acquire stock, the stock shall be considered to be owned by such person or entity (refer to 77 Ill. Adm. Code 1100 and 1130 for definitions of terms such as "adverse action", "ownership interest" and "principal shareholder").

An Illinois Certificate of Good Standing was provided for Total Renal Care, Inc., and DaVita Healthcare Partners, Inc, a Delaware-based corporation. The applicants have provided the necessary documentation as required by the State Board rules. It appears the applicants are fit, willing and able and have the qualifications, background and character to provide the proper standard of care to the community.

B) Criterion 1110.230(b) - Purpose of the Project

The applicant shall document that the project will provide health services that improve the health care or well-being of the market area population to be served.

The applicants state the following regarding this criterion. “The proposed project contemplates a change of ownership and control of an existing health care facility, specifically, the acquisition of Community Dialysis of Harvey, an 18-station ESRD facility, by DaVita Healthcare Partners, Inc., and Total Renal Care, Inc. (the "Applicant"). The project's purpose is to ensure the ongoing health and well-being of the patients that are currently being served by this end stage renal dialysis ("ESRD") facility. The project also will ensure that the acquisition will create economies of scale, integrate clinical, administrative, and support

<table>
<thead>
<tr>
<th>TABLE ONE Project Costs and Sources of Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project Costs</strong></td>
</tr>
<tr>
<td>Other Costs to be Capitalized</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td><strong>Sources</strong></td>
</tr>
<tr>
<td>Cash and Securities</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
functions, eliminate functional redundancies, redesign patient care delivery, and allow the systems to share the resources and benefits of DaVita’s infrastructure and quality initiatives. The Facility is located at 16641 Halsted Street, Harvey, Illinois 60426. The Applicant intends to serve the same geographic area that the existing ESRD Facility has been serving since it was first issued a CON permit from the Illinois Health Facilities and Services Review Board.”

C) Alternatives to the Proposed Project – Information Requirements
The applicant shall document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.

The applicants considered two alternative:

Do Nothing
The first alternative considered by the Applicant was to maintain the status quo and forgo changing ownership. There was no cost to this alternative. This option was rejected by the Applicant because the existing owner no longer wants to be a supplier of dialysis services. Thus, the change of ownership is necessary to ensure that dialysis patients living in Harvey, Illinois and its surrounding communities can continue to access high-quality dialysis services from a Medicare-certified supplier that is able to offer a treatment plan that best meets the medical needs of each patient.

Joint Venture with Community Dialysis of Harvey
The alternative of a joint venture agreement was rejected due to Community Dialysis of Harvey’s decision to divest itself from the dialysis business. The applicants note having the ability to provide greater economies of scale, clinical, administrative and support functions, and patient care delivery under the DaVita Healthcare Partners, Inc. infrastructure. Because of these advantages, this alternative was rejected.

Acquire Community Dialysis of Harvey
The applicants carefully evaluated this alternative, and chose it as the best option. Due to the ability to improve operational efficiencies, create better clinical outcomes, and provide better access to new and innovative dialysis services. Cost of this alternative: $4,000,000.
VII. Section 1110.240 - Changes of Ownership, Mergers and Consolidations

A) Impact Statement – Review Criterion. The applicant must submit an impact statement which details any proposed changes in the beds or services currently offered, who the anticipated operating entity will be, the reason for the transaction, any anticipated additions or reductions in employees, and a cost/benefit analysis of the transaction. The statement must reflect at least a two-year period following the date of the change of ownership, merger or consolidation.

B) Access – Review Criterion. The applicant must document any changes which may result in the restriction of patient admissions and document that no reductions in access to care will result from the transaction. Documentation shall consist of a written certification that the admission policies of the facilities involved will not become more restrictive and the submission of both the current formal admission policies of all institutions involved and the anticipated policy following completion of the project.

C) Health Care System – Review Criterion

1) The applicant must document that:

   A) the applicant's care system will not restrict the use of other area care providers; or

   B) the project improves access to services previously unavailable in the community because of the structure of the applicant's care system.

The applicants stated the following:

This CON permit application seeks State Board approval for a change of ownership of an existing ESRD facility. The applicants believe that the continuation of the Facility is vital to the health care needs of the community, and feels they are poised to provide greater service based on their infrastructure, processes, and quality initiatives. The applicants are not part of a healthcare system. The applicants will not reduce the number of ESRD stations at the Facility following the proposed change of ownership, and may submit a subsequent proposal to add dialysis stations at a later date, if needed. The applicants do not anticipate any addition or reductions in its employees. The goal of this project is to ensure that dialysis patients living in Harvey, Illinois and its surrounding communities can continue to receive high-quality dialysis services from a provider who is better positioned to serve the needs of the ESRD population in Harvey, and HSA-07. The applicants supplied a letter of Intent, outlining the proposed transaction (application, p. 80).
VIII. 1120.120 - Availability of Funds

The applicants have sufficient funds to finance the project in its entirety, and a copy of DaVita’s 2013 10-K statement was submitted with this application.

IX. 1120.130 - Financial Viability

The transaction is being financed internally with cash. Supporting documentation (2013 10-K Statement), attests to the applicants financial viability.

X. 1120.140 - Economic Feasibility

XI. Reasonableness of Financing Arrangements

XII. Terms of Debt Financing

The transaction involves no debt financing, therefore, these criteria are not applicable.

XIII. Criterion 1120.140(c) - Reasonableness of Project Costs

Other Costs to be Capitalized are $4,000,000. These costs are for the purchase price only. The State Board does not have a standard for these costs.

XIV. Criterion 1120.140 (d) - Projected Operating Costs

The criterion states:

“The applicant must provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year after project completion or the first full fiscal year when the project achieves or exceeds target utilization pursuant to 77 Ill. Adm. Code 1100, whichever is later. Direct costs mean the fully allocated costs of salaries, benefits, and supplies for the service.”

The applicants project $266.77 of annual operating costs per equivalent patient day for the first year of operation. The State Board does not have a standard for this cost.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PROJECTED OPERATING COSTS CRITERION (77 IAC 1120.140(d)).
XV. Criterion 1120.140 (e) - Total Effect of the Project on Capital Costs.

The criterion states:

“The applicant must provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year after project completion or the first full fiscal year when the project achieves or exceeds target utilization pursuant to 77 Ill. Adm. Code 1100, whichever is later.”

The applicants project $21.66 per adjusted patient day in annual capital costs for the first year of operation. The State Board does not have a standard for this cost.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS CRITERION (77 IAC 1120.140(e)).
### Ownership, Management and General Information

**Name:** Community Dialysis of Harvey  
**Address:** 16657 South Halsted Street  
**City:** Harvey  
**County:** Cook  
**HSA:** 7  
**Medicare ID:** 14-2698  
**Legal Entity Operator:** Renal Management  
**Legal Entity Owner:** Renal Management  
**Ownership Type:** For Profit Corporation  
**Property Owner:** 167th and Halsted LLC  
**Medical Director Name:** Dr. William Evans  
**Provides Incenter Nocturnal Dialysis:** ☐

### STATION INFORMATION

| Authorized Stations as of 12/31/2012: | 18  
| Certified Stations by CMS: | 18  
| Peak Authorized Stations Operated: | 18  
| Authorized Stations Setup and Staffed in Oct 1-7: | 18  
| Isolation Stations Set up in Oct 1-7: | 0  

<table>
<thead>
<tr>
<th>Number of Shifts Operated per day</th>
<th>(subset of authorized stations)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</table>

### STATION INFORMATION

<table>
<thead>
<tr>
<th>Date of Operation</th>
<th>Oct 1</th>
<th>Oct 2</th>
<th>Oct 3</th>
<th>Oct 4</th>
<th>Oct 5</th>
<th>Oct 6</th>
<th>Oct 7</th>
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</thead>
<tbody>
<tr>
<td>Hours operated</td>
<td>15</td>
<td>12</td>
<td>15</td>
<td>12</td>
<td>15</td>
<td>12</td>
<td>0</td>
</tr>
<tr>
<td>Number of Patients Treated</td>
<td>41</td>
<td>30</td>
<td>41</td>
<td>30</td>
<td>41</td>
<td>30</td>
<td>0</td>
</tr>
</tbody>
</table>

### Facility Utilization Information

**Facility Reported Patient Information**

- **Patients treated as of 1/1/2012:** 70  
  **(Beginning patients)***

- **Patients treated as of 12/31/2012:** 70  
  **(Ending patients)***

- **Total Unduplicated patients treated in calendar year:** 116

**Facility Reported Treatment Information**

- **In-Center Treatments in calendar year:** 10,155
- **Number of Missed Treatments:** 1,204
- **Average Daily Treatments:** 240.0
- **Average Treatment Time (min):** 240.0

### ADDITIONS to the FACILITY

- **New Patients:** 37  
- **Recovered patients:** 2  
- **Treatment Capacity/year (based on Stations):** 16,848
- **Use Rate (Treatments/Treatment capacity):** 60%

### LOSSES to the FACILITY

- **Transplant Patients:** 0  
- **Transplant Recipients:** 1  
- **Use Rate (Beginning patients treated):** 65%
- **Use Rate Year end patients/Station**

- **Patients Re-Started:** 1  
- **Patients voluntarily discontinued:** 0  
- **Use Rate (Including Missed Treatments):** 67%
- **Renal Network Use Rate:** 59%

- **Patients lost to follow up:** 0  
- **Patients voluntarily discontinued:** 0  
- **Use Rate (Year end Patients/Station**

- **Patients deceased:** 2  
- **Patients voluntarily discontinued:** 0  
- **Use Rate (Year end Patients/Station**

### Facility Staffing - Full Time Equivalent

| Full-Time Work Week | 0  
| Registered Nurse | 4  
| Dialysis Technician | 11  
| Dietician | 0  
| Social Worker | 0  
| LPN | 0  
| Other Health | 0  
| Other Non-Health | 0  

### USE RATE for the FACILITY

<table>
<thead>
<tr>
<th>Medicare</th>
<th>Medicaid</th>
<th>Private Insurance</th>
<th>Charity</th>
<th>Private Pay</th>
<th>Other Public</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>71.6%</td>
<td>19.8%</td>
<td>8.6%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

| Patient | 83    | 23    | 10    | 0     | 0     | 0     | 116   |

<table>
<thead>
<tr>
<th>1/1/2012 to 12/31/2012</th>
<th>67.3%</th>
<th>12.6%</th>
<th>20.1%</th>
<th>0.0%</th>
<th>0.0%</th>
<th>0.0%</th>
<th>100.0%</th>
</tr>
</thead>
</table>

| Net Revenue | $2,020,846 | $378,027 | $601,652 | $0 | $0 | $0 | $3,000,525 |

### Patients by Age and Sex

<table>
<thead>
<tr>
<th>AGE GROUPS</th>
<th>MALE</th>
<th>FEMALE</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;14 yrs</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>15-44 yr</td>
<td>15</td>
<td>12</td>
<td>27</td>
</tr>
<tr>
<td>45-64 yr</td>
<td>34</td>
<td>10</td>
<td>44</td>
</tr>
<tr>
<td>65-74 yr</td>
<td>22</td>
<td>7</td>
<td>29</td>
</tr>
<tr>
<td>75 &lt; yrs</td>
<td>11</td>
<td>5</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>82</td>
<td>34</td>
<td>116</td>
</tr>
</tbody>
</table>

### Patients by Race

<table>
<thead>
<tr>
<th>Patients by Ethnicity</th>
<th>Patients by Race</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian Patients:</td>
<td>Hispanic Latino Patients:</td>
</tr>
<tr>
<td>Native American/ Indian:</td>
<td>Non-Hispanic Latino Patient</td>
</tr>
<tr>
<td>Black/ African American :</td>
<td>Unknown Ethnicity Patients</td>
</tr>
<tr>
<td>Hawaiian / Pacific Islande</td>
<td>TOTAL:</td>
</tr>
<tr>
<td>White:</td>
<td>14</td>
</tr>
<tr>
<td>Unknown :</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL:</td>
<td>116</td>
</tr>
</tbody>
</table>

### Patients by Ethnicity

Source: Data based on 2012 Annual ESRD Questionnaire administered on behalf of Illinois Department of Public Health, Health Systems Development.