



STATE OF ILLINOIS

HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

DOCKET NO: H-06	BOARD MEETING: January 27, 2015	PROJECT NO: 14-059	PROJECT COST: Original: \$291,610
FACILITY NAME: Fresenius Medical Care Glendale Heights		CITY: Glendale Heights	
TYPE OF PROJECT: Substantive			HSA: VII

PROJECT DESCRIPTION: The applicants (WSKC Dialysis Services, Inc., and Fresenius Medical Care Holdings, Inc.) are proposing to add 8 stations to its existing 21 station end stage renal dialysis ("ESRD") facility in Glendale Heights, Illinois. The cost of the project is \$291,610 and the project completion date is January 31, 2016.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicants (WSKC Dialysis Services, Inc., and Fresenius Medical Care Holdings, Inc.) are proposing to add 8 stations to an existing 21 station end stage renal dialysis (“ESRD”) facility in Glendale Heights, Illinois. The cost of the project is \$291,610 and the project completion date is January 31, 2016

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- This project is before the State Board because the project proposes to expand an existing health care facility as defined by Illinois Health Facilities Planning Act (20 ILCS 3960(3)).

PURPOSE OF THE PROJECT:

- **According to the applicants the purpose of the project is** *“to maintain life-sustaining dialysis services, cost-effectively, in the Glendale Heights area by adding 8 stations in existing space at the Fresenius Glendale Heights ESRD facility, which is currently operating at 89%”*. Board Staff notes the current 21-staion facility is operating at 88.89% capacity, per the September 2014 ESRD update.

NEED FOR THE PROJECT:

- The applicants note FMC Glendale Heights has been operating in excess of the State standard (80%) for the last 3 quarters (March 2014, July 2014, and September 2014). Board Staff confirms that the facility has operated in excess of the 80th percentile during the last three reporting quarters (See Table One).
- The current facility now has 21 stations, and is operating at 89% utilization. The historical and projected increases in utilization suggest having to add a fourth shift, if additional stations are not introduced.
- According to the December 2014 Inventory Update, there is a need for 32 additional ESRD stations in HSA-07.

PUBLIC COMMENT:

- An opportunity of a public hearing was provided however no hearing was requested. No letters of support or opposition were received by the State Board Staff.

FINANCIAL:

- The applicants are funding the project with cash and cash equivalents totaling \$177,010, and the fair market value of lease and equipment of \$114,600. The applicants have provided sufficient proof of financial viability.

WHAT WE FOUND

- The applicants addressed 11 criteria and appear to meet all of them.

STATE BOARD STAFF REPORT
Fresenius Medical Care Glendale Heights
PROJECT #14-059

APPLICATION CHRONOLOGY	
Applicants(s)	WSKC Dialysis Services, Inc. d/b/a Fresenius Medical Care Glendale Heights Fresenius Medical Care Holdings, Inc.
Facility Name	Fresenius Medical Glendale Heights
Location	130 East Army Trail Road, Glendale Heights
Permit Holder	WSKC Dialysis Services, Inc. d/b/a Fresenius Medical Care Glendale Heights
Operating Entity	WSKC Dialysis Services, Inc. d/b/a Fresenius Medical Care Glendale Heights
Owner of the Site	Glendale Heights Retail Investors, LLC
Application Received	November 7, 2014
Application Deemed Complete	November 17, 2014
Can applicants request a deferral?	Yes
Review Period Extended by the State Board Staff?	No

I. The Proposed Project

The applicants are proposing to add 8 stations to an existing 21-station ESRD facility in Glendale Heights, Illinois. The cost of the project is \$291,610 and the project completion date is January 31, 2016.

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 WSKC Dialysis Services, Inc. d/b/a Fresenius Medical Care Glendale Heights and Fresenius Medical Care Holdings, Inc. Fresenius Medical Care Holdings, Inc., a New York corporation, is a subsidiary of Fresenius Medical Care AG & Co. KGaA, a German partnership. The facility is located at 130 East Army Trail Road, Glendale Heights. The operating entity is WSKC Dialysis Services, Inc. d/b/a Fresenius Medical Care Glendale Heights. The owner of the site is Glendale Heights Retail Investors, LLC.

The project is a substantive project and is subject to Part 1110 and Part 1120 review. Obligation will occur after permit issuance. **The anticipated project completion date is January 31, 2016.**

The facility is located in the HSA 7 ESRD Planning Area. HSA 7 ESRD Planning Area includes suburban Cook and DuPage Counties. The State Board is currently projecting a need for 32 additional ESRD stations in the HSA 7 ESRD Planning Area by CY 2015.

IV. The Proposed Project – Details

The applicants are proposing to add 8 ESRD stations to an existing 21-station facility, in Glendale Heights. The current facility consists of 11,100 GSF of space, and will utilize 1,200 additional GSF of space to accommodate the additional 8 stations. No new construction will occur at the existing facility. The current facility has operated in excess of the State standard for ESRD facilities (80%), for three of the last four reporting quarters, and the additional stations will address recent overcrowding at the facility.

TABLE ONE FMC Glendale Heights Quarterly Utilization Data	
Quarter	Percentile
December 2013	76.2%
March 2014	84.1%
June 2014	87.3%
September 2014	88.89%

V. Project Costs and Sources of Funds

The applicants are funding the project with cash and securities of \$177,010 and a lease with a FMV of \$114,600. All costs are considered clinical costs.

TABLE TWO Project Costs and Sources of Funds	
USE OF FUNDS	TOTAL
Modernization Contracts	\$12,000
Movable or Other Equipment (not in construction contracts)	\$165,010
Fair Market Value of Leased Space or Equipment	\$114,600
TOTAL USES OF FUNDS	\$291,610
SOURCE OF FUNDS	TOTAL
Cash and Securities	\$177,010
Leases (fair market value)	\$114,600
TOTAL SOURCES OF FUNDS	\$291,610

VI. Section 1110.230 - Purpose of Project, Safety Net Impact Statement and Alternatives – Information Requirements

A) Criterion 1110.230 (a) - Purpose of the Project – Information Requirements

The applicants stated the following: The purpose of this project is to maintain the provision of life-sustaining dialysis services to residents of Glendale Heights, in the most cost effective way. The applicants report having operated in excess of the State Board standard (80%) for many years, and having to establish additional stations as recent as 2013. The facility was forced to relocate in 2013, due to flooding at the facility, and has recently moved into larger space that will facilitate the proposed expansion. The facility continues to operate in excess of the State Standard, and is currently serving 112 End Stage Renal Dialysis patients.

B) Criterion 1110.230 (b) - Safety Net Impact Statement – Information Requirements

The applicants stated the following: *The expansion of the Fresenius Medical Care Glendale Heights dialysis facility will not have any impact on safety net services in Glendale Heights, or the DuPage County service area. Outpatient dialysis services are not typically considered "safety net" services, to the best of our knowledge. However, we do provide care for patients in the community who are economically challenged and/or who are undocumented aliens, who do not qualify for Medicare/Medicaid. We assist patients who do not have insurance in enrolling when possible in Medicaid and/or Medicaid as applicable, and also our social services department assists patients who have issues regarding transportation and/or who are wheel chair bound or have other disabilities which require assistance with respect to dialysis services and transport to and from the unit. This particular application will not have an impact on any other safety net provider in the area, as no hospital within the area provides dialysis services on an outpatient basis. Fresenius Medical Care is a for-profit publicly traded company and is not required to provide charity care, nor does it do so according to the Board's definition. However, Fresenius Medical Care provides care to all patients regardless of their ability to pay. There are patients treated by Fresenius who either do not qualify for or will not seek any type of coverage for dialysis services. These patients are considered "self-pay" patients. These patients are invoiced as all patients are invoiced, however payment is not expected and Fresenius does not initiate any collections activity on these accounts. These unpaid invoices are written off as bad debt. Fresenius notes that as a for profit entity, it does pay sales, real estate and income taxes. It also does provide community benefit by supporting various medical education activities and associations, such as the Renal Network and National Kidney Foundation. See pages 63 of the application for permit.*

TABLE TWO			
Safety Net Information per PA 96-0031			
CHARITY CARE			
	2011	2012	2013
Net Revenue	\$362,977,407	\$387,393,758	\$398,570,288
Charity * (# of self-pay patients)	93	203	642
Charity (cost In dollars)	\$642,947	\$1,536,372	\$5,346,976
Ratio Charity Care Cost to Net Patient Revenue	0.18%	0.40%	1.34%
MEDICAID			
Medicaid (# of patients)	1,865	1,705	1,660
Medicaid (revenue)	\$42,367,328	\$36,254,633	\$31,373,534
Ratio Medicaid to Net Patient Revenue	12%	9.36%	7.87%

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

The applicants note having considered, and acted on some of the alternatives listed below:

A. Pursuing a joint venture or similar arrangement with one or more providers of entities to meet all or a portion of the project's intended purposes' developing alternative settings to meet all or a portion of the project's intended purposes.

The applicants note the facility is currently not a joint venture, and the proposal to add stations does not justify the need to enter into such an arrangement. Therefore, this option was rejected.

B. Add Fewer Stations

The applicants report having added 4 ESRD stations to the initial 17-station complement in late 2013 to accommodate a growing patient population, and level the utilization rate to meet the 80th percentile. Despite the recent addition, the facility is once again operating in excess of the State standard, and the applicants foresee the addition a minimum of 8 stations to address this recent overage. The applicants rejected the alternative of adding less than 8 stations.

C. Relocate/Build a New Facility

The applicants rejected this alternative as being the least cost effective means of addressing the recent overcrowding, and estimated the cost of this alternative to be \$4,421,707. The applicants felt the alternative of adding stations to the existing facility as its most viable, cost-effective alternative.

D. Alternative as Chosen

The applicants chose the presented alternative as the most cost-effective way to meet the present and future patient demand. The applicants notes this alternative will not result in unnecessary duplication of common areas, will create a continuum of care for Dr. DeJesus' patients, and meets State Board criterion.

VII. Section 1110.234 - Project Scope and Size, Utilization and Unfinished/Shell Space

A) Criterion 1110.234 (a) - Size of Project

The applicants are currently operating a 21-station ESRD facility in 11,100 GSF of leased space, in Glendale Heights. The applicants propose to expand the existing facility through the addition of 8 ESRD stations, and 1,200 additional gross square feet of space, in the same building. Upon project completion the 29-station facility will be housed in 12,300 GSF of space, resulting 424 GSF per station.

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

B) Criterion 1110.234 (b) - Project Services Utilization

The applicant shall document that, by the end of the second year of operation, the annual utilization of the clinical service areas or equipment shall meet or exceed the utilization standards specified in Appendix B.

The applicants are currently providing in center hemodialysis services to 112 patients, as of June 2014, which exceeds the 80% utilization target for a 21-station facility. Dr. Ernest DeJesus, M.D., the referring physician, is currently treating 293 pre-ESRD patients, and expects to refer 105 of these patients to utilize the expanded facility, upon project completion (application p. 43). The applicants have met the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH CRITERION PROJECT SERVICES UTILIZATION (77 IAC 1110.234 (b))

C) Criterion 1110.234 (e) - Assurances

The applicants have attested that the proposed facility will be at target occupancy of 80% by the second year after project completion. See page 55 of the application for permit.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH CRITERION ASSURANCES (77 IAC 1110.234 (e))

VIII. Section 1110.1430 - In-Center Hemodialysis Projects

A) Criterion 1110.1430 (b) - Background of Applicant

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]

The applicants have provided the necessary information at pages 30-35 of the application for permit to address this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION BACKGROUND OF APPLICANT (77 IAC 1110.1430 (b) (1) (3))

B) Criterion 1110.1430 (b) - Planning Area Need

The applicant shall document that the number of stations to be established or added is necessary to serve the planning area's population, based on the following:

- 1) 77 Ill. Adm. Code 1100 (Formula Calculation)**
- 2) Service to Planning Area Residents**
- 3) Service Demand**
- 4) Service Accessibility**

The applicants note the current 21-station facility has operated in excess of the State Board standard for three of the last 4 quarters (See Table One), and notes the need to address overcrowding has resulted in adding four stations in 2013, and taking the operation of a 4th shift under consideration. Board Staff notes the facility is currently operating at 88.89% (see Table One), and the option of adding a 4 shift appears imminent. Board Staff notes there is a current need for 32 additional ESRD stations in HSA-07, and that the additional stations may ease overcrowding at the applicant facility, and address a shortage of ESRD stations in the service area. The applicants have met the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH CRITERION PLANNING AREA NEED (77 IAC 1110.1430 (b))

- C) **Criterion 1110.1430 (e) -Staffing**
- D) **Criterion 1110.1430 (f) -Support Services**
- E) **Criterion 1110.1430 (j) -Assurances**

The applicants have provided the necessary information to successfully address criteria listed above at pages 51-55 of the application for permit.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE
IN CONFORMANCE WITH CRITERION STAFFING, SUPPORT
SERVICES, AND ASSURANCES (77 IAC 1110.1430 (e)(f)(j))**

FINANCIAL

IX. Section 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.

The applicants are funding the project with cash and cash equivalents of \$177,010 and the fair market value of lease and equipment of \$114,600. The applicants have sufficient resources available to fund the proposed project.

TABLE THREE Fresenius Medical Care Audited Financial Information In thousands (000)		
Calendar Year	2013	2012
Cash and Investments	\$275,719	\$341,071
Current Assets	\$3,866,123	\$5,673,703
Total Assets	\$16,597,314	\$17,808,635
Current Liabilities	\$2,094,693	\$2,510,111
Long Term Debt	\$2,113,723	\$2,030,126
Total Liabilities	\$8,075,490	\$8,401,166
Net Revenues	\$9,433,192	\$8,885,401
Expenses	\$8,088,952	\$7,384,745
Income Before Tax	\$1,344,240	\$1,500,656
Income Tax	\$465,540	\$497,177
Net Income	\$878,700	\$1,003,479

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

X. Section 1120.130 - Financial Viability

The applicant is NOT required to submit financial viability ratios if all project capital expenditures, including capital expended through a lease, are completely funded through internal resources (cash, securities or received pledges).

The applicants have qualified for the financial viability waiver because all capital expenditures are being funded from internal resources.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY WAIVER (77 IAC 1120.130)

XI. Section 1120.140 - Economic Feasibility

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

The applicant shall document the reasonableness of financing arrangements.

The applicants are funding the project with cash and cash equivalents of \$177,010 and the fair market value of lease and equipment of \$114,600. The applicants submitted financial statements from 2013 in project #14-029, that attests to their financial viability.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION REASONABLENESS OF FINANCING ARRANGEMENTS (77 IAC 1120.140(a))

- B) Criterion 1120.140 (b) - Conditions of Debt Financing**
The applicant shall document that the conditions of debt financing are reasonable.

The applicants are paying for the project with cash on hand, and not borrowing any funds for the project. The applicants supplied a notarized statement attesting to the internal financing for the proposed project. See page 61 of the application for permit.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION CONDITIONS OF DEBT FINANCING (77 IAC 1120.140(b))

- C) Criterion 1120.140 (c) - Reasonableness of Project and Related Costs**
The applicant shall document that the estimated project costs are reasonable and shall document compliance with State Board Standards.

All costs are clinical. Itemization of these costs can be found at page 58 of the application of permit.

Modernization and Contingencies – These costs are \$12,000 or \$10 per GSF. This appears reasonable when compared to the State Board Standard of \$178.33.

Contingencies – There were no contingencies identified with this project.

Movable Equipment – These costs are \$165,010 or \$20,626 per station. This appears reasonable when compared to the State Standard of \$53,683 per station.

TABLE FOUR

Dialysis Chairs	\$25,000
Clinical Furniture and Equipment	\$30,000
Water Treatment	\$100,000
TV and Accessories	\$10
Miscellaneous	\$10,000
Total	\$165,010

Fair Market Value of Leased Space and Equipment – These costs are \$114,600. The State Board does not have a standard for these costs.

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

D) Criterion 1120.140 (d) - Projected Operating Costs

The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion.

The projected operating cost per treatment is \$90.82. This appears reasonable when compared to previously approved ESRD projects.

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

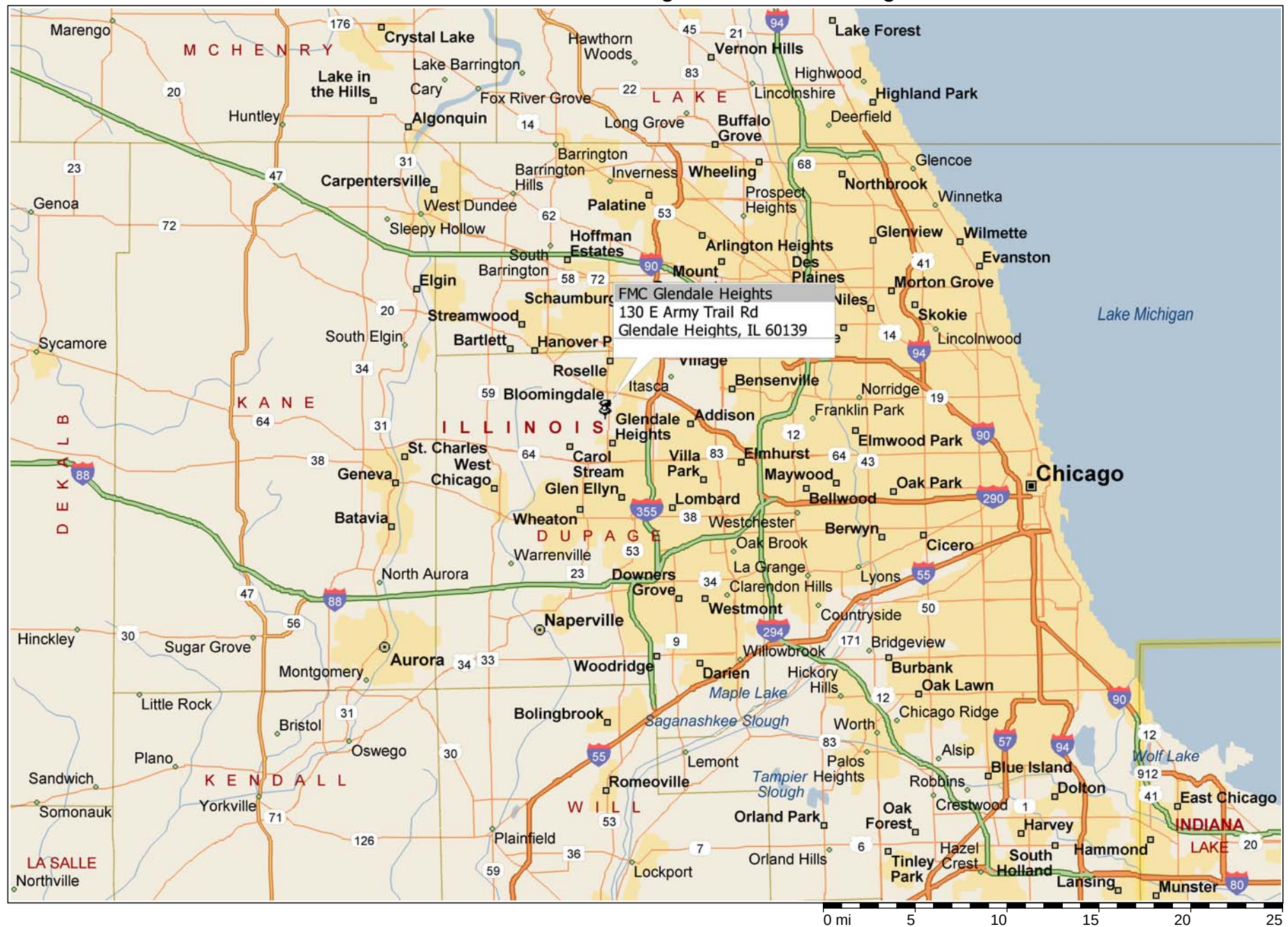
E) Criterion 1120.140 (e) - Total Effect of the Project on Capital Costs

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

The projected capital cost per treatment is \$9.77. This appears reasonable when compared to previously approved ESRD projects.

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

14-059 FMC Glendale Heights - Glendale Heights



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