



STATE OF ILLINOIS

## HEALTH FACILITIES AND SERVICES REVIEW BOARD

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<b>DOCKET NO:</b> H-07	<b>BOARD MEETING:</b> March 10, 2015	<b>PROJECT NO:</b> 14-065	<b>PROJECT COST:</b> Original: \$3,644,650
<b>FACILITY NAME:</b> RCG Morris		<b>CITY:</b> Morris	
<b>TYPE OF PROJECT:</b> Substantive			<b>HSA: IX</b>

**PROJECT DESCRIPTION:** The applicants (Dialysis Centers of America-Illinois, Inc. d/b/a RCG Morris and Fresenius Medical Care Holdings, Inc.) are proposing the discontinuation of a 10 station facility in Morris, Illinois and the establishment of a 10 station facility in Plainfield, Illinois. The cost of the project is \$3,644,650. The anticipated completion date is December 31, 2016.

A Type A Modification was filed on January 23, 2015 by the applicants. This modification changed the site of the proposed facility from 24020-24030 Riverwalk Court, Plainfield, Illinois to West Side of Rt. 59, one lot north of Riverwalk Court, Plainfield, Illinois.

## **EXECUTIVE SUMMARY**

### **PROJECT DESCRIPTION:**

- **The applicants** (Dialysis Centers of America-Illinois, Inc. d/b/a RCG Morris and Fresenius Medical Care Holdings, Inc.) are proposing the discontinuation of a 10 station facility in Morris, Illinois and the establishment of a 10 station facility in Plainfield, Illinois. The cost of the project is \$3,644,650. **The anticipated completion date is December 31, 2016.**

### **WHY THE PROJECT IS BEFORE THE STATE BOARD:**

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

### **PURPOSE OF THE PROJECT:**

- The applicants stated *“The purpose of this project is to address maldistribution in HSA 9, specifically; Morris, Illinois by relocating the RCG Morris 10-station underutilized (at 23%) facility to another area of HSA 9 where there is limited access and overutilization. Morris is located in Grundy County in HSA 9. The RCG Morris facility serves a rural area with patients mostly residing in the immediate Morris area and to the west towards Plainfield. The selected relocation site is located in Plainfield which is in Will County and also in HSA 9. Its service area overlaps with where the Morris facility patients reside. There are two dialysis clinics in Morris and one of them always operates below target utilization. The relocation of the RCG Morris facility will even out the distribution of stations in the Morris/Plainfield area of HSA 9. It will provide access to dialysis services in Plainfield where the only facility is operating at 82% utilization as of the September 2014 utilization data. It will allow better use of the 10 RCG-Morris stations by relocating them where they will reach their potential of 80% utilization rather than remaining highly underutilized.”*

### **NEED FOR THE PROJECT:**

- There is a calculated excess of 23 ESRD stations in the HSA IX ESRD planning area. The project does not propose an increase in the number of stations in the HSA IX Planning Area. The existing 10 station facility in Morris is operating at 23%. The discontinuation of this facility is warranted given its low utilization. The applicants have attested that the physicians’ referring patients to the relocated facility in Plainfield will serve the planning area residents and the proposed facility will have sufficient demand (53 ESRD patients) to be at target occupancy of 80% within two years after project completion. There are nine facilities within 30 minutes of the proposed relocated facility. Of those nine facilities 1 is not operational, and 4 of the facilities are at target occupancy. All of the facilities operating below target occupancy have been in operation over two years from the date of completion. Average utilization of the eight operating facilities is 75%.

<p style="text-align: center;"><b>Executive Summary</b>  <b>Table One</b>  <b>Facilities within 30 minutes of proposed site</b></p>					
<b>Facility</b>	<b>City</b>	<b>Time <sup>(1)</sup></b>	<b>Stations</b>	<b>Utilization <sup>(2)</sup></b>	<b>Met 80% Standard</b>
FMC Plainfield	Plainfield	11	16	83.33%	Yes
Davita West Joliet	Joliet	17.7	29	71.26%	No
USRC Bolingbrook	Bolingbrook	19.2	13	57.69%	No
Fox Valley Dialysis	Aurora	19.7	29	74.14%	No
FMC Bolingbrook	Bolingbrook	20.2	24	83.33%	Yes
FMC Naperville	Naperville	21.3	16	82.29%	Yes
Sun Health Dialysis	Joliet	24.3	17	52.94%	No
FMC Oswego	Oswego	27	11	93.33%	Yes
<b>Average Utilization</b>				<b>75.00%</b>	
FMC Lemont <sup>(3)</sup>	Lemont	20.2	12	0.00%	
<p>1. Time determined by a travel time study documented at pages 92-95 of the application for permit.</p> <p>2. Utilization from December 2014 ESRD Utilization Data</p> <p>3. FMC Lemont approved as Permit #13-040 completion date 9/30/2016</p>					

### **PUBLIC HEARING/COMMENT**

- A public hearing was offered in regard to the proposed project, but none was requested. No letters of support were received by the Board Staff. Opposition letters were received by the State Board Staff from the following:

**Harry Rubenstein, M.D., President** stated “*Fox Valley Dialysis and Fox Valley Medical Associates oppose the Application and encourage the Board's denial of the Application, mainly, because: (1) the proposed Project is one of convenience, (2) there are viable alternatives, and (3) the patient projections by the referring physicians are not credible when analyzed and compared to their historic patient data from the zip code areas at issue.*”

**Bhuvan Chawla, M.D. stated** “*Sun Health has no objection to the discontinuation of the Morris facility, as it will serve to reduce the number of excess stations in the HSA, and in a way offset the 12 excess stations approved for Fresenius Lemont. Sun Health therefore did not respond to the Applicant's request for an impact statement. Sun Health does have some concerns relative to the proposed replacement facility. Sun Health would like to remind the Board that it rejected Fresenius Plainfield North 12-047 (Intent to Deny September 2012, and final denial February of 2013) and also US Renal Lemont (Intent to Deny December 2012, with application withdrawal January 2012). The former had also been proposed for a different lot on essentially the same location at 24020 Riverwalk Court, and the latter for a location 3.3 miles away.*”

**Penny Davis, Division Vice President, DaVita Healthcare Partners, Inc. stated the following:** *“I am a Division Vice President with Da Vita HealthCare Partners Inc. ("Da Vita"), and I oppose the proposed discontinuation of Morris Dialysis Center ("FMC Morris") and the establishment of Fresenius Medical Care Plainfield North ("FMC Plainfield North"). The discontinuation of Morris Dialysis Center will adversely affect DaVita's Morris facility. Additionally, the proposal to establish FMC Plainfield North was previously denied by the Illinois Health Facilities and Services Review Board (the "State Board") in February 2013. In the two years since that denial, there have been no significant changes to warrant another facility in Plainfield, particularly in light of the recently approved FMC Lemont facility. As in 2013, sufficient capacity within 30 minutes of the proposed FMC Plainfield North facility exists to accommodate the proposed pre-ESRD patients. Accordingly, Da Vita respectfully requests the State Board to deny Fresenius Medical Care's ("Fresenius") application to discontinue Morris Dialysis Center and establish FMC Plainfield North.”*

**CONCLUSION:**

- The applicants addressed a total of 23 criteria and were in compliance with all criteria.

## STATE BOARD STAFF REPORT

Project #14-065

RCG Morris

APPLICATION CHRONOLOGY	
Applicants(s)	Dialysis Centers of America-Illinois, Inc. d/b/a RCG Morris and Fresenius Medical Care Holdings, Inc
Facility Name	Currently RCG Morris; Upon approval FMC Plainfield North
Location	West Side of Rt. 59, one lot north of Riverwalk Court, Plainfield, Illinois
Permit Holder	Dialysis Centers of America-Illinois, Inc. d/b/a RCG Morris
Operating Entity	Dialysis Centers of America-Illinois, Inc. d/b/a RCG Morris
Owner of Site	Riverwalk, LLC
Application Received	December 15, 2014
Application Deemed Complete	December 18, 2014
Review Period Ends	February 16, 2014
Review Period Extended by the State Board Staff?	No
Can the applicants request a deferral?	Yes

### I. Project Description

The applicants are proposing the discontinuation of a 10 station ESRD facility in Morris, Illinois and the establishment of a 10 station ESRD facility in Plainfield, Illinois. The cost of the project is \$3,644,650. The anticipated completion date is December 31, 2016.

### II. Summary of Findings

- A. The State Board Staff finds the proposed project appears to be in conformance with Part 1110.
- B. The State Board Staff finds the proposed project appears to be in conformance with Part 1120.

### III. General Information

The applicants are Dialysis Centers of America-Illinois, Inc. d/b/a RCG Morris and Fresenius Medical Care Holdings, Inc. Fresenius Medical Care Holdings, Inc., a New York corporation is a subsidiary of Fresenius Medical Care AG & Co. Fresenius Medical Care Holdings, Inc. conducts its operations through five principal subsidiaries, National Medical Care, Inc. (NMC), Fresenius USA Marketing, Inc., Fresenius USA Manufacturing, Inc. and SRC Holding Company, Inc., all Delaware corporations and Fresenius USA, Inc., a Massachusetts corporation. The operating entity is Dialysis

Centers of America-Illinois, Inc. d/b/a RCG Morris and the owner of the site is Riverwalk, LLC. The current facility is located at 1401 Lakewood Drive, Suite B, Morris Illinois. The proposed new facility will be located at West Side of Rt. 59, one lot north of Riverwalk Court, Plainfield, Illinois. Project obligation will occur after permit issuance.

**HSA IX ESRD Planning Area** includes the Illinois counties of Grundy, Kankakee, Kendall, and Will. There are currently 16 facilities with 251 stations in the HSA IX ESRD Planning Area and a calculated excess of 23 ESRD stations. Growth in the number of ESRD patients in the HSA IX planning area has been 7.5% annually based upon the data reported to the State Board (1/1/2012-12/31/2014).

<b>TABLE ONE</b>				
<b>Facilities within HSA IX ESRD Planning Area <sup>(1)</sup></b>				
Facilities	City	Ownership	Stations	Utilization
Provena St. Mary's Hospital	Kankakee	Presence	25	62.67%
Silver Cross Renal Center	New Lenox	DaVita	19	73.68%
Sun Health	Joliet		17	52.94%
<b>Renal Care Group - Morris</b>	<b>Morris</b>	<b>FMC</b>	<b>10</b>	<b>23.33%</b>
Bolingbrook Dialysis Center	Bolingbrook	FMC	24	83.33%
Manteno Dialysis Center	Manteno	Presence	15	51.11%
Fresenius Medical Care of Oswego	Oswego	FMC	10	93.33%
Kankakee County Dialysis	Boubonnais	DaVita	12	61.11%
Fresenius Medical Care of Mokena	Mokena	FMC	12	73.61%
Fresenius Medical Care of Plainfield	Plainfield	FMC	16	83.33%
Yorkville Dialysis Center	Yorkville		8	35.42%
Silver Cross Renal Center West	Joliet	DaVita	29	71.26%
Silver Cross Renal Center Morris	Morris	DaVita	9	61.11%
Fresenius Medical Care Joliet	Joliet	FMC	16	68.75%
USRC Bolingbrook	Bolingbrook	USRC	13	57.69%
Fresenius Medical Care Naperville	Naperville	FMC	16	82.29%
Total Stations/Average Utilization			251	64.69%
1. All facilities in this planning area have been operating over two years from the date of project completion.				

#### **IV. Project Description**

The applicants propose to discontinue its 10-station Morris Dialysis Center located at 1401 Lakewood Drive, Suite B, Morris, Illinois. A replacement facility will be established at West Side of Rt. 59, one lot north of Riverwalk Court, Plainfield, Illinois. The relocated facility will be called Fresenius Medical Care Plainfield North. The 14 current patients will be accommodated at the proposed Plainfield North facility or any other area Fresenius facility such as Ottawa or Plainfield. The DaVita Morris facility will be closer for those patients in the immediate Morris area and if they choose to transfer to that facility arrangements will be made for them to do so.

## V. Project Costs

The applicants are proposing to fund the project with cash \$1,624,500 and the FMV of the leased space and equipment of \$2,020,150. The estimated start-up costs and operating deficit cost is \$57,523.

<b>TABLE TWO</b>	
<b>Uses and Sources of Funds</b>	
<b>Uses of Funds</b>	<b>Clinical</b>
Modernization	\$1,046,500
Contingencies	\$104,000
Architectural and Engineering Fees	\$112,000
Movable or Other Equipment	\$362,000
FMV of Leased Space Equipment	\$2,020,150
<b>Total</b>	<b>\$3,644,650</b>
<b>Sources of Funds</b>	
Cash	\$1,624,500
FMV of Leased Space Equipment	\$2,020,150
<b>Total</b>	<b>\$3,644,650</b>

## VI. Fresenius Approved Projects

Below are the Fresenius Medical Care Projects approved by the State Board and have yet to be completed.

<b>TABLE THREE</b>			
<b>Current Fresenius Projects</b>			
<b>Project Number</b>	<b>Name</b>	<b>Project Type</b>	<b>Completion Date</b>
#10-063	Fresenius Lakeview	Expansion	4/15/2015
#12-029	Fresenius SW Illinois	Relocation	5/1/2015
#12-069	Fresenius Pekin	Relocation/Expansion	7/1/2015
#12-095	Fresenius Waterloo	Establishment	2/28/2015
#12-098	Fresenius Monmouth	Establishment	2/28/2015
#E-010-13	Fresenius Naperville North	Expansion	4/30/2015
#13-008	Fresenius Chicago Kidney Center	Relocation	12/31/2015
#13-053	Fresenius Evanston	Expansion	11/15/2015
#14-010	Fresenius Highland Park	Establishment	11/30/2015
#14-012	Fresenius Gurnee	Relocation/Expansion Establishment	12/31/2015
#14-019	Fresenius Summit	Establishment	12/31/2015
#13-040	Fresenius Lemont	Establishment	9/30/2016
#14-041	Fresenius Elgin	Expansion	6/30/2016

<p align="center"><b>TABLE THREE</b> <b>Current Fresenius Projects</b></p>			
<b>Project Number</b>	<b>Name</b>	<b>Project Type</b>	<b>Completion Date</b>
#14-026	Fresenius New City	Establishment	6/30/2016
#14-047	Fresenius Humboldt Park	Establishment	12/31/2016
#14-059	Fresenius Glendale Heights	Expansion	1/31/2016

## **VII. Section 1110.130 – Discontinuation**

### **A) Criterion 1110.130 (a) – Discontinuation**

Dialysis Centers of America - Illinois, Inc. proposes to discontinue its 10-station RCG – Morris dialysis center located at 1401 Lakewood Drive, Suite B, Morris, IL and establish a replacement 10-station facility at West Side of Rt. 59, one lot north of Riverwalk Court, Plainfield, Illinois. Both locations are in HSA 9, Morris is in Grundy County and Plainfield is in Will County. The relocation site is approximately 30 minutes away. Arrangements will be made for patients at the clinic upon discontinuation to transfer to the proposed relocated RCG Morris/Plainfield North facility, Fresenius Plainfield or Ottawa. Patients who live in the immediate Morris area will be assisted in transferring to the DaVita Morris facility if they so choose. Medical records will be transferred to the new location. The current space is leased and Fresenius Medical Care will continue to be responsible for its agreement for the leased premises unless other arrangements are made between Fresenius and the landlord. The "relocation" is expected to occur prior to project completion date of December 31, 2016 and will occur on Sunday, when there is no patient treatments scheduled so there will be no interruption in services.

### **B) Criterion 1110.130 (b) - Reasons for Discontinuation**

Historically only one of the two dialysis clinics serving Morris operates at target utilization while the other one is underutilized. The RCG Morris facility was previously operating above 80% however now is treating only fourteen patients. Due to the rural nature of the area there are not enough patients to efficiently operate two facilities in Morris. The medical director, Dr. Shafi is part of a large patient practice based in Joliet and Plainfield, also in HSA 9. While Morris does not see a prevalence of ESRD, Dr. Shafi advises Fresenius that additional access is needed in Plainfield to accommodate the continual increase in ESRD in that area of the HSA and to reduce high utilization at the current Plainfield facility where Dr. Shafi's partner Dr. Alausa is the medical director. The Plainfield facility is operating at 83% utilization as of September 2014 and cannot expand further. This relocation will allow for access in HSA 9 where there is an evidenced need without impacting the current station inventory in the Health Service Area.

### **C) Criterion 1110.130 (c) - Impact On Access**

It is determined that the discontinuation of the RCG Morris dialysis center facility will not have an adverse impact upon access to care for area residents or on any area ESRD providers. All patients are expected to transfer to the DaVita Morris, Fresenius Ottawa,



Plainfield or the proposed Plainfield North (relocated) facilities. There will be no impact to any Fresenius facility, therefore a written request for an impact statement was sent to all non-Fresenius facilities within a 45-minute travel time.

The State Board Staff believe the discontinuation is warranted given the low utilization at the facility.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH CRITERION DISCONTINUATION (1110.130 (a) (b) (c))**

**VIII. Section 1110.230 – Purpose, Safety Net Impact, Alternatives**

**A) Criterion 1110.230 (a) – Purpose of the Project**

The purpose of this project is to address maldistribution in HSA 9, specifically; Morris, Illinois by relocating the RCG Morris 10-station underutilized (at 23%) facility to another area of HSA 9 where there is limited access and overutilization. Morris is located in Grundy County in HSA 9. The RCG Morris facility serves a rural area with patients mostly residing in the immediate Morris area and to the west towards Plainfield. The selected relocation site is located in Plainfield which is in Will County and also in HSA 9. Its service area overlaps with where the Morris facility patients reside. There are two dialysis clinics in Morris and one of them always operates below target utilization. Historical and supporting patient data was obtained from Dr. Alausa and Dr. Shafi's practice, Kidney Care Center. Clinic utilization was obtained from quarterly utilization reports received from the Illinois Health Facilities & Services Review Board. The relocation of the RCG Morris facility will even out the distribution of stations in the Morris/Plainfield area of HSA 9. It will provide access to dialysis services in Plainfield where the only facility is operating at 82% utilization as of the September 2014 utilization data. It will allow better use of the 10 RCG-Morris stations by relocating them where they will reach their potential of 80% utilization rather than remaining highly underutilized. There is no direct empirical evidence relating to this project other than that when chronic care patients have adequate access to services, it tends to reduce overall healthcare costs and results in less complications. The quality outcomes for Illinois Fresenius facilities for the past year have been above the State standard and the same are expected for the relocated Morris/Plainfield North facility.

- 94% of patients had a URR 2: 65%
- 96% of patients had a Kt/V 2: 1.2

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

The establishment (relocation) of the RCG Morris/Fresenius Plainfield North dialysis facility will not have any impact on safety net services in the Morris/Plainfield area of Will and Grundy Counties. 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 pursuant to an Indigent Waiver policy. 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 patients who do not qualify for any type of coverage for dialysis services. These patients are considered "self-pay" patients. They are billed for services rendered, and after three statement reminders the charges are written off as bad debt. Collection actions are not initiated unless the applicants are aware that the patient has substantial financial resources available and/or the patient has received reimbursement from an insurer for services we have rendered, and has not submitted the payment for same to the applicants. 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.

<b>TABLE FOUR</b>			
<b>Safety Net Impact Information</b>			
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Net Revenue	\$362,977,407	\$387,393,758	\$398,570,288
<b>Charity</b>			
Charity (self pay patients)	93	203	642
Charity Cost	\$642,647	\$1,536,372	\$5,346,976
% of Net Revenue	0.18%	0.40%	1.34%
<b>Medicaid</b>			
Medicaid (# of Patients)	1,865	1,705	1,660
Medicaid Revenue	\$42,367,328	\$36,254,633	\$31,373,534
% of Net Revenue	12.00%	9.36%	7.87%
<b>Note:</b> A new billing procedure was put into place in late 2012 to reduce the amount of voids and			

TABLE FOUR Safety Net Impact Information			
	2011	2012	2013
rebilling. Previously patients with Medicaid pending were considered only under Medicaid and after the procedure change, Medicaid pending patients are considered under self-pay. This has resulted in the increase in "charity" (self-pay) patients and costs. Medicaid number of patients appears to be going down, however this is due to the reassignment of the "charity" (self-pay) patients associated with the billing change.			

### C) Criterion 1110.230 (c) - Alternatives to Project

#### A. Proposing a project of greater or lesser scope and cost

Three alternatives were considered that would entail a lesser scope and cost than the project proposed in this application, however they were determined not to be feasible options.

- The alternative of doing nothing was rejected. The RCG-Morris facility has seen a continual decline in utilization in recent years and doing nothing will not solve the maldistribution in Morris. It would also not address the overutilization in the Plainfield area. There is no monetary cost to this alternative.
- The alternative of reducing stations was rejected. The facility is now at 23% with 14 patients. Even if the stations were reduced to 6, the facility would still only be operating at 38%. There is no monetary cost to this alternative.
- The alternative of closing the facility was considered however while there is no station need in HSA 9, there is a need for additional access in the Plainfield area which is also in HSA 9 where the same physician group has a large patient base and facilities are operating at high utilization. Relocating the stations to where there additional access is needed while not impacting the station inventory of the HSA seemed more responsible to area healthcare needs than eliminating the stations altogether. There is no monetary cost to closing the facility.

#### B. Pursuing a joint venture

This facility is not currently a joint venture and it does not make sense to enter into a joint venture only for the purposes of relocating. The preferred Fresenius model of ownership is for our facilities to be wholly owned, however we do enter into joint ventures on occasion. Fresenius Medical Care always maintains control of the governance, assets and operations of a facility it enters into a joint venture agreement with. There is not monetary cost to this alternative.

**C. Utilizing other health care resources** that are available to serve all or a portion of the population proposed to be served by the project. The RCG-Morris facility has already had many patients transfer to the DaVita Morris facility. Utilizing other facilities is not generally an alternative when the facility is underutilized. The current Plainfield facility is operating at 83% and there are no reasonable nearby facilities for patients to go to. The closest facility, DaVita West Joliet is operating at 75%, which still limits patient schedule times. There is no monetary cost to using other resources.

**D. Project as outlined in the application**

The most desirable alternative to address maldistribution and duplication of services in Morris and to address needed access in Plainfield is to relocate the 10-station RCG-Morris facility. The cost of this project is \$3,644,650.

**IX. Section 1110.234 - Size of Project, Projected Utilization, Assurance**

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

The applicants are proposing 6,500 GSF of space or 650 GSF per station. This appears reasonable when compared to the State Board Standard of 450-650 GSF per station.

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

**B) Criterion 1110.234 (b) –Projected Utilization**

The applicants are projecting 53 patients will be receiving dialysis at the proposed relocated facility within 2 years after project completion.

- 10 stations x 3 times a week x 6 days a week x 52 weeks per year = 9,360
- 53 patients x 3times a week x 52 weeks per year = 8,268 treatments

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

**C) Criterion 1110.234 (e) - Assurances**

The applicants have attested that they will be at target occupancy within two years after project completion as required.

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

## **X. Section 1110.1430 - In-Center Hemodialysis Projects**

### **A) Criterion 1110.1430 (b) - 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]**

The applicants have provided certificates of good standing with the State of Illinois and are in compliance with Executive Order 5 (2006) and with the Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420), as amended, (17 IAC 4180). The applicants have attested that they have had no adverse actions in past three years and that the State Board and the Illinois Department of Public Health can access any and all documents to verify information provided in the application for permit.

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

### **B) Criterion 1110.1430 (c) (1) (2) (3) (5) - Planning Area Need**

- 1) 77 Ill. Adm. Code 1100 (Formula Calculation)**
- 2) Service to Planning Area Residents**
- 3) Service Demand – Establishment of In-Center Hemodialysis Service**
- 5) Service Accessibility**

**The applicants must provide evidence that there is calculated station need; that the proposed project will serve the residents of the planning areas, there is sufficient demand for the project and the proposed project will improve access.**

There is a calculated excess of 23 stations in the HSA IX ESRD Planning Area. Documentation has been provided by the applicants that the proposed facility will serve the residents of the ESRD planning area. Physicians from Kidney Care Center are projecting to refer approximately 109 pre ESRD patients to the relocated facility within 2 years after project completion. Of these 109 patients approximately 53 will begin dialysis at the relocated facility. Of the 14 patients currently receiving care at the RCG Morris facility these patients will either receive care at the proposed relocated facility, Davita Morris facility, or the FMC Plainfield facility.

The applicants stated *“The proposed relocation of the RCG-Morris 10-station ESRD facility approximately 30 minutes away in HSA 9 will address two areas of concern. One is an issue of maldistribution/duplication of services currently in Morris and the second will address high utilization and need for access in another, Plainfield. Both of these will occur without impact to the current station inventory. While there are two facilities operating in Morris, where there are not*

*enough patients for two clinics to operate efficiently, the Plainfield area has experienced continued high utilization at its only ESRD facility. The proposed relocation will improve access for residents of Plainfield where there is a disproportionate ratio of stations to population (one station per 5,565 residents) demonstrating need and facilities operating at high utilization rates. It will also adjust the balance of stations in HSA 9 by eliminating duplicated services in Morris. The two facilities serving Morris, one Fresenius and one DaVita are not able to both operate at Board target utilization. Either one is at target while the other is underutilized or vice versa. The Medical Director of this facility is part of a large practice with an ever growing patient population in Plainfield, also in HSA 9. The Plainfield facility, open 5 years, has already expanded as much as possible. The physicians need additional access in the Plainfield area to accommodate the 103 identified pre-ESRD patients who will potentially be requiring dialysis services there in the next 2-3 years.”*

While there is a calculated excess of stations in this planning area the proposed relocation will not increase the number of stations in the planning area, allow for increased utilization at the DaVita facility in Morris and improve access in Plainfield.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PLANNING AREA NEED (77 IAC 1110.1430 (c))**

**C) Criterion 1110.1430 (d) - Unnecessary Duplication/Maldistribution**

- 1) The applicant shall document that the project will not result in an unnecessary duplication.**
- 2) The applicant shall document that the project will not result in maldistribution of services.**
- 3) The applicant shall document that, within 24 months after project completion, the proposed project:**

There are nine facilities within 30 minutes of the proposed facility. Of the nine facilities 1 facility is not operational and 4 facilities are not at target occupancy of 80%. Average utilization of these eight facilities is 75%.

The ratio of ESRD stations to population in the zip codes within a 30-minute radius of the RCG-Morris relocation site in Plainfield is 1 station per 5,565 residents which supports the need for this project. The State ratio is 1 station per 3,102 residents.

The relocated RCG-Morris/Fresenius Medical Care Plainfield North facility will not have an adverse effect on any other area ESRD provider in the area. Plainfield is currently served by only one other clinic, the Fresenius Medical Care Plainfield clinic of which Dr. Alausa is the Medical Director. The relocated facility will in

fact have a positive effect on the current Plainfield clinic by alleviating over-utilization. It will also have a positive effect on patients by creating access to additional treatment times. Expected referrals are new pre-ESRD patients who would have otherwise been referred to the current Plainfield facility, which is not able to accommodate all of these patients. Any future patients from the Morris area will be referred to area facilities based on location of home residence.

<b>TABLE FIVE</b>					
<b>Facilities within 30 minutes of Proposed Site</b>					
Facility	City	Time <sup>(1)</sup>	Stations	Utilization <sup>(2)</sup>	Met 80% Standard
FMC Plainfield	Plainfield	11	16	83.33%	Yes
Davita West Joliet	Joliet	17.7	29	71.26%	No
USR Bolingbrook	Bolingbrook	19.2	13	57.69%	No
Fox Valley Dialysis	Aurora	19.7	29	74.14%	No
FMC Bolingbrook	Bolingbrook	20.2	24	83.33%	Yes
FMC Naperville	Naperville	21.3	16	82.29%	Yes
Sun Health Dialysis	Joliet	24.3	17	52.94%	No
FMC Oswego	Oswego	27	11	93.33%	Yes
<b>Average Utilization</b>				<b>75.00%</b>	
FMC Lemont <sup>(3)</sup>	Lemont	20.2	12	0.00%	
4. Time determined by a travel time study documented at pages 92-95 of the application for permit. 5. Utilization from December 2014 ESRD Utilization Data 6. FMC Lemont approved as Permit #13-040 completion date 9/30/2016					

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION/MALDISTRIBUTION OF SERVICE (77 IAC 1110.1430 (d))**

- D) Criterion 1110.1430 (f) - Staffing**
- E) Criterion 1110.1430 (g) - Support Services**

The facility will be certified by Medicare and therefore the State Board Staff relies upon this certification that appropriate staffing and support services will be available.

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

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

The applicants are proposing a 10 station ESRD facility in Plainfield. The RCG Morris relocation site in Plainfield is located in the Chicago Naperville-Joliet-Gary, IL-IN-WI



Metropolitan Statistical Area (MSA). A minimum of eight dialysis stations is required to establish an in-center hemodialysis center in an MSA. Fresenius Medical Care Plainfield North will have 10 dialysis stations thereby meeting this requirement.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION MINIMUM NUMBER OF STATIONS (77 IAC 1110.1430(h))**

**G) Criterion 1110.1430 (i) - Continuity of Care**

**An applicant proposing to establish an in-center hemodialysis category of service shall document that a signed, written affiliation agreement or arrangement is in effect for the provision of inpatient care and other hospital services.**

The applicants have provided the necessary affiliation agreement with Edward Hospital in Naperville.

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

**H) Criterion 1110.1430 (j) - Relocation of Facilities**

**An applicant proposing a relocation of an existing facility within the same planning area must document that the facility is at or above 80% occupancy and the relocated facility will improve access to care.**

The applicants stated the following regarding this criterion: *“The existing RCG-Morris Dialysis Center was operating at 20% utilization serving 12 patients at the end of the 3rd quarter of 2014. There are two dialysis facilities in Morris, the other one being the Davita Morris facility. Historically either one facility operated above target utilization while the other remained severely underutilized. Two years ago the RCG Morris facility was above 80% utilization but has seen a dramatic decrease and currently has only 14 patients. There are simply not enough patients in this rural area to efficiently support two facilities. The relocation of the RCG-Morris 10-station facility will provide a more equitable access to care for the Morris/Plainfield area of HSA 9. Not only will it address the current duplicated services in Morris but will provide access in Plainfield where there is a need evidenced by high utilization of the current Plainfield facility at 83% with 16 stations. The existing patient population in Morris will be accommodated at the relocated facility, the current Plainfield or Ottawa facilities or the DaVita Morris facility prior to discontinuation. Pre-ESRD patients in the Plainfield area will be referred to the relocated RCG Morris/Fresenius Plainfield North clinic. Kidney Care has identified 103 potential patients for this location after it opens. Kidney Care currently only has 8 pre-ESRD patients in the Morris area that will begin dialysis in the next 1-3 years. These patients can be referred to the same area facilities.”*



While the proposed facility is not at target occupancy, it does appear that the discontinuation of an underutilized facility and the relocation to a location that can improve access in Health Service Areas IX is warranted.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION RELOCATION OF FACILITY (77 IAC 1110.1430 (j))**

**I) Criterion 1110.1430 (k) - Assurances**

**The applicant representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that:**

**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 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:**

- **$\geq 85\%$  of hemodialysis patient population achieves urea reduction ratio (URR)  $\geq 65\%$  and  $\geq 85\%$  of hemodialysis patient population achieves Kt/V Daugirdas II 1.2.**

The applicants have provided the necessary attestation as required by this criterion at page 112 of the application for permit.

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

## **FINANCE**

### **IX. AVAILABILITY OF FUNDS**

#### **A) Criterion 1120.120 - Availability of Funds**

**To address this criterion the applicants must provide information on the availability of funds for the project.**

The applicants are funding this project with cash of \$1,624,500 and the fair market value of the lease of \$2,020,150. A review of the applicants audited financial statement indicates sufficient cash is available to fund the project as indicated by the table below. The State Board Staff concludes the applicants have met the requirements of this criterion.

<b>TABLE SIX</b>		
<b>FMC Holdings Inc. Audited Financial Statements</b>		
<b>(Dollars in Thousands)</b>		
	<b>2013</b>	<b>2012</b>
Current Assets	\$275,719	\$341,071
PPE	\$1,656,841	\$1,568,231
Total Assets	\$16,597,314	\$17,080,635
Current Liabilities	\$2,094,693	\$2,510,111
Long Term Debt	\$2,792,267	\$2,728,162
Total Liabilities	\$8,075,490	\$8,401,166
Total Equities	\$7,669,121	\$7,426,809
Net Revenues	\$9,433,192	\$8,885,401
Expenses	\$8,088,952	\$7,384,745
Income before Tax	\$1,344,240	\$1,500,656
Net Income	\$878,700	\$1,003,479
Less net income attributable to non-controlling interest	\$139,298	\$140,232
Net Income	\$739,402	\$863,247

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

**X. FINANCIAL VIABILITY**

**A) Criterion 1120.130 – Financial Viability**

**To address this criterion the applicants must indicate if they are funding the project from internal sources.**

The applicants are funding the project with cash and an operating lease therefore no financial ratios need to be provided. The State Board Staff concludes the applicants have met the requirements of this criterion.

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

**XI. ECONOMIC FEASIBILITY**

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

**B) Criterion 1120.140 (b) – Terms of Debt Financing**

**To address these two criteria the applicants must demonstrate that the leasing of the facility and the terms and conditions of the lease are reasonable.**

The initial lease term is for 15 years with three five year options. The rental rate is \$26 per net rental space with a \$.50 increase beginning in second year of the lease. Fresenius Medical Holdings Corp guarantees the lease.

**The applicants provided a notarized statement** attesting “that entering into of a lease (borrowing) is less costly than the liquidation of existing investments which would be required for the applicant to buy the property and build a structure itself to house a dialysis clinic and the expenses incurred with leasing the proposed facility and cost of leasing the equipment is less costly than constructing a new facility or purchasing new equipment.”

The State Board Staff concludes the applicants have successfully addressed these criteria.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION REASONABLENESS OF FINANCING ARRANGEMENT AND TERMS OF DEBT FINANCING (77 IAC 1120.140(a) (b))**

**C) Criterion 1120.140(c) – Reasonableness of Costs**

**To address this criterion the applicants must document that the proposed costs meet State Board Standards as referenced at 1120.140 Appendix A.**

**Modernization and Contingency Costs** are \$1,046,000 and are \$160.92 per GSF. These costs include the following

<b>TABLE SEVEN</b> <b>Modernization and Contingency Costs</b>	
General Conditions	\$52,300
Temp Facilities, Controls, Cleaning, Waste Management General Conditions	\$2,600
Concrete	\$13,400
Masonry	\$16,000
Metal Fabrications	\$7,800
Carpentry	\$92,000
Thermal, Moisture & Fire Protection	\$18,600
Doors, Frames, Hardware, Glass & Glazing	\$71,700
Walls, Ceilings, Floors, Painting	\$169,000
Specialties	\$13,000
Casework, FI Mats & Window Treatments	\$6,300
Piping, Sanitary Waste, HVAC, Ductwork, Roof Penetrations	\$334,800
Wiring, Fire Alarm System, Lighting	\$201,800
Miscellaneous Construction Costs	\$47,200
Total	\$1,046,500

**Contingency costs** are \$104,000 and are 10.06% of modernization costs. This appears reasonable when compared to the State Board Standard of 10-15% for modernization construction.

**Architectural and Engineering Fees** are \$112,000 and are 9.03% of modernization and contingency costs. This appears reasonable when compared to the State Board Standard of 6.04-9.08% for Architectural and Engineering Fees for modernization projects.

**Moveable or Other Equipment Costs** are \$362,000 or \$36,200 per station. This appears reasonable when compared to the adjusted State Board Standard of \$50,601. These costs include the following:

<b>TABLE EIGHT</b> <b>Moveable or Other Equipment</b>	
Dialysis Chairs	\$23,000
Clinical Furniture & Equipment	\$30,000
Office Equipment & Other Furniture	\$30,000
Water Treatment	\$154,000
TVs & Accessories	\$68,000

<b>TABLE EIGHT</b> <b>Moveable or Other Equipment</b>	
Telephones	\$22,000
Generator	\$10,000
Facility Automation	\$15,000
Other miscellaneous	\$10,000
Total	\$362,000

**FMV of Leased Space and Equipment** is \$2,020,150 and these costs include the following:

<b>TABLE NINE</b>	
Fair Market Value of Leased Space (6,500 GSF)	\$1,836,250
FMV leased Dialysis Machines	\$171,900
FMV leased Office Equipment	\$12,000
<b>Total</b>	<b>\$2,020,150</b>

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

**D) Criterion 1120.140 (d) - Projected Operating Costs**

**To address this criterion the applicants must provide the salaries, medical supplies and other supplies per treatment.**

The applicants are estimating approximately \$119.28 in operating costs per treatment. The State Board Staff concludes the applicants have met the requirements of this criterion.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT 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**

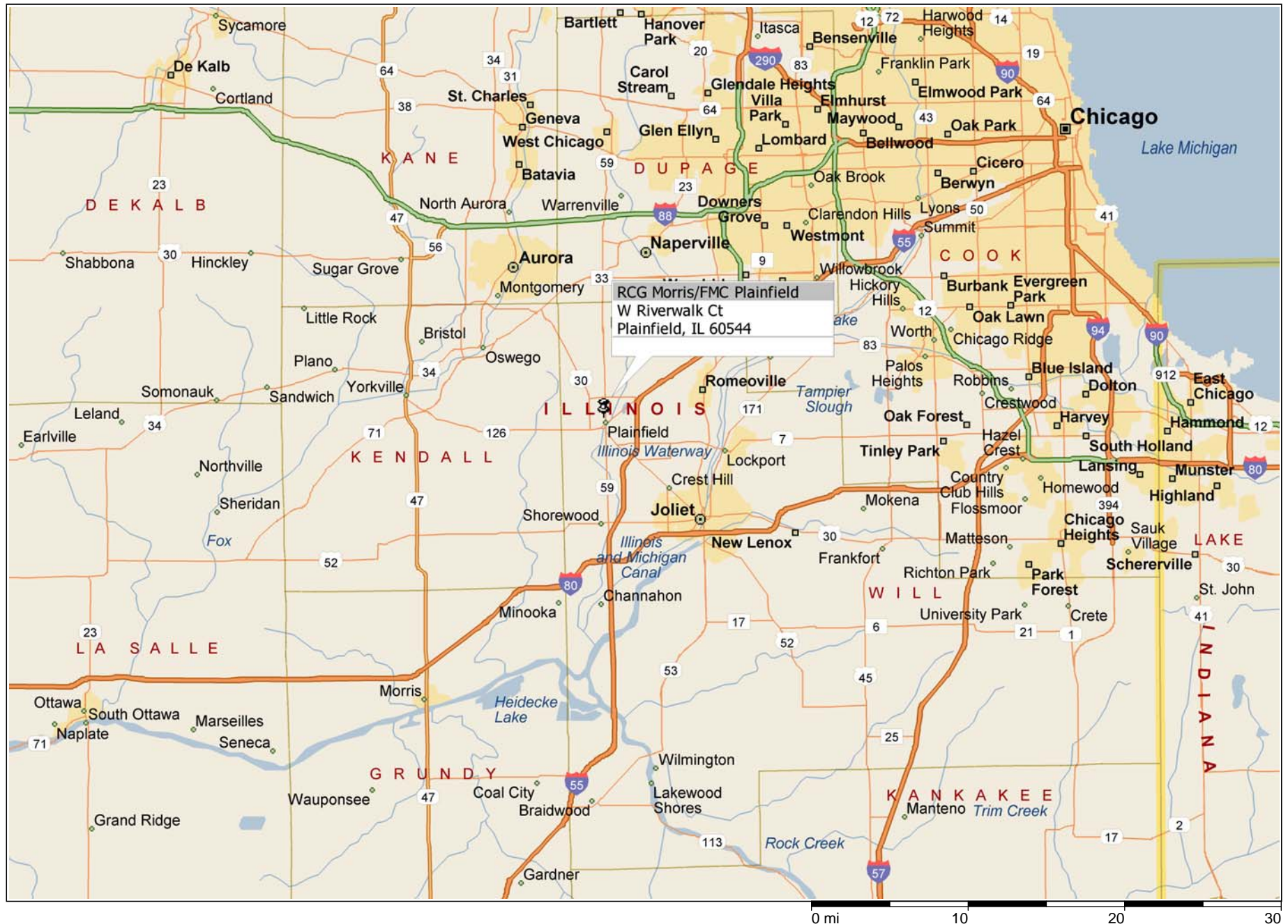
**To address this criterion the applicants must provide the capital costs (Depreciation, Amortization and Interest) per treatment.**

The applicants are estimating approximately \$18.58 per treatment in capital costs. The State Board Staff concludes the applicants have met the requirements of this criterion.

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



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