



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-10	BOARD MEETING: September 26, 2017	PROJECT NO: 17-023	PROJECT COST: Original: \$124,975
FACILITY NAME: Fresenius Medical Care of Oswego		CITY: Oswego	
TYPE OF PROJECT: Substantive			HSA: IX

PROJECT DESCRIPTION: Fresenius Medical Care of Illinois, LLC d/b/a Fresenius Medical Care Oswego and Fresenius Medical Care Holdings, Inc. (the applicants) are proposing to add 6 ESRD stations to an existing 13-station facility for a total of 19 ESRD stations in a total of 10,332 GSF of leased space in Oswego. The cost of the project is \$231,275.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- Fresenius Medical Care of Illinois, LLC and Fresenius Medical Care Holdings, Inc. (the applicants) are proposing to add 6 ESRD stations to an existing 13-station facility for a total of 19 ESRD stations in a total of 10,332 GSF of leased space in Oswego. The cost of the project is \$231,275. **The project completion date is December 31, 2018.**

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The applicants are before the State Board because the proposed project is a substantial change in the scope of the facility.

PURPOSE OF THE PROJECT:

- The proposed project seeks to maintain life-sustaining ESRD services in Oswego and the surrounding service area, in the most cost-effective manner. The applicants also intend to address over-utilization at the existing ESRD facility.

SUMMARY:

- FMC Oswego is currently operating at 94% occupancy, per the June 2017 ESRD quarterly survey. There is a need for 14 additional stations in the HSA-09 ESRD planning area, per the May 2017 Inventory Update. The applicants note having operated over the State standard (80%), for the last two years, with an average occupancy of 95%. From the documentation provided it appears that the applicants can justify the additional stations based upon the historical utilization and future demand for the service in the planning area.

BACKGROUND/COMPLIANCE ISSUES

- Neither applicant has outstanding compliance issues with the State Board.

PUBLIC HEARING/COMMENT

- No public hearing was requested and no letters of support were received by the State Board Staff. A letter of opposition was submitted by Fox Valley Medical Associates, Ltd and its affiliates Fox Valley Dialysis, Ltd., Yorkville Dialysis Center, LLC, and Tri-Cities Dialysis, LLC. The letter stated in part:

“We oppose the Project mainly as FMC in the Application does not meet service accessibility requirements, 77 Ill. Admin. § 1110.1430(c)(5)(a), as there is sufficient availability in underutilized dialysis facilities for patients to receive dialysis services within 30 minutes travel time from the proposed Project. When those additional facilities are taken into account, it demonstrates there is no immediate need to improve access for patients in this area and simply no demonstrable basis for the Project. In addition, FMC in the Application fails to disclose completely all of the underutilized dialysis facilities within 30 minutes travel time and thereby fails to meet Criterion 1110.230, 77 Ill. Admin. § 1110.230(c).¹ Finally, we submit that the Project is premature given that FMC's East Aurora facility is not yet operable and once operable it is likely to have a substantial impact on the distribution of FMC's dialysis patients.”

FINANCIAL AND ECONOMIC FEASIBILITY

- The entirety of the project will be funded through internal sources (Cash and Securities/Fair Market Value of the Leases and a review of the financial statements indicate sufficient cash is available to fund the project.

CONCLUSIONS:

- The applicants addressed a total of eighteen (18) review criteria and have met all of the State Board Requirements.

**STATE BOARD STAFF REPORT
Fresenius Medical Care of Oswego
PROJECT #17-023**

APPLICATION SUMMARY/CHRONOLOGY	
Applicants	Fresenius Medical Care of Illinois, LLC d/b/a Fresenius Medical Care of Oswego and Fresenius Medical Care Holdings, Inc.
Facility Name	Fresenius Medical Care of Oswego
Location	1051 Station Drive
Application Received	May 11, 2017
Application Deemed Complete	May 12, 2017
Permit Holder	Fresenius Medical Care of Illinois LLC, d/b/a Fresenius Medical Care of Oswego
Operating Entity	Fresenius Medical Care of Illinois, LLC d/b/a Fresenius Medical Care of Oswego
Owner of the Site	Keneipp Properties
Project Financial Commitment Date	Upon Permit Issuance
Gross Square Footage	10,332 GSF
Project Completion Date	December 31, 2018
Can Applicants Request a Deferral?	Yes
Has the Application been extended by the State Board?	No

I. The Proposed Project

Fresenius Medical Care of Illinois, LLC. d/b/a Fresenius Medical Care of Oswego and Fresenius Medical Care Holdings, Inc. (the applicants) are proposing to add 6 ESRD stations to an existing 13-station facility for a total of 19 ESRD stations in a total of 10,332 GSF of leased space in Oswego. The cost of the project is \$231,275. **The anticipated project completion date is December 31, 2018.**

II. Summary of Findings

- A. The State Board Staff finds the proposed project is in conformance with the provisions of Part 1110.
- B. The State Board Staff finds the proposed project is in conformance with the provisions of Part 1120.

III. General Information

The applicants are Fresenius Medical Care of Illinois, LLC d/b/a Fresenius Medical Care of Oswego and Fresenius Medical Care Holdings, Inc. The owner of the site is Keneipp Properties and the operating entity is Fresenius Medical Care of Illinois, LLC. d/b/a Fresenius Medical Care of Oswego. The facility is located at 1051 Station Drive, Oswego, Illinois in the HSA-09 ESRD Planning Area. HSA-09 is comprised of Grundy, Kankakee, Kendall, and Will Counties. The May 2017 update to the IDPH Inventory of Health Care Facilities ("Inventory") shows a computed need for 14 additional ESRD

stations in HSA-09 ESRD Planning Area.

There is no land acquisition cost for this project, as the proposed facility will be an expansion of an existing facility. This is a substantive project subject to both a Part 1110 and Part 1120 review. Project obligation is contingent on permit issuance. **The project completion date is December 31, 2018.**

Below are the current Fresenius projects that have been approved by the State Board.

TABLE ONE			
Current Fresenius Projects and Status			
Project Number	Name	Project Type	Completion Date
#14-047	FMC Humboldt Park	Establishment	12/31/2017
#14-065	FMC Plainfield North	Relocation	8/31/2017
#15-028	FMC Schaumburg	Establishment	5/31/2018
#15-036	FMC Zion	Establishment	06/30/2017
#15-046	FMC Beverly Ridge	Establishment	06/30/2017
#15-050	FMC Chicago Heights	Establishment	12/31/2017
#15-062	FMC Belleville	Establishment	12/31/2017
#16-024	FMC Kidney Care East Aurora	Establishment	9/30/2018
#16-029	FMC Ross Dialysis – Englewood	Relocation/Expansion Establishment	12/31/2018
#16-034	FKC Woodridge	Establishment	3/31/2019
#16-035	FMC Evergreen Park	Relocation/Establishment	12/31/2017
#16-042	FKC Paris Community	Establishment	12/31/2017
#16-049	FMC Macomb	Relocation/Establishment	12/31/2018
#17-003	FMC Gurnee	Expansion	3/31/2018
#17-004	FKC Mount Prospect	Establishment	12/31/2018

IV. The Proposed Project - Details

Fresenius Medical Care of Illinois, LLC d/b/a Fresenius Medical Care Oswego and Fresenius Medical Care Holdings, Inc. (the applicants) are proposing to add 6 ESRD stations to an existing 13-station facility for a total of 19 ESRD stations in a total of 10,332 GSF of leased space in Oswego. The cost of the project is \$231,275.

V. Project Costs and Sources of Funds

The total estimated project cost is \$231,275. The proposed project is being funded with cash and securities totaling \$131,000 and the fair market value of the lease totaling \$100,275. Table Two outlines the project's costs and uses of funds. State Board Staff notes all costs are classified as being clinical.

TABLE TWO	
Project Uses and Sources of Funds	
Uses of Funds	Clinical
Modernization Contracts	\$18,000
Moveable Equipment	\$113,000
FMV Leased Space & Equipment	\$100,275
Total Uses of Funds	\$231,275
Sources of Funds	Clinical
Cash and Securities	\$131,000
FMV Leased Space & Equipment	\$100,275
Total Sources of Funds	\$231,275
Source: Application for Permit Page 6	

VI. Section 1110.230 - Project Purpose, Safety Net Impact Statement and Alternatives

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

The applicants state that the purpose of the proposed project is to keep dialysis services accessible to a growing ESRD population in Oswego, the service area (HSA-09), and alleviate the continued high utilization at the Fresenius Medical Care of Oswego dialysis facility. The goal of Fresenius Medical Care is to keep dialysis access available to this patient population in the growing service area, where a need for 14 additional stations exist. The Oswego facility has operated at an average of 95%, for the last two years, compelling the applicants to offer dialysis at non-traditional treatment times, and patients to travel outside the service area. Currently the Oswego patients have the quality outcomes below:

- 92% of patients had a URR/65%
- 92% of patients had a Kt/V greater than 1.2.

B. Criterion 1110.230(b) - Safety Net Impact Statement/Charity Care

The applicants attest that the proposed addition of 6 stations to an existing 13-station ESRD facility will have no impact on Safety Net services in the area. The applicants' state:

“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 provides community benefit by supporting various medical education activities and associations, such as the Renal,National Kidney Foundation and American Kidney Fund.” (Application, p. 60)

TABLE THREE			
SAFETY NET INFORMATION			
Fresenius Medical Care Facilities in Illinois			
NET REVENUE	\$398,570,288	\$411,981,839	\$438,247,352
CHARITY CARE			
	2013	2014	2015
Charity (# of self-pay patients)	499	251	195
Charity (self-pay) Cost	\$5,346,976	\$5,211,664	\$2,983,427
% of Charity Care to Net Rev.	1.34%	1.27%	0.68%
MEDICAID			
	2013	2014	2015
Medicaid (Patients)	1,660	750	396
Medicaid (Revenue)	\$31,373,534	\$22,027,882	\$7,310,484
% of Medicaid to Net Revenue	7.87%	5.35%	1.67%

C. Criterion 1110.230(c) - Alternatives to the Proposed Project

The applicants considered the following alternatives to the proposed project:

1. The alternative to **do nothing** will not address patient access issues due to the high utilization currently and historically at the Oswego facility and therefore was not considered. There is no cost to this alternative.
2. The alternative of **admitting patients to other facilities** was rejected, due to the fact that physicians already admit patients to Fox Valley Dialysis, Aurora (10 miles away), and Fresenius Medical Care Sandwich (17 miles away). There are no costs associated with this alternative.
3. The facility is currently not part of a **joint venture**. Creating a joint venture would not alleviate the overcrowding at Fresenius medical Care of Oswego.
4. The **best alternative** for addressing the patient's need for additional access while maintaining cost containment is to add 6 stations at the current site. The cost of this project is minimal at \$231,275.

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

A) Criterion 1110.234(a) - Size of Project

The applicants propose to add 6 stations to an existing 13-station facility for a total of 19 stations in 10,332 GSF of leased space. The State board standard is 450-650 BGSF per station. The applicants note the project is allocating 544 GSF per station. The proposed project meets the spatial standards established by the State Board, and a positive finding has been made.

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

B) Criterion 1110.234(b) - Project Services Utilization

The applicants note having exceeded the State Board standard for ESRD facilities for the last two years, and have documented by the second year after project completion (2019), they will be serving 103 patients, and operating at 90%, above the State Board's target occupancy of 80% (Application, P. 42).

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

C) Criterion 1110.234(e) - Assurances

The applicants have provided the necessary assurance that the proposed 19-station ESRD facility will be at target occupancy two years after project completion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT 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)(1) - (3) – Background of the Applicants

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 provided a list of all health care facilities currently owned and/or operated by the applicants, including licensing, certification and accreditation

identification numbers, a certified statement from the applicants that no adverse action has been taken against any facility owned and/or operated by the applicants during the three years prior to the filing of the application, and authorization permitting HFSRB and Illinois Department of Public Health (IDPH) access to any documents necessary to verify the information submitted. The applicants appear fit, willing and able and have the qualifications, background and character to adequately provide a proper standard of healthcare service for the community.

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

B) Criterion 1110.1430(c)(2)-(4) – Planning Area Need

According to the May 2017 Update to the Inventory of Health Care Facilities, there is a need for 14 additional ESRD stations in the HSA-09 ESRD Planning Area. The most recent ESRD survey (June 2017), shows the facility is currently operating at 94% occupancy.

The primary purpose of this project is to provide in-center hemodialysis services to the residents of the Oswego/Kendall County area in HSA-09. It is noted that 75% of the current Fresenius Medical Care of Oswego clinic patients also reside in HSA-09. The applicants are currently providing service to 71 patients at the Fresenius Medical Care of Oswego facility and in a referral letter provided by Dr. Atif Fakhruddin M.D., have identified an additional 49 pre-ESRD patients (patient referral letter, application, p. 45), expected to refer to the facility after project completion.

FMC Oswego is currently operating at 94% occupancy, and the number of stations requested (6), falls within the number of stations needed in the planning area (9) at this time, the applicants note the existence of another 49 pre-ESRD patients living in the immediate vicinity which are expected to require dialysis after the six new stations become operational. It appears that the applicants can justify the additional stations based upon the historical and projected utilization at Fresenius Medical Care of Oswego.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PLANNING AREA NEED CRITERION (77 IAC 1110.1430(c)(2)-(4)).

C) Criterion 1110.1430(e) - Staffing Availability

The applicants have provided the necessary information as required by the criteria (application, p. 49-51). It appears that there will be sufficient staff to accommodate the additional patient load.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH THE STAFFING CRITERION (77 IAC 1110.1430(e)(1)).

D) Criterion 1110.1430(f) - Support Services

Fresenius Medical Care utilizes a patient data tracking system in all of its Facilities. These support services are available at Fresenius Medical Care of Oswego:

- Nutritional Counseling
- Psychiatric/Social Services
- Home/self training
- Clinical Laboratory Services provided by Spectra Laboratories

The following services are provided via referral to Presence Mercy Medical Center, Aurora:

- Blood Bank Services
- Rehabilitation Services
- Psychiatric Services

The applicants have provided all of the required documentation to address this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH THE SUPPORT SERVICES CRITERION (77 IAC 1110.1430(f)).

E) Criterion 1110.1430(j) - Assurances

The applicants provided the required certification information on page 53 of the application for permit as required of the criterion. The applicants note Fresenius Medical Care of Oswego patients have achieved and will maintain the following adequacy outcomes.

- 92% of patients had a URR $\geq$ 65%
- 92% of patients had a Kt/V $\geq$ 1.2

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ASSURANCES CRITERION (77 IAC 1110.1430(j)).

FINANCIAL

IX. 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 securities totaling \$131,000, and fair market value of a lease totaling \$100,275. A review of the applicants' audited financial statements indicates that sufficient cash is available to fund the project.

TABLE FOUR		
FMC Holdings Inc. Audited Financial Statements		
(Dollars in Thousands)		
	2014	2015
Cash & Investments	\$195,280	\$249,300
Current Assets	\$4,027,091	\$4,823,714
Total Assets	\$18,489,619	\$19,332,539
Current Liabilities	\$2,058,123	\$2,586,607
Long Term Debt	\$2,669,500	\$2,170,018
Total Liabilities	\$9,029,351	\$9,188,251
Total Revenues	\$10,373,232	\$11,691,408
Expenses	\$9,186,489	\$10,419,012
Income Before Tax	\$1,186,743	\$1,272,396
Income Tax	\$399,108	\$389,050
<i>Net Income</i>	\$787,635	\$883,346
Source: 2014/2015 Audited Financial Statements		

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

X. 1120.130 - Financial Feasibility

A. Criterion 1120.130 - Financial Viability

The applicants are funding the project with cash and securities totaling \$131,000, and fair market values of a lease totaling \$100,275. A review of the applicants' financial statements indicates that sufficient cash is available to fund the project. Because the applicants are funding this project internally no financial viable ratios are required.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE CRITERION FINANCIAL FEASIBILITY (77 IAC 1120.130(a)).

XI. Section 1120.140 - Economic Feasibility

- A. Criterion 1120.140(a) - Reasonableness of Financing Arrangements**
- B. Criterion 1120.140(b) - Terms of Debt Financing**

The applicants are funding the project with cash and securities totaling \$131,000, and fair market values of a lease totaling \$100,275. The applicants are modernizing 900 GSF of existing space to accommodate the additional stations, resulting in a 10,332 GSF facility. The project will be funded internally, and these criteria are inapplicable.

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

- C. Criterion 1120.140(c) - Reasonableness of Project Cost**

The applicant shall document that the estimated project costs are reasonable and shall document compliance with the State Board's standards as detailed in 77 IAC 1120.

Modernization Contracts – These costs total \$18,000 or \$20.00 per gross square feet. ($\$18,000/900 \text{ GSF} = \20.00). This appears reasonable when compared to the State Board standard of \$189.19

Moveable Equipment - These costs total \$113,000 or \$18,833 per station. This appears reasonable when compared to the State Board standard of \$50,601.13.

Fair Market Value of Leased Space and Equipment - These costs are \$100,275. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH THE REASONABLENESS OF PROJECT COST CRITERION (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. Direct cost means the fully allocated costs of salaries, benefits and supplies for the service.

The applicants anticipate the direct operating costs per treatment to be \$238.00. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PROJECT DIRECT OPERATING COSTS CRITERION (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 applicants anticipate the total effect of the Project on Capital Costs per treatment to be \$13.54. The State Board does not have a standard for these costs.

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

