



STATE OF ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

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

ITEM NUMBER: NA	BOARD MEETING: NA	PROJECT NUMBER: 17-024
PERMIT HOLDERS: Fresenius Medical Care Holdings, Inc. Fresenius Kidney Care Springfield East, LLC		
FACILITY NAME and LOCATION: Fresenius Kidney Care Springfield East, Springfield, Illinois		

DESCRIPTION: The permit holders are requesting an Alteration to Permit #17-024. This is the **first alteration** for this permit.

**STATE BOARD STAFF REPORT
ALTERATION TO PERMIT
PERMIT #17-024**

I. Project Description and Background Information:

On January 9, 2018 the State Board approved the permit holders to establish a 9-station ESRD facility at a cost of \$2,788,837 in Springfield, Illinois.

Alteration Request:

On June 14, 2018 the permit holders submitted a permit alteration request for Permit #17-024. The permit holders are requesting to increase the cost of the project by \$126,000 or 4.5% of the approved permit amount. There is no increase in the approved number of stations or an increase in the gross square footage.

II. Reasons for the Proposed Alteration

The permit holders stated the reasons for the alteration as follows: *“Original modernization costs for this project were estimated to be within the State standard for 2018. However, after permit approval and gaining full access to the site, it was discovered that there is additional unexpected work that needs to be done on the building. These include:*

- *Additional finishes with insulation, additional framing for shell construction type, roof ladder, etc.*
- *Additional Mechanical (Heating/Cooling), Electrical, and Plumbing associated with connecting to work being done by the landlord. ·*

Also, in 2017 we could not have predicted the recent Government tariffs placed on aluminum and steel imported from other countries. These tariffs, 10% for aluminum and 25% for steel, are significantly increasing these materials final cost to the customer. The building that Fresenius Kidney Care is modernizing has a steel frame and therefore extensive steel framework will be required for the interior build out.

The additional work, combined with the higher material costs, amount to a total of \$126,000 additional funds (\$115,000 Modernization & \$11,000 Contingency) than were approved in the permit for this facility. This amount to 4.5% of the total project cost and is within the State Board's increase limit of 7%. The construction contract will not be signed until the alteration is approved.”

III. Applicable Rules

77 IAC 1130.750 – Alteration of Post Permit Projects specifies that a permit is valid only for the project as defined in the application and any change to the project subsequent to permit issuance constitutes an Alteration to the Project. **All alterations** are required to be reported to the State Board before any alteration is executed.

77 IAC 1130.750 b) states the cumulative effect of alterations to a project shall not exceed the following:

- 1) a change in the approved number of beds or stations, provided that the change would not independently require a permit or exemption from HFSRB;
- 2) abandonment of an approved category of service established under the permit;
- 3) any increase in the square footage of the project up to 5% of the approved gross square footage;
- 4) any decrease in square footage greater than 5% of the project;
- 5) any increase in the cost of the project not to exceed 7% of the total project cost. This alteration may exceed the capital expenditure minimum in place when the permit was issued, provided that it does not exceed 7% of the total project cost;
- 6) any increase in the amount of funds to be borrowed for those permit holders that have not documented a bond rating of "A-" or better from Fitch's or Standard and Poor's rating agencies, or A3 or better from Moody's (the rating shall be affirmed within the latest 18 month period prior to the submittal of the application).

The State Board Staff notes that only those criteria that are relevant to this alteration request are discussed below. All other criteria remain unchanged from the Original State Board Staff Report.

IV. Summary of Staff Findings

- A. State Board Staff finds the proposed alteration appears to be in conformance with the provisions of 77 ILAC 1110 (Part 1110).
- B. State Board Staff finds the proposed alteration appears to be in conformance with the provisions of 77 ILAC 1120 (Part 1120).

V. Project Costs and Sources of Funds

The permit holders are requesting to increase the cost of the project from \$ to \$2,707,415 or \$104,165 or 4%.

TABLE ONE**Project Costs and Sources of Funds**

USE OF FUNDS	Reviewable	Non Reviewable	Total	Reviewable	Non Reviewable	Total	Difference	Difference
Modernization Contracts	\$940,003	\$313,334	\$1,253,337	\$1,024,003	\$344,334	\$1,368,337	\$115,000	4.12%
Contingencies	\$90,283	\$30,094	\$120,377	\$98,683	\$32,694	\$131,377	\$11,000	0.39%
Architectural/Engineering Fees	\$97,500	\$32,500	\$130,000	\$97,500	\$32,500	\$130,000	\$0	
Movable or Other Equipment (not in construction contracts)	\$219,000	\$60,000	\$279,000	\$219,000	\$60,000	\$279,000	\$0	
Fair Market Value of Leased Space & Equipment*	\$783,675	\$222,448	\$1,006,123	\$783,675	\$222,448	\$1,006,123	\$0	
TOTAL USES OF FUNDS	\$2,130,461	\$658,376	\$2,788,837	\$2,222,861	\$691,976	\$2,914,837	\$126,000	4.52%
SOURCE OF FUNDS	Reviewable	Non Reviewable	Total	Reviewable	Non Reviewable	Total		
Cash and Securities	\$1,346,786	\$435,928	\$1,782,714	\$1,439,186	\$469,528	\$1,908,714	\$126,000	
Leases (fair market value)	\$783,675	\$222,448	\$1,006,123	\$783,675	\$222,448	\$1,006,123	\$0	
TOTAL SOURCES	\$2,130,461	\$658,376	\$2,788,837	\$2,222,861	\$691,976	\$2,914,837	\$126,000	
Source: Page 6 of the Application for Permit and the Alteration to Permit Request								

VIII. ECONOMIC FEASIBILITY

A) **Criterion 1120.140(c) – Reasonableness of Project Costs**

To demonstrate compliance with this criterion the permit holders must meet the State Board requirements in Part 1120. Appendix A.

Only new construction costs and contingencies are changing as the result of this alteration Clinical Costs are reviewed in this criterion.

Original State Board Staff Report

Modernization and Contingencies Costs are \$1,030,286 or \$194.17 per GSF for 5,306 GSF of clinical space. This appears reasonable when compared to the State Board Standard of \$194.87 per GSF, with 2018 listed as mid-point of construction.

Contingencies – These costs total \$90,283, and are 9.6% of the modernization costs identified for this project. This is in compliance with the State standard of 10%-15%.

Alteration Request

Modernization and Contingencies

These costs total \$1,122,686 or \$211.59/GSF ($\$1,122,686/5,306 = \211.59). This cost is above the approved permit amount of \$194.87/GSF [2019 mid-point of construction].

Contingencies – These costs total \$98,683 and are 9.63% of the modernization costs identified for this project. This is in compliance with the State standard of 10%-15%.

While the Applicants are not in compliance with the approved State Board Standard per GSF the Applicants are below the 7% threshold and have met the requirements of the 77 ILAC 1130.750.

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