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-14	BOARD MEETING: September 26, 2017	PROJECT NO: 17-027	PROJECT COST: Original: $38,200
FACILITY NAME: Fresenius Medical Care Sandwich		CITY: Sandwich	
TYPE OF PROJECT: Non-Substantive			HSA: I

PROJECT DESCRIPTION: Fresenius Medical Care Sandwich, LLC d/b/a Fresenius Medical Care Sandwich and Fresenius Medical Care Holdings, Inc. (the applicants) are proposing to add 1 ESRD station to an existing 11-station facility for a total of 12 ESRD stations in a total of 5,344 GSF of leased space in Sandwich. The cost of the project is $38,200.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- Fresenius Medical Care Sandwich, LLC and Fresenius Medical Care Holdings, Inc. (the applicants) are proposing to add 1 ESRD station to an existing 11-station facility for a total of 12 ESRD stations in a total of 5,344 GSF of leased space in Sandwich. The cost of the project is $38,200. **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 access to daytime treatment time slots for life-sustaining ESRD services in Sandwich, and to optimize the efficiency of the clinic staffing on the treatment floor in the most cost-effective manner. The applicants also intend to address over-utilization at the existing ESRD facility during the four shifts it operates.

SUMMARY:

- FMC Sandwich is currently a 10-station ESRD facility, located in Sandwich Illinois. The applicants wish to maintain safe access to the facility through the operation of 4 shifts, instead of 6. The rural location of the facility, and the advanced age of its patient base make it necessary to operate 4 dialysis shifts instead of 6, in an effort to increase day time access. On May 26, 2017, the applicants sent notice to the Illinois Health Facilities and Services Review Board of its intention to add one ESRD station in compliance with State Board Rule 77 IAC 1130.140, which allows an End Stage Renal Dialysis facility the opportunity to add 3 stations or 10% of its station count (whichever is less), every two years. This transaction, when complete will increase the station count to 11 stations. The proposed project will add one more station, increasing the station count to 12 ESRD stations.

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 or opposition were received by the State Board Staff.

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 18 review criteria and have not met the following State Board Requirements:

State Board Standards Not Met	
Criteria	**Reasons for Non-Compliance**
Criterion 1110.1430(c) (2),(4) – Unnecessary Duplication/Maldistribution of Service/Impact on Other Providers	An excess of three ESRD stations exist in HSA-01, and the facility has not reported utilization data in excess of the State Standard (80%) in the last year.

STATE BOARD STAFF REPORT
Fresenius Medical Care Sandwich
PROJECT #17-027

APPLICATION SUMMARY/CHRONOLOGY	
Applicants	Fresenius Medical Care Sandwich, LLC d/b/a Fresenius Medical Care Sandwich and Fresenius Medical Care Holdings, Inc.
Facility Name	Fresenius Medical Care Sandwich
Location	1310 North Main Street, Suite 105, Sandwich, Il
Application Received	June 30, 2017
Application Deemed Complete	July 13, 2017
Permit Holder	Fresenius Medical Care Sandwich LLC, d/b/a Fresenius Medical Care Sandwich
Operating Entity	Fresenius Medical Care Sandwich, LLC d/b/a Fresenius Medical Care Sandwich
Owner of the Site	Sandwich Development Partners
Project Financial Commitment Date	Upon Permit Issuance
Gross Square Footage	5,344 GSF
Project Completion Date	December 31, 2018
Can Applicants Request a Deferral?	Yes
Has the Application been extended by the State Board?	No

I. <u>The Proposed Project</u>

Fresenius Medical Care Sandwich, LLC. d/b/a Fresenius Medical Care Sandwich and Fresenius Medical Care Holdings, Inc. (the applicants) are proposing to add 1 ESRD stations to an existing 11-station facility for a total of 12 ESRD stations in a total of 5,344 GSF of leased space in Sandwich. The cost of the project is $38,200. **The anticipated project completion date is December 31, 2018.**

II. <u>Summary of Findings</u>

A. The State Board Staff finds the proposed project is **<u>not</u>** 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. <u>General Information</u>

The applicants are Fresenius Medical Care Sandwich, LLC d/b/a Fresenius Medical Care Sandwich and Fresenius Medical Care Holdings, Inc. The owner of the site is Sandwich Development Partners and the operating entity is Fresenius Medical Care Sandwich, LLC. d/b/a Fresenius Medical Care Sandwich. The facility is located at 1310 North Main Street, Sandwich, Illinois in the HSA-01 ESRD Planning Area. HSA-01 is comprised of Boone, Carroll, DeKalb, Jo Daviess, Lee, Ogle, Stephenson, Whiteside, and Winnebago Counties. The May 2017 update to the IDPH Inventory of Health Care Facilities

(“Inventory”) shows a computed excess of 3 ESRD stations in HSA-01 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 non-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. <u>The Proposed Project - Details</u>

Fresenius Medical Care Sandwich, LLC d/b/a Fresenius Medical Care Sandwich and Fresenius Medical Care Holdings, Inc. (the applicants) are proposing to add 1 ESRD stations to an existing 11-station facility for a total of 12 ESRD stations in a total of 5,344 GSF of leased space in Sandwich. The cost of the project is $38,200. Board Staff notes having received a request to add one station to this facility, on May 22, 2017, per State Board rule 77 IAC 1130.140(c), which allows an ESRD facility to add up to 3 stations or 10% of its station complement (whichever is less), every two years. The State Board issued a memo on May 31, 2017, approving this addition, which increased the station complement from 10 ESRD stations to 11.

V. <u>Project Costs and Sources of Funds</u>

The total estimated project cost is $38,200. The proposed project is being funded with cash and securities totaling $23,200 and the fair market value of the lease totaling $15,000. 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	$5,000
Moveable Equipment	$18,200
FMV Leased Space & Equipment	$15,000
Total Uses of Funds	**$38,200**
Sources of Funds	**Clinical**
Cash and Securities	$23,200
FMV Leased Space & Equipment	$15,000
Total Sources of Funds	**$38,200**
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: *"The purpose of this project is to maintain access to daytime treatment times for life-sustaining dialysis treatments in Sandwich and to optimize the efficiency of the clinic staffing on the treatment floor. The most cost effective way is to utilize existing space at the current Fresenius Sandwich facility and add 1 station to bring the total to 12 (the facility is currently in the process of going from 10 to 11 stations per the 2-year/10% rule). The Sandwich facility earned 3 stars in the CMS Quality Star Rating for 2016. Increasing the station count at the Fresenius Sandwich facility from 11 to 12 will ensure access to daytime treatment schedules while maintaining current facility operations and patient safety. The facility has added stations per the 2-year/10% rule over the years in order to keep access to the daytime treatment times. It will also allow the facility to operate on a preferred staffing model of 1 clinician to 4 patients. This model is more efficient and functions well with the patient treatment schedules and use of floor space."* **Patients at FMC Sandwich have encountered the quality values listed below:**

98% of patients had a URR/65%
100% 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 1 station to an existing 11-station ESRD facility will have no impact on Safety Net services in the Sandwich/DeKalb County service area. The applicants' state:

"Fresenius Medical Care is a for-profit, publicly traded company and is notrequired 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 to the daytime treatment times. The facility is operating at 88% with four shifts, and the extra

stations would alleviate the high utilization experienced. 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, Fresenius Aurora, Fresenius Oswego, and Fresenius West Batavia. The applicants note these facilities do not normally serve the Sandwich area, which needs additional daytime dialyzation time slots. There are no costs associated with this alternative.
3. The alternative of adding stations was utilized previously in 2014, while another station addition was approved in May 2017. The proposed addition of 1 station will reduce the utilization rate of the 4 operating shifts to 80%
4. The facility is currently part of a **joint venture,** which has no impact on access or staffing issues.
5. The **best alternative** for addressing the patient's need for additional daytime access is to add 1 station at the current site. The cost of this project is minimal at $38,200.

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

A) Criterion 1110.234(a) - Size of Project

The applicants propose to add 1 station to an existing 11-station facility for a total of 12 stations in 5,344 GSF of leased space. The State board standard is 450-650 BGSF per station. The applicants note the project is allocating 445 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 have not exceeded the State Board standard for ESRD facilities for the last year, but have documented by the second year after project completion (2019), they will be serving 61 patients, and operating at 84.7%, 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 12-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. <u>Section 1110.1430 - In-Center Hemodialysis Projects</u>

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 an excess of 3 ESRD stations in the HSA-01 ESRD Planning Area. The most recent ESRD survey (June 2017), shows the facility is currently operating at 66.6% occupancy.

The primary purpose of this project is to provide in-center hemodialysis services to the residents of the Sandwich/DeKalb County area in HSA-01, as well as patients in neighboring HSA 8, 9, and 2. It is noted that 52% of the projected referral patients reside in HSA-01, with the remaining 48% originating from HSAs 8,9, and 2.. As of June 2017, the applicants are currently providing service to 40 patients at the Fresenius Medical Care Sandwich facility and in a referral letter provided by Dr. Atif Fakhruddin M.D., have identified an additional 21 pre-ESRD patients (patient referral letter, application, p. 45), expected to refer to the facility after project completion.

FMC Sandwich is currently operating at 67% occupancy, and is operating two (2) shifts per day. The applicants note the facility best serves its patient base during the two-per-day shifts that encompass daylight hours The majority of its patient base is elderly and live in predominately rural settings where transportation is limited to personal means, and traveling after daylight hours are hazardous. The applicants propose to enhance access for its patient base to these two daytime shifts through the addition of this station, and make the treatment floor operations more efficient through the facilitation of an optimum staffing ratio of 4 patients to 1 staff member. Regardless, there is an excess of three stations in the planning area, and the current operational capacity does not exceed the State standard, resulting in a negative finding for this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES NOT APPEAR 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 Sandwich:

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

The following services are provided via referral to Valley West Community Hospital, Sandwich:

- 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 provide the required certification information for Assurances as required of the criterion in the form of an attachment to the project file. The applicants note Fresenius Medical Care Sandwich patients have achieved and will maintain the following adequacy outcomes.

- 98% of patients had a URR $\geq$ 65%
- 100% 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 $23,200, and fair market value of a lease totaling $15,000. 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
Net Income	$787,635	$883,346
Source: 2014/2015Audited 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 $23,200, and fair market values of a lease totaling $15,000. 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. <u>Section 1120.140 - Economic Feasibility</u>

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 $23,200, and fair market values of a lease totaling $15,000. The applicants are modernizing 150 GSF of existing space to accommodate the additional station, resulting in a 5,344 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.

<u>Modernization Contracts – These costs total</u> $5,000 or $33.33 per gross square feet. ($5,000/150 GSF = $33.33). This appears reasonable when compared to the State Board standard of $189.19

<u>Moveable Equipment</u> - These costs total $18,200 or $18,200 per station. This appears reasonable when compared to the State Board standard of $50,601.13.

<u>Fair Market Value of Leased Space and Equipment</u> - These costs are $15,000. 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 $164.63. 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 $15.87. 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)).

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