



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-09	BOARD MEETING: November 14, 2017	PROJECT NO: 17-038	PROJECT COST: Original: \$6,212,841
FACILITY NAME: Fresenius Kidney Care South Elgin		CITY: South Elgin	
TYPE OF PROJECT: Substantive			HSA: VIII

PROJECT DESCRIPTION: The Applicants (Fresenius Medical Care Holdings, Inc and Fresenius Medical Care South Elgin, LLC) are proposing to establish a twelve (12) station ESRD facility in 7,600 GSF of leased space in South Elgin, Illinois. The cost of the project is \$6,212,841, and the scheduled completion date is December 31, 2019.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Fresenius Medical Care Holdings, Inc and Fresenius Medical Care South Elgin, LLC d/b/a Fresenius Kidney Care South Elgin) are proposing the establishment of a twelve (12) station ESRD facility in 7,600 GSF of leased space in South Elgin, Illinois. The cost of the project is \$6,212,841, and the scheduled completion date is December 31, 2019.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The project is before the State Board because the project proposes to establish a health care facility as defined at 20 ILCS 3960/3

PURPOSE OF THE PROJECT:

- The Applicants state:
“The purpose of this project is to maintain dialysis services in the highly over-utilized Elgin/South Elgin market area, where the average utilization in the 30-minute travel zone is 79%. Access is severely restricted due to clinics that are at capacity due to a higher than average prevalence of End Stage Renal Disease (ESRD). Additional goals are to provide access to treatment schedule times that will best serve each patient’s individual needs and to keep up with the significant increase in demand for dialysis services in Elgin. Specifically, it will serve the immediate Elgin/South Elgin market, which lies in both HSA-07 and 08. It will also serve patients residing in rural areas in central Kane County. Fresenius Kidney Care South Elgin will not only create much needed access but will provide additional favored treatment shift times in the Elgin market. Shift choice allows patients more freedom to maintain their lifestyle and/or work schedule along with additional access to transportation services.”

PUBLIC HEARING/COMMENT:

- A public hearing was offered but was not requested. The project file contains no letters of support and one (1) letter of opposition (See Appendix I).

SUMMARY:

- There is a calculated excess of ten (10) stations in the HSA-VIII ESRD Planning Area, per the September 2017 Inventory Update. According to the Applicants, there appears to be a need for twelve (12) stations, based on high utilization at existing facilities, and a need for ongoing access and preferential treatment times in the planning area. However, there is an excess of 10 stations in the planning area and five (5) facilities within thirty (30) minutes of the proposed facility, reporting substandard utilization data for the last quarter (June 2017). It does appear there will be an unnecessary duplication of service or a mal-distribution of stations in the planning area, due to underutilized ESRD facilities in the service area. The proposed facility will have a potential negative effect on existing facilities in the service area.

CONCLUSIONS:

- The Applicants addressed twenty one (21) criteria and did not meet the following:

State Board Standards Not Met	
Criteria	Reasons for Non-Compliance
Criterion 1110.1430 (c) (1) – Planning Area Need	There is a calculated excess of ten (10) stations in the HSA-VIII ESRD Planning Area.
Criterion 1110.1430(d)(1), (2), (3) – Unnecessary Duplication/Maldistribution of Service/Impact on Other Providers	Of the ten (10) facilities identified within the service area, five (50%), are operating above the State Standard, which suggests unnecessary duplication of service, maldistribution of service, and the potential for a negative impact on other providers.

STATE BOARD STAFF REPORT
Fresenius Kidney Care South Elgin
PROJECT #17-038

APPLICATION SUMMARY/CHRONOLOGY	
Applicants	Fresenius Medical Care Holdings, Inc. Fresenius Medical Care South Elgin, LLC d/b/a Fresenius Kidney Care South Elgin
Facility Name	Fresenius Kidney Care South Elgin
Location	McLean Blvd & Bowes Road, South Elgin, Illinois
Application Received	August 18, 2017
Application Deemed Complete	August 23, 2017
Review Period Ends	December 21, 2017
Permit Holder	Fresenius Medical Care South Elgin, LLC d/b/a Fresenius Kidney Care South Elgin
Operating Entity	Fresenius Medical Care South Elgin, LLC d/b/a Fresenius Kidney Care South Elgin
Owner of the Site	Net3 (South Elgin I), LLC
Project Financial Commitment Date	Upon Permit Issuance
Gross Square Footage	7,600 GSF
Project Completion Date	December 31, 2019
Expedited Review	Yes
Can Applicants Request a Deferral?	Yes
Has the Application been extended by the State Board?	No

I. The Proposed Project

The Applicants (Fresenius Medical Care Holdings, Inc and Fresenius Medical Care South Elgin, LLC d/b/a Fresenius Kidney Care South Elgin) are proposing the establishment of a twelve (12) station ESRD facility in 7,600 GSF of leased space in South Elgin, Illinois. The cost of the project is \$6,212,841, and the completion date is December 31, 2019.

II. Summary of Findings

- A. State Board Staff finds the proposed project **is not** in conformance with the provisions of 77 ILAC 1110 (Part 1110).
- B. State Board Staff finds the proposed project is in conformance with the provisions of 77 ILAC 1120 (Part 1120).

III. General Information

The Applicants are Fresenius Medical Care Holdings, Inc and Fresenius Medical Care South Elgin, LLC d/b/a Fresenius Kidney Care South Elgin. **Fresenius Medical Care Holdings**, operating as Fresenius Medical Care North America or FMCNA, operates a network of some 2,100 dialysis clinics located throughout the continent. One of the largest providers of kidney dialysis services, FMCNA offers outpatient and in-home hemodialysis treatments for chronic kidney disease. The company's operating units also market and sell dialysis machines and related equipment and provide renal research, laboratory, and patient support services. FMCNA oversees the North American

operations of dialysis giant Fresenius Medical Care AG & Co. Fresenius Medical Care Springfield East, LLC is a wholly owned subsidiary of Fresenius Medical Care Holdings, Inc. Fresenius Kidney Care South Elgin will be located on the southwest corner of McLean Boulevard and Bowes Road, South Elgin, Illinois in the HSA-VIII ESRD planning area. HSA-VIII includes Kane, Lake, and McHenry counties. The State Board has projected an excess of ten (10) ESRD stations by CY 2018. This is a substantive project subject to an 1110 and 1120 review. Financial commitment will occur after permit issuance. Table One outlines the current Fresenius projects approved by the State Board and there completion date.

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
#17-023	FMC Oswego	Expansion	12/31/18
#17-024	FKC Springfield East	Establishment	3/31/19
#17-025	FMC Crestwood	Relocation/Establishment	9/30/19
#17-027	FMC Sandwich	Expansion	12/31/18
#17-033	FMC Palatine	Expansion	09/26/17

IV. Project Costs

The Applicants are funding this project with cash and securities of \$1,986,400 and the fair market value of leased space and equipment of \$4,226,441. The estimated start-up costs and the operating deficit are projected to be \$184,332.

TABLE TWO
Project Costs and Sources of Funds

USE OF FUNDS	Reviewable	Non Reviewable	Total	% of Total
Modernization Contracts	\$1,047,840	\$297,360	\$1,345,200	21.65%
Contingencies	\$100,640	\$28,560	\$129,200	2.08%
Architectural/Engineering Fees	\$112,320	\$31,680	\$144,000	2.32%
Movable or Other Equipment (not in construction contracts)	\$292,000	\$76,000	\$368,000	5.92%
Fair Market Value of Leased Space & Equipment	\$3,330,605	\$895,836	\$4,226,441	68.03%
TOTAL USES OF FUNDS	\$4,883,405	\$1,329,436	\$6,212,841	100.00%
SOURCE OF FUNDS	Reviewable	Non Reviewable	Total	
Cash and Securities	\$1,552,800	\$433,600	\$1,986,400	31.97%
Leases (fair market value)	\$3,330,605	\$895,836	\$4,226,441	68.03%
TOTAL SOURCES	\$4,883,405	\$1,329,436	\$6,212,841	100.00%

Source: Page 6 of the Application for Permit.

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

The following three (3) criteria are informational; no conclusion on the adequacy of the information submitted.

A) Criterion 1110.230(a) Purpose of the Project

“The purpose of this project is to maintain dialysis services in the highly over-utilized Elgin/South Elgin market area, where the average utilization in the 30-minute travel zone is 79%. Access is severely restricted due to clinics that are at capacity due to a higher than average prevalence of End Stage Renal Disease (ESRD). Additional goals are to provide access to treatment schedule times that will best serve each patient’s individual needs and to keep up with the significant increase in demand for dialysis services in Elgin. Specifically, it will serve the immediate Elgin/South Elgin market, which lies in both HSA-07 and 08. It will also serve patients residing in rural areas in central Kane County. Fresenius Kidney Care South Elgin will not only create much needed access but will provide additional favored treatment shift times in the Elgin market. Shift choice allows patients more freedom to maintain their lifestyle and/or work schedule along with additional access to transportation services.”

B) Criterion 1110.230(b) - Safety Net Impact Statement

The Applicants stated the following:

“The proposed Fresenius Kidney Care South Elgin dialysis facility will not have any impact on safety net services in the South Elgin area of Kane County. 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. 122)

TABLE THREE ⁽¹⁾ SAFETY NET INFORMATION Fresenius Medical Care Facilities in Illinois			
	2014	2015	2016
Net Revenue	\$411,981,839	\$438,247,352	\$449,611,441
CHARITY			
Charity (# of self-pay patients)	251	195	233
Charity (self-pay) Cost	\$5,211,664	\$2,983,427	\$3,269,127
% of Charity Care to Net Rev.	1.27%	0.68%	.072%
MEDICAID			
Medicaid (Patients)	750	396	320
Medicaid (Revenue)	\$22,027,882	\$7,310,484	\$4,383,383
% of Medicaid to Net Revenue	5.35%	1.67%	.097%
1. Source: Page 101 of the Application for Permit.			

Note to Table Three

- 1) Charity (self-pay) patient numbers decreased however, treatments were higher per patient (application, p. 106).
- 2) Charity (self-pay) patient numbers continue to decrease as Fresenius Financial Coordinators assist patients in signing up for health insurance in the Healthcare Marketplace. Patients who cannot afford the premiums have them paid by the American Kidney Fund.
- 3) Medicaid number of patients is decreasing as Fresenius Financial Coordinators assist patients in signing up for health insurance in the Healthcare Marketplace. Patients who cannot afford the premiums have them paid by the American Kidney Fund.

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

The Applicants considered the following three (3) alternatives to the proposed project.

1. Do Nothing/Project of Greater or Lesser Scope.

2. Pursuing a joint venture or similar arrangement
3. Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project.

Do Nothing/Project of Greater or Lesser Scope

The Applicants state the alternative of doing nothing would not address the lack of access to preferred treatment times or enhance patient choice for dialysis in the South Elgin area. The Applicants note the Elgin facility has been expanded by eight stations since opening, and still operates at 89% capacity. The Applicants rejected this alternative, and there were no costs identified with this alternative.

Pursue a Joint Venture or Similar Arrangement

The Applicants note this application was filed as a joint venture. Project costs identified with this alternative: \$6,212,841.

Utilize Other Health Care Resources Available to Serve All or a Portion of the Population

The Applicants note the two clinics serving the Elgin/South Elgin market are operating at a combined utilization rate of 95%, greatly restricting access to preferential treatment times. The Applicants further note the facilities within a 30-minute travel radius have a combined operational capacity of 79%, and continues to increase. The physicians do not want their patient base to experience access issues or incur additional travel costs, so this alternative was rejected. There were no project costs identified.

After considering each of the three above mentioned alternatives, the Applicants concluded that the optimal alternative for providing services to its patient base would be to establish a 12-station facility in South Elgin. Cost of the chosen alternative: \$6,212,841.

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

A) Criterion 1110.234(a) - Size of Project

The Applicants are proposing the construction of 7,600 GSF of leased space, 5,920 of it classified as clinical for 12 stations or four hundred ninety four (494) GSF per station. The State Board standard is 450-650 GSF per station. (See Application for Permit page 38)

B) Criterion 1110.234(b) – Projected Utilization

Dr. Karol Rosner, M.D., of the Nephrology Associates of Northern Illinois (NANI), is the current Medical Director of the Fresenius McHenry facility, and will be Medical Director of the for the new South Elgin facility, once completed. Dr Rosner, and fellow practicing nephrologists from NANI, report having treated 343 pre-ESRD patients in 2016, and have identified 109 pre-ESRD patients who live in the service area who could ultimately require dialysis in the first two years

that the new South Elgin facility is in operation, resulting in utilization surpassing the 80th percentile. (See Application for Permit page 141).

109 patients x 156 treatment per year = 17,004 treatments
12 stations x 936 treatments per stations per year = 11,232 treatments
17,004 treatments/11,232 treatments = 151% utilization

C) Criterion 1110.234(e) – Assurances

The Applicants provided the necessary assurance that they will be at target occupancy within two years after project completion. (See Application for Permit page 109)

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION SIZE OF PROJECT, PROJECTED UTILIZATION, ASSURANCES (77 ILAC 1110.234(a), (b) and (e))

VII. Section 1110.1430 - In-Center Hemo-dialysis Projects

A) Criterion 1110.1430(b)(1) to (3) - Background of Applicant

To address this criterion the applicants must provide a list of all facilities currently owned in the State of Illinois and an attestation documenting that no adverse actions have been taken against the applicants by either Medicare or Medicaid, or any State or Federal regulatory authority during the 3 years prior to the filing of the Application with the Illinois Health Facilities and Services Review Board; and authorization to the State Board and Agency access to information in order to verify any documentation or information submitted in response to the requirements of the application for permit.

The Applicants provided sufficient background information, to include a list of facilities and the necessary attestations as required by the State Board at *pages 39-44 of the application for permit*. The State Board Staff concludes the Applicants have met this criterion.

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

B) Criterion 1110.1430(c) - Planning Area Need
The applicant must document the following:

- 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/Service Restrictions

- 1) The proposed facility will be located in the HSA-VIII ESRD Planning Area. There is calculated excess of ten (10) ESRD stations in this planning area, per the State Board's September 2017 ESRD Inventory Update.

- 2) The Applicants note the primary purpose of the project is to increase access to dialysis services for the residents of South Elgin, Kane County, HSA-VIII, and neighboring HSA-07, during preferential treatment times. The Applicants cite access issues for the patient base with the most need (new patients), during non-traditional operational hours. The Applicants note there is an increase in number of ESRD patients residing in the service area due to an increase in the 65+ age cohort (baby boomers), and the continual increase in minority residents more susceptible to ESRD (African American/Hispanic populations). The Applicants note that 100% of the patient base resides in zip codes encompassing Kane County, HSA-07, and HSA-VIII service areas. The referral population is broken down in Table Four by service area and zip code (see below).

TABLE FOUR					
Patient Referral Base by Zip Code & Service Area					
HSA	County	City	Zip Code	Pre-ESRD HSA-VIII	Pre-ESRD HSA-07
7	DuPage/Cook	Bartlett	60103	0	39
7&8	Kane/DuPage/Cook	Elgin (East Side)	60120	4	9
8	Kane	Elgin	60123	22	0
8	Kane	Hampton/Burlington	60140	6	0
8	Kane	St. Charles	60174	14	0
8	Kane	Campton Hills	60175	6	0
8	Kane	South Elgin	60177	6	0
7&8	Kane/DuPage	Wayne	60184	2	1
Total				60	49
Percentage				55%	49%

- 3) Dr. Karol Rosner, M.D., and her associate Nephrologists from Nephrology Associates of Northern Illinois and Indiana, reports having treated approximately three hundred forty three (343) patients in various stages of chronic kidney disease (Pre-ESRD) in the Elgin/South Elgin market area. Of these patients, there are approximately one hundred nine (109) patients expected to begin dialysis at the proposed South Elgin facility in the first two (2) years of operation. Pages 56-60 of the application contains zip code origins of historical patient referrals from the Elgin/South Elgin market area.
- 5) The proposed South Elgin facility will be located in HSA-VIII, where an excess of ten (10) ESRD stations currently exists. The Applicants note the location of the proposed facility borders HSA-07, which currently has a need for 51 additional ESRD stations.

While the facility will be located proximal to a service area in need of an additional (10) stations (HSA-07). There are ten excess stations in HSA-VIII, and it appears that the existing facilities can accommodate the workload of the proposed project.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION PLANNING AREA NEED (77 ILAC 1110.1430(c) (1), (2), (3) and (5))

C) Criterion 1110.1430(d)(1), (2) and (3) - Unnecessary Duplication/Maldistribution/ Impact on Other Facilities

- 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 will not lower the utilization of other area providers below the occupancy standards specified in 77 Ill. Adm. Code 1100 and will not lower, to a further extent, the utilization of other area providers that are currently (during the latest 12-month period) operating below the occupancy standards.

The ratio of ESRD stations to population in the zip codes within a thirty (30) minute radius of Fresenius Kidney Care South Elgin is 1 station per 6,166 residents according to the 2010 census. The State ratio is 1 station per 2,831 residents (based on US Census estimates for 2015 and the May 2017 State Board Station Inventory).

The Applicants argue

“There is no surplus of stations in the 30-minute service area as evidenced by the ratio of stations to population when compared to the State of Illinois ratio. These figures demonstrate a need for additional stations in the Elgin/South Elgin market area.”
[Application for Permit page 100]

Table Four shows that there are underutilized facilities in the service area. There are three (3) facilities within the closest proximity of the proposed facility, having an average utilization of approximately ninety-seven percent (97%). Although the Applicants’ referral letter from Dr. Karol Rosner, M.D. provides sufficient referral patients to minimize impact on other providers, there are still five (5) underutilized facilities in the immediate service area susceptible to negative impact, and negative finding results for this criterion.

TABLE FOUR						
Facilities within thirty (30) minutes of the proposed facility and utilization						
Facility	City	Time	Stations	Medicare Star Rating	Utilization	Met Standard?
DaVita Cobblestone	Elgin	15	16	4	101.4%	Yes
FKC Elgin	Elgin	16	20	4	89.17%	Yes
DaVita Carpentersville	Carpentersville	16	13	3	102.56%	Yes
USRC Streamwood	Streamwood	17	13	3	53.85%	No
FKC West Chicago	West Chicago	22	12	5	79.17%	No
Tri-Cities Dialysis	Geneva	23	20	4	55%	No
FKC West Batavia	Batavia	25	12	3	81.94%	Yes
ARA South Barrington	South Barrington	28	14	3	63.1%	No
FKC Hoffman Estates	Hoffman Estates	28	20	4	92.5%	Yes
DaVita Schaumburg	Schaumburg	30	20	5	71.67%	No
Total Stations/Average Utilization			160		79%	
Information from ^{3rd} Quarter ESRD patient information for 2017						

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS NOT IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION OF SERVICE/MADISTRIBUTION/IMPACT ON OTHER FACILITIES (77 ILAC 1110.1430(d) (1), (2) and (3))

- E) Criterion 1110.1430(f) - Staffing**
- F) Criterion 1110.1430(g) - Support Services**
- G) Criterion 1110.1430(h) - Minimum Number of Stations**
- H) Criterion 1110.1430(i) - Continuity of Care**
- I) Criterion 1110.1430(k) – Assurances**

The proposed facility will be certified by Medicare if approved therefore appropriate staffing is required for certification. Dr. Karol Rosner, M.D., Medical Director, Fresenius Medical Care McHenry, will be the Medical Director for Fresenius Kidney Care, South Elgin. Support services including nutritional counseling, psychiatric/social services, home/self training, and clinical laboratory services will be provided at the proposed facility. The following services will be provided via referral to Northwestern Medicine Central DuPage Hospital, Winfield: blood bank services, rehabilitation services and psychiatric services. The Applicants are proposing twelve (12) stations and the minimum number of stations in an MSA is eight (8) stations. Continuity of care will be provided at Northwestern Central DuPage Hospital, Winfield as stipulated in the agreement provided in the application for permit. Additionally, the appropriate assurances have been provided by the Applicants asserting the proposed facility will be at the target occupancy of eighty percent (80%) two years after project completion and that the proposed facility will meet the adequacy outcomes stipulated by the State Board. (See Application for Permit Pages 102-108)

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERIA STAFFING, SUPPORT SERVICES, MINIMUM NUMBER OF STATIONS, CONTINUITY OF CARE, ASSURANCES (77 ILAC 1110.1430(f), (g), (h), (i) and (k))

VIII. FINANCIAL VIABILITY

- A) Criterion 1120.120 – Availability of Funds**
- B) Criterion 1120.130 – Financial Viability**

The Applicants are funding this project with cash and securities of \$1,986,400 and the fair market value of leased space totaling \$4,226,441. A review of the 2014/2015/2016 audited financial statements indicates there is sufficient cash to fund the project. Because the project will be funded with cash no viability ratios need to be provided. Table Seven below outlines Fresenius Medical Care Credit Rating.

TABLE SIX FMC Holdings Inc. Audited Financial Statements (Dollars in Thousands 000) December 31 st			
	2014	2015	2016
Cash & Investments	\$195,280	\$249,300	\$357,899
Current Assets	\$4,027,091	\$4,823,714	\$5,208,339
Total Assets	\$18,489,619	\$19,332,539	\$20,135,661
Current Liabilities	\$2,058,123	\$2,586,607	\$2,799,192
Long Term Debt	\$2,669,500	\$2,170,018	\$2,085,331
Total Liabilities	\$9,029,351	\$9,188,251	\$9,602,364
Total Revenues	\$10,373,232	\$11,691,408	\$12,806,949
Expenses	\$9,186,489	\$10,419,012	\$11,185,474
Income Before Tax	\$1,186,743	\$1,272,396	\$1,621,175
Income Tax	\$399,108	\$389,050	\$490,932
<i>Net Income</i>	\$787,635	\$883,346	\$1,130,243
Source: 2014/2015/2016 Audited Financial Statements			

IX. ECONOMIC FEASIBILITY

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

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

The Applicants provided a copy of a letter of intent to lease 7,600 GSF rentable contiguous square feet with an initial lease term of fifteen (15) years with three (3) five (5) year renewal options. The annual base rental rate shall be \$31.20 per SF, which shall escalate on an annual basis by three percent (1.7%) per year, beginning at the beginning of year two.

The Applicants have attested that the 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. (See Application for Permit page 118)

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

C)

C) Only Clinical Costs are reviewed in this criterion.

Modernization and Contingencies Costs are \$1,148,480 or \$194.00 per GSF for 5,920 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 \$100,640, and are 9.6% of the modernization costs identified for this project. This is in compliance with the State standard of 10%-15%.

Architectural Fees are \$112,320 and are 9.7% of modernization and contingencies. This appears reasonable when compared to the State Board Standard of 6.90% to 10.36%.

Movable or Other Equipment – These costs are \$292,000 or \$24,333 per station (12 stations). This appears reasonable when compared to the State Board Standard of \$52,119 per station.

Fair Market Value of Leased Space and Equipment – These costs are \$3,330,605. The State Board does not have a standard for these costs.

D) Criterion 1120.140(d) - Direct Operating Costs

The Applicants are estimating \$259.61 per treatment in direct operating costs. This appears reasonable when compared to previously approved projects of this type.

Estimated Personnel Expense:	\$912,384
Estimated Medical Supplies:	\$162,653
Estimated Other Supplies (Exc. Dep/Amort):	\$1,078,272
Total	\$2,153,309
Estimated Annual Treatments:	8,294
Cost Per Treatment:	\$259.61

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

The Applicants are estimating \$24.11 in capital costs. This appears reasonable when compared to previously approved projects of this type.

Depreciation/Amortization:	\$200,000
Interest	\$0
Capital Costs:	\$200,000
Treatments:	8,294
Capital Cost per Treatment	\$24.11

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERIA AVAILABILITY OF FUNDS, FINANCIAL VIABILITY, REASONABLENESS OF FINANCING ARRANGEMENTS TERMS OF DEBT FINANCING, REASONABLENESS OF PROJECT COSTS, DIRECT OPERATING COSTS, TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS (77 ILAC 1120.120, 130, 140(a), (b), (c), (d) and (e))

Opposition Comments

Fauzia Javaid, R.N., Clinic Manager ARA South Barrington Dialysis Center stated in part:

“At is September meeting the Review Board approved new planning area inventories and facility profiles. The new need calculation shows there is an excess of ten stations in the Planning Area 8. When the Applicants originally filed its application there were two excess stations. Despite the Applicants' claim that there is a growing need for stations, the number of excess beds is actually increasing. Fresenius argues that they must build the beds now because of the growing need. Review Board members should trust the inventory they just adopted. If there is a growing need for new stations that need will be reflected in next year's inventory. The Applicants should wait to apply until there is a need and the Board should similarly wait to approve.

3. A New Facility will Adversely Impact Other Providers.

The recently approved need inventory shows several facilities within 30 minutes travel time operating below target utilization of 80%. At the last Review Board meeting Fresenius and NANI opposed four CON projects arguing that such a project would adversely affect Fresenius and other providers. In the current application, however, the Applicants argue that their project will not adversely impact other providers. Their argument that other new projects can harm Fresenius but that a Fresenius project will not harm us or other underutilized providers is simply not credible. This Project will take future, and perhaps current, patients from area facilities and will unequivocally negatively impact us. If we did not strongly believe that this Project would significantly and adversely impact our facility we would not go through the CON process to oppose the Project. As the CON Application concedes, our facility operates well below target utilization. As our recent report to the Board shows, we have capacity to accept 31 new patients. Similarly, another nearby facility, USRC Streamwood, operates at only 54% utilization and could also accept new patients. We have the willingness and capacity to provide care to their patients.

4. NANI Physicians Presently Use ARA Facilities.

The application states the facility ownership will be 51% Fresenius and 49% Neptune III, LLC. The application never states who owns Neptune III, but from corporate records it appears affiliated with NANI. The Fresenius Application confirms that NANI physicians currently work with our facility (see pages 56-60). There is no assurance the physicians will not try to move existing patients from our facility to a facility that it co-owns. The Applicants also state that there will be no harm to existing providers because their Project will only take new patients currently on dialysis. All current providers rely on new patients for ongoing sustainable volume. When patients go off dialysis, facilities, including ours, rely on new patients to take their place. Fresenius' argument regarding future patients is akin to a CON applicant for a new hospital saying that it will cause no harm because it is only taking future patients and not patients currently in the hospital. We believe that NANI physicians will have an incentive to move our current patients to a new facility that it will co-own. Even if current patients are not moved, NANI physicians will have great incentive to steer new patients away from us and to the new facility. We actually saw this effect when a new ESRD facility opened in Crystal Lake near our own. In that situation physician co-owners of the new facility sought to move our patients to their new facility.

17-038 Fresenius Medical Care South Elgin - South Elgin

