



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: I-04	BOARD MEETING: June 5, 2018	PROJECT NO: 17-045	PROJECT COST: Original: \$4,285,823
FACILITY NAME: Proctor Hemodialysis Center		CITY: Peoria	
TYPE OF PROJECT: Substantive			HSA: II

DESCRIPTION: The Applicants (Proctor Community Hospital and Iowa Health System) propose to establish a 14-station ESRD facility in 5,831 GSF of leased space located at 5409 North Knoxville Avenue, Suite 104, Peoria, Illinois. The cost of the project is \$4,285,823 and the completion date is December 31, 2019.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Proctor Community Hospital and Iowa Health System) propose to establish a 14-station ESRD facility in 5,831 GSF of leased space located at 5409 North Knoxville Avenue, Suite 104, Peoria, Illinois. The cost of the project is \$4,285,823 and the completion date as stated in the Application for Permit is December 31, 2019.
- This project was deferred from January 2018 State Board Meeting and was extended from February 27, 2018 Meeting and received an Intent to Deny at the April 17, 2018 State Board Meeting. No additional information was provided to address the Intent to Deny.
- The State Board Report remains unchanged from the Original State Board Report. Transcripts from the April 17, 2018 Meeting regarding this project are attached in a separate document at the end of this report.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The project is before the State Board because the project proposes the establishment of a health care facility as defined in 20 ILCS 3960. One of the objectives of the Health Facilities Planning Act is *“to assess the financial burden to patients caused by unnecessary health care construction and modification. Evidence-based assessments, projections and decisions will be applied regarding **capacity, quality, value and equity** in the delivery of health care services in Illinois. Cost containment and support for safety net services must continue to be central tenets of the Certificate of Need process.”* [20 ILCS 3960/2]

PURPOSE OF THE PROJECT:

- *“The purpose of the project is to introduce competition into the Central Illinois hemodialysis market in an effort to lower cost and improve quality. Within Health Service Area 2, there are twelve hemodialysis centers with a combined capacity of 175 stations. According to the State's inventory of health care facilities and need determination, there is an excess of 20 stations within the service area. The problem with the status quo is that access is essentially limited to Fresenius facilities. Fresenius owns 11 of the 12 centers and controls 95% of the dialysis capacity. The only other provider in the service area is DaVita, another for-profit entity, which has a single 8-station facility in Pekin.”*

PUBLIC HEARING/COMMENT:

- No public hearing was requested and no letters of support or opposition were received.

SUMMARY:

- The State Board is estimating **an excess of 15 ESRD stations by 2020** in the HSA II ESRD planning area based upon historical usage and population estimates. Additionally, there does not appear to be access issues in this 30 minute service area as there are 12 existing providers of dialysis service in the planning area and the four existing facilities within 30 minutes are operating at average utilization of approximately 68%. It also appears that the establishment of the 14-station facility will result in an unnecessary duplication of service and will impact existing facilities.
- Included as separate attachments is the Transcript from the April 17, 2018 State Board Meeting and the Original State Board Staff Report.
- The Applicants addressed a total of 21 criteria and have not met the following:

Criteria	Reasons for Non-Compliance
77 IAC 1110.1430(c)(1), (2), (3) & (5)- Planning Area Need	The State Board is estimating an excess of 15 ESRD stations by 2020 in the HSA II ESRD planning area based upon historical usage and population estimates. By rule <i>“the number of stations to be established for in-center hemodialysis is in conformance with the projected station deficit specified in 77 Ill. Adm. Code 1100, as reflected in the latest updates to the Inventory.”</i> Additionally the referral letter provided for this Application for Permit did not meet the requirements of the State Board. The Applicants could not provide three years of historical referral data as required. By rule the proposed patient referrals cannot exceed the historical patient referrals.
77IAC 1110.1430(d)(1), (2) & (3) – Unnecessary Duplication of Service	It appears the proposed project will result in an unnecessary duplication of service as there are four existing facilities currently operating at 68.5% utilization within 30 minutes of the proposed facility. It appears that the demand identified for this project can be accommodated with the existing capacity.

STATE BOARD STAFF REPORT
Project #17-045
Proctor HemoDialysis Center

APPLICATION/CHRONOLOGY/SUMMARY	
Applicants	Proctor Community Hospital and Iowa Health System
Facility Name	Proctor Hemodialysis Center
Location	5409 N. Knoxville Ave., Suite 104, Peoria, Illinois
Permit Holder	Proctor Community Hospital and Iowa Health System
Operating Entity/Licensee	Proctor Community Hospital
Owner of Site	Methodist Services, Inc.
Description	Establish 14-station ESRD facility
Total GSF	5,831 GSF
Application Received	September 1, 2017
Application Deemed Complete	September 5, 2017
Review Period Ends	January 3, 2018
Financial Commitment Date	December 31, 2019
Project Completion Date	December 31, 2019
Review Period Extended by the State Board Staff?	Yes
Can the Applicants request a deferral?	No
Expedited Review?	No

I. Project Description

The Applicants (Proctor Community Hospital and Iowa Health System) propose to establish a 14-station ESRD facility in 5,831 GSF of leased space located at 5409 North Knoxville Ave., Suite 104, Peoria, Illinois. The cost of the project is \$4,285,823 and the completion date as stated in the Application for Permit is December 31, 2019.

II. Summary of Findings

- A. State Board Staff finds the proposed project does not appear to be in conformance with the provisions of 77 ILAC 1110 (Part 1110).
- B. State Board Staff finds the proposed project appears to be in conformance with the provisions of 77 ILAC 1120 (Part 1120).

III. General Information

The Applicants are Proctor Community Hospital and Iowa Health System. Iowa Health System is an Iowa nonprofit corporation formed in December 1994. Iowa Health System and its subsidiaries provide inpatient and outpatient care and physician services from seventeen hospital facilities and various ambulatory service and clinic locations in Iowa, Illinois and Wisconsin. Primary, secondary and tertiary care services are provided to residents of Iowa, Illinois, Wisconsin and adjacent states. Iowa Health System publicly operates as UnityPoint Health (the System). The legal name of the parent remains Iowa Health System, with the UnityPoint Health name reflecting a doing business as (d/b/a) UnityPoint Health. Proctor Community Hospital is a 218-bed acute care hospital in Peoria, Illinois.

Financial commitment will occur after permit issuance. This project is a substantive project subject to a Part 1110 and 1120 review. Substantive projects are types of projects that are defined in the Act and classified as substantive. *Substantive projects shall include no more than the following:*

1. *Projects to construct a new or replacement facility located on a new site; or a replacement facility located on the same site as the original facility and the costs of the replacement facility exceed the capital expenditure minimum.*
2. *Projects proposing a new service or discontinuation of a service, which shall be reviewed by the Board within 60 days.*
3. *Projects proposing a change in the bed capacity of a health care facility by an increase in the total number of beds or by a redistribution of beds among various categories of service or by a relocation of beds from one facility to another by more than 20 beds or more than 10% of total bed capacity, as defined by the State Board in the Inventory, whichever is less, over a 2-year period. [20 ILCS 3960/12]*

IV. Project Uses and Sources of Funds

The Applicants are funding the project with cash of \$1,968,000 and the FMV of leased space of \$2,317,823. The operating deficit and start-up costs are \$210,000.

TABLE ONE		
Project Uses and Sources of Funds		
Uses of Funds	Cost	% of Total
New Construction Contracts	\$1,125,000	26.25%
Contingencies	\$110,000	2.57%
Architectural/Engineering Fees	\$110,000	2.57%
Consulting and Other Fees	\$10,000	0.23%
Movable or Other Equipment (not in construction contracts)	\$603,000	14.07%
Fair Market Value of Leased Space or Equipment	\$2,317,823	54.08%
Other Costs To Be Capitalized	\$10,000	0.23%
Total Uses of Funds	\$4,285,823	100.00%
	Cost	% of Total
Source of Funds		
Cash and Securities	\$1,968,000	45.92%
Leases (fair market value)	\$2,317,823	54.08%
Total Sources of Funds	\$4,285,823	100.00%

V. Health Service Area

The proposed facility will be located in the HSA II ESRD Planning Area. The HSA II ESRD Planning Area includes the Illinois Counties of Bureau, Fulton, Henderson, Knox, LaSalle, Marshall, McDonough, Peoria, Putnam, Stark, Tazewell, Warren, and Woodford. The State Board is estimating no growth in the population in this ESRD Planning Area for the five years (2015-2020) and a growth of 33% over this same time

period.¹ As of April 2018 there is a **calculated excess of 15 ESRD stations** in this ESRD planning area.

TABLE TWO	
Need Methodology HSA II ESRD Planning Area	
Planning Area Population – 2015 (Est.)	672,700
In Station ESRD patients -2015	575
Area Use Rate 2013	.855
Planning Area Population – 2020 (Est.)	672,400
Projected Patients – 2020	575
Adjustment	1.33x
Patients Adjusted	765
Projected Treatments – 2020	119,301
Existing Stations	174
Stations Needed-2018	159
Number of Stations in Excess	15

VI. **Background of the Applicants**

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. To demonstrate compliance with this criterion the Applicants must provide

- A) A listing of all health care facilities currently owned and/or operated by the applicant in Illinois or elsewhere, including licensing, certification and accreditation identification numbers, as applicable;
- B) A listing of all health care facilities currently owned and/or operated in Illinois, by any corporate officers or directors, LLC members, partners, or owners of at least 5% of the proposed health care facility;
- C) Authorization permitting HFSRB and IDPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. Failure to provide the authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.
- D) An attestation that the Applicants have not had *adverse action*² taken against any facility that they own or operate.

1. The Applicants have stated “In accordance with section III, A (2) of the Illinois Health Facilities Planning Board Application for Certificate Need; I do hereby certify that no adverse actions have been taken against Iowa Health system or its licensed facilities within Illinois 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 Planning Board; and In regards to section III, A (3) of the Illinois Health Facilities Planning Board Application for Certificate Need; I do

¹ Source: Inventory of Health Care Facilities and Services and Need Determinations (09/01/2017) A-6

² ² “Adverse action is defined as a disciplinary action taken by IDPH, CMMS, or any other State or federal agency against a person or entity that owns or operates or owns and operates a licensed or Medicare or Medicaid certified healthcare facility in the State of Illinois. These actions include, but are not limited to, all Type “A” and Type “AA” violations.” (77 IAC 1130.140)

hereby authorize the State Board and Agency access to information in order to verify any documentation or information submitted in response to the requirements of this subsection or to obtain any information or documentation that the State Board or Agency finds pertinent to this subsection.” [Application for Permit page 46]

2. The proposed dialysis center will be located in the Proctor Professional Building on the Proctor Hospital campus. Title to the property is held by Methodist Services, Inc., the real estate holding company of Methodist Health Services Corporation. The Peoria County real estate bill has been provided as evidence of site ownership.
3. Certificates of Good Standing for Iowa Health System and Proctor Community Hospital have been provided as required. Both are in Good Standing with the Illinois Secretary of State.
4. The Applicants provided evidence that they were in compliance with Executive Order #2006-05 that requires *all State Agencies responsible for regulating or permitting development within Special Flood Hazard Areas shall take all steps within their authority to ensure that such development meets the requirements of this Order. State Agencies engaged in planning programs or programs for the promotion of development shall inform participants in their programs of the existence and location of Special Flood Hazard Areas and of any State or local floodplain requirements in effect in such areas. Such State Agencies shall ensure that proposed development within Special Flood Hazard Areas would meet the requirements of this Order.*
5. The proposed location of the ESRD facility is in compliance with the Illinois State Agency Historic Resources Preservation Act which requires *all State Agencies in consultation with the Director of Historic Preservation, institute procedures to ensure that State projects consider the preservation and enhancement of both State owned and non-State owned historic resources* (20 ILCS 3420/1).

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

VII. Purpose of the Project, Safety Net Impact, Alternatives to the Proposed Project

These three (3) criteria are for informational purposes only. No determination of the adequacy of the Applicants response is being made.

A) Criterion 1110.230 – Purpose of the Project

To demonstrate compliance with this criterion the Applicants must document that the project will provide health services that improve the health care or well-being of the market area population to be served. The applicant shall define the planning area or market area, or other, per the applicant's definition.

The Applicants stated the following:

“The purpose of the project is to introduce competition into the Central Illinois hemodialysis market in an effort to lower cost and improve quality. Within Health Service Area 2, there are twelve hemodialysis centers with a combined capacity of 175 stations. According to the State's inventory of health care facilities and need determination, there is an excess of 20 stations within the service area. The problem with the status quo is that access is essentially limited to Fresenius facilities. Fresenius owns 11 of the 12 centers and controls 95% of the dialysis capacity. The only

other provider in the service area is DaVita, another for-profit entity, which has a single 8-station facility in Pekin. In Peoria County, all of the centers are owned by Fresenius (note: RenalCare Group was purchased by Fresenius in 2005). If you are a dialysis patient or a payer of dialysis costs, your only practical choice is to use a Fresenius facility. Fresenius has adopted a charge structure which is unusually high in relation to both the Medicare fee schedule and the actual cost of providing dialysis services. A sample bill is attached showing a total charge of \$25,469 dollars for three treatments or \$8,490 per treatment. To put this charge in perspective, Medicare pays approximately \$240 per treatment in the Peoria market. Our goal is to compete on the basis of charge, thereby lowering costs across the service area. The second objective is to improve patient outcomes through an integrated model of care. The majority of chronic kidney disease patients have one or more co-morbidities such as diabetes, hypertension and congestive heart failure. Patients with co-morbidities are medically complex, often taking numerous medications. Additionally, it is common practice for a patient to see a different specialist for each medical condition. Effective medical management requires an integrated approach coordinated by primary care physicians and a care management team. One of the primary benefits of this approach will be a reduction of hospital admissions and readmissions. On average, ERSD patients are admitted to the hospital nearly twice a year and about 30% have an unplanned re-hospitalization within 30 days of discharge (CMS, 2014). The population to be served by the proposed project is UnityPoint Clinic patients with chronic kidney disease that live within a 15-mile radius of the Proctor campus. UnityPoint Clinic is the employed medical group of Methodist Health Services Corporation. The medical group consists of approximately 270 providers serving a total patient population of 165,000. Among this population are 562 patients with chronic kidney disease in stages 4 or 5. The subset that lives within a 15-mile radius of Proctor totals 354 CKD 4 and CKD5 patients. The specific objectives to be accomplished by the project are listed below.

- 1) Introduce price competition into the market by adopting a charge structure which is at least 75% below the prevailing rate.
- 2) Reduce hospital admissions/readmissions by 10%.
- 3) Achieve better than expected quality and patient care standards as defined by Medicare for hemodialysis programs. The standards are to avoid unnecessary transfusions, prevent bloodstream infections, removal of waste from blood, utilize most effective access, keep bone mineral levels in balance and avoid hospitalizations and deaths.”

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

To demonstrate compliance with this criterion the Applicants must document the safety net impact if any of the proposed project. Safety net services are the services provided by health care providers or organizations that deliver health care services to persons with barriers to mainstream health care due to lack of insurance, inability to pay, special needs, ethnic or cultural characteristics, or geographic isolation. [20 ILCS 3960/5.4]

The Safety Net Impact Statement is provided at the end of this report.

C) Criterion 1110.230 (c) – Alternatives to the Proposed Project

To demonstrate compliance with this criterion the Applicants must document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.

The Applicants provided the following narrative:

“The stated purposes of the project can only be achieved by the proposed project. Within HSA II, the current hemodialysis market can be characterized as virtual monopoly. With the exception of Tazewell County, payers and consumers have no choice but to utilize a Fresenius facility. The absence of a competitor in the market provides Fresenius with a significant advantage in price negotiations. Methodist Health Services Corporation and its subsidiary Proctor Community Hospital did consider a joint venture arrangement with Fresenius and DaVita as an alternative to the proposed project. Entering into a joint venture with a competitor is difficult due to the inability to protect confidential information such as employee wage rates, commercial contract terms, strategic plans, etc. Additionally, Fresenius and DaVita desire a majority interest in a joint venture so that they can consolidate earnings. As a minority partner, Proctor would have little control over charges, contract negotiations, etc. Proctor has selected the lowest cost option available. The application seeks to minimize construction cost by locating the hemodialysis facility within an existing medical office building. The location is in close proximity to other physician specialties promoting care coordination and ease of access. The continued use of existing hemodialysis facilities, at the exclusion of meaningful competition, will likely result in higher healthcare costs in the years that come. In this instance, restricting the supply of hemodialysis facilities, runs contrary to the purpose of the Certificate of Need program, which is to reduce healthcare costs.”

VIII. Size of the Project, Projected Utilization, and Assurances

A) Criterion 1110.234(a) –Size of the Project

To demonstrate compliance with this criterion the Applicants must document that the size of the project is in conformance with State Board Standards published in Part 1110 Appendix B.

The Applicants are proposing a 14-station ESRD facility in 5,831 GSF of space or 416.5 GSF per station. This is within the State Board Standard of 650 GSF per station or a total of 9,100 GSF. The Applicants have met the requirements of this criterion.

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

B) Criterion 1110.234 (b) – Projected Utilization

To demonstrate compliance with this criterion the Applicants must document that, by the end of the second year of operation, the annual utilization of the clinical service areas or equipment shall meet or exceed the utilization standards specified in Part 1110 Appendix B. The number of years projected shall not exceed the number of historical years documented.

The Proctor Hemodialysis Center will be supported by UnityPoint Clinic, the employed medical group of Methodist Health Services Corporation. UnityPoint Clinic physicians presently care for 5,077 patients with chronic kidney disease³.

³ By definition, CKD is kidney damage for 3 months or longer, regardless of the cause of kidney damage. CKD typically evolves over a long period of time and patients may not have symptoms until significant, possibly irreversible, damage has been done. Complications can develop from kidneys that do not function properly, such as high blood pressure, anemia, and weak bones. When chronic kidney disease progresses, it may lead to kidney failure, which requires artificial means to perform kidney functions (dialysis) or a kidney transplant to maintain life. [Source: www.cms.gov]

Renal Care Associates stated in a **referral letter** that there are 354 Unity Point affiliated patients with stage 4 & 5 kidney failure in the Peoria market. Of these patients, Renal Care Associates anticipates approximately 70 patients will begin dialysis in the next two years. The practice anticipates ten patients would desire to transfer to a new Unity Point in-center dialysis facility because of location, shift availability or other concerns.

The Applicants are projecting 70 patients by the second year after project completion.

$$\begin{aligned} 70 \text{ patients} \times 156 \text{ treatments per year} &= 10,920 \text{ treatments} \\ 14 \text{ stations} \times 936 \text{ treatments available} &= 13,104 \text{ treatments} \\ 10,920 \text{ treatments} / 13,104 \text{ treatments} &= 83.3\% ^4 \end{aligned}$$

Based upon the information in the Application for Permit and the supplemental information provided, and should the referrals materialize, the Applicants will be at or above the target occupancy of 80% by the second year after project completion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PROJECTED UTILIZATION (77 ILAC 1110.234(b))

C) Criterion 1110.234(e) - Assurances

To demonstrate compliance with this criterion the Applicants submit a signed and dated statement attesting to the applicant's understanding that, by the end of the second year of operation after the project completion, the applicant will meet or exceed the utilization standards specified in Appendix B.

The necessary attestation is provided at page 89 of the Application for Permit.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION ASSURANCES (77 ILAC 1110.234(e))

IX. In-Center Hemodialysis Projects

A) Criterion 1110.1430(c) - Planning Area Need

To demonstrate compliance with this criterion the Applicants must document that the number of stations to be established or added is necessary to serve the planning area's population.

1) 77 Ill. Adm. Code 1100 (Formula Calculation)

To demonstrate compliance with this sub-criterion the Applicants must document that the number of stations to be established is in conformance with the projected station need.

There is a calculated excess of 15 ESRD stations in the HSA II ESRD Planning Area per the April 2018 Revised Station Need Determinations.

The Applicants stated:

⁴ Assumes the proposed facility will operate six (6) days a week fifty-two (52) weeks a year three (3) shifts a day.

“The access issues within HSA II do not relate to inadequate treatment capacity. The issue is that access is essentially limited to a single provider. The State's Inventory of Facilities is attached. Fresenius owns 11 of the 12 facilities, including RenalCare Group purchased by Fresenius a decade ago, and controls 95% of the dialysis capacity. There is only one county out of 13 (Tazewell County) where patients and payors have a choice of providers. As a result of restricting access to a single provider, a virtual monopoly has been created, serving to increase the cost of hemodialysis. Opening access to other providers, thereby creating price competition, is the only practical means of reducing the cost paid by payors and consumers. Proctor will offer hemodialysis services at charges well below the prevailing rate.”

2) Service to Planning Area Residents

To demonstrate compliance with this sub-criterion the Applicants must document that the primary purpose is to serve the residents of the planning area.

It would appear that the proposed facility will provide dialysis services to the residents of the planning area as the Applicants have identified 70 pre-ESRD patients all residing at zip codes within the HSA II ESRD Planning Area. [See supplemental information dated February 9, 2018 page 6]

3) Service Demand – Establishment of In-Center Hemodialysis Service

To demonstrate compliance with this sub-criterion the Applicants must document that there is sufficient demand to justify the 14 stations being proposed.

The Applicants have provided a referral letter signed by Keith E. Knepp, President of Unity Point Clinic, the employed physician group of Methodist Health Services Corporation (d/b/a UnityPoint Health-Peoria), stating that the physician group currently serves 5,077 patients with chronic kidney disease and 562 patients are in stage 4 and 5 of the disease.

A **referral letter** was provided signed by Timothy A. Pflederer, a nephrologist with Renal Care Associates stating that their practice currently treats 305 in-center patients. The practice referred 72 patients to the Peoria market dialysis facilities (FMC-East Peoria, FMC-Peoria Downtown, and FMC-Peoria North) in the past year. There are 354 Unity Point affiliated patients with stage 4 & 5 kidney failure in the Peoria market. Of these patients, the practice anticipates approximately 70 will begin dialysis in the next two years. They also anticipate ten patients would desire to transfer to a new Unity Point in-center dialysis facility because of location, shift availability or other concerns.

This letter **did identify** the prospective patients that will utilize the proposed facility but did not provide three years of historical referral information as required by rule. By rule the number of referrals cannot exceed the number of historical referrals. The Applicants did provide Renal Care Associates current dialysis patients and the physician referral for the most recent year.

Physician Projected Referrals require the following information:

- i) The physician's total number of patients (by facility and zip code of residence) who have received care at existing facilities located in the area, as reported to The Renal Network at the end of the year **for the most recent three years and the end of the most recent quarter;**
- ii) The number of new patients (by facility and zip code of residence) located in the area, as reported to The Renal Network, that the physician referred for in-center hemodialysis for the most recent year;
- iii) An estimated number of patients (transfers from existing facilities and pre-ESRD, as well as respective zip codes of residence) that the physician will refer annually to the applicant's facility within a 24-month period after project completion, based upon the physician's practice experience. The anticipated number of referrals cannot exceed the physician's documented historical caseload;
- iv) An estimated number of existing patients who are not expected to continue requiring in-center hemodialysis services due to a change in health status (e.g., the patients received kidney transplants or expired);
- v) The physician's notarized signature, the typed or printed name of the physician, the physician's office address and the physician's specialty;
- vi) Verification by the physician that the patient referrals have not been used to support another pending or approved CON application for the subject services; and
- vii) Each referral letter shall contain a statement attesting that the information submitted is true and correct, to the best of the physician's belief.

5) Service Accessibility

To demonstrated compliance with this sub-criterion the Applicants must document that the number of stations being established or added for the subject category of service is necessary to improve access for planning area residents. The applicant must document one of the following:

- i) The absence of the proposed service within the planning area;
 - ii) Access limitations due to payor status of patients, including, but not limited to, individuals with health care coverage through Medicare, Medicaid, managed care or charity care;
 - iii) Restrictive admission policies of existing providers;
 - iv) The area population and existing care system exhibit indicators of medical care problems, such as an average family income level below the State average poverty level, high infant mortality, or designation by the Secretary of Health and Human Services as a Health Professional Shortage Area, a Medically Underserved Area, or a Medically Underserved Population;
 - iv) For purposes of this subsection (c)(5) only, all services within the 30-minute normal travel time meet or exceed the utilization standard specified in 77 Ill. Adm. Code 1100.
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- 1. There is no absence of the proposed service within the planning area as there are 12 existing dialysis facilities in the HSA II ESRD Planning Area.
 - 2. There has been no evidence of the access limitations due to payor status of patients.
 - 3. There has been no evidence of restrictive admission policies of existing providers.
 - 4. There has been no evidence that the area population and existing care system exhibits indicators of medical care problems.
 - 5. There are four ESRD facilities within 30 minutes with an average utilization of approximately 68%.

Summary

The State Board is estimating an excess of 15 ESRD stations by 2020 in the HSA II ESRD planning area. There does not appear to be access issues in this 30 minute service area as there are 12 existing providers of dialysis in the planning area and four existing facilities within 30 minutes operating at average utilization of approximately 68% utilization. Additionally the State Board Staff could not make a determination on the adequacy of the number of referrals submitted by the Applicants because historical referral information was not provided.

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))

B) Criterion 1110.1430(d) - Unnecessary Duplication/Mal-distribution

To demonstrate compliance with this criterion the Applicants must document that the proposed project will not result in

1. An unnecessary duplication of service
2. A mal-distribution of service
3. An impact on other area providers

1. To determine if there is an unnecessary duplication of service the State Board identifies all facilities within 30 minutes and determines if there is existing capacity to accommodate the demand identified in the application for permit. There are 4 facilities within 30 minutes with an average utilization of approximately 68%.

TABLE FOUR
Facilities within 30 minutes

Name	City	County	HSA	Stations	Time	Star Rating	Utilization
FMC - Peoria Downtown	Peoria	Peoria	2	32	8	3	69.79%
FMC - Peoria North	Peoria	Peoria	2	21	8	2	61.90%
FMC - East Peoria	East Peoria	Tazewell	2	24	10	3	71.53%
DaVita Tazewell Dialysis	Pekin	Tazewell	2	8	25	1	70.83%
Total/Average Utilization				85			68.51%

2. To determine a mal-distribution (i.e. surplus) of stations in the 30-minute service area the State Board compares the ratio of the number of stations per population in the 30-minute service area to the ratio of the number of stations in the State of Illinois to the population in the State of Illinois. To determine a surplus of stations the number of stations per resident in the 30-minute service area must be 1.5 times the number of stations per resident in the State of Illinois.

	Population	Stations	Ratio
30-Minute Service Area	324,237	85	1 Station per every 3,815 residents
State of Illinois (2015 est.)	12,978,800	4,745	1 Station per every 2,736 residents

The population in the 30-minute service area is 324,237 residents. There are 85 stations within 30-minute service area. The ratio of stations to population is 1 station per every 3,815 residents. The number of stations in the State of Illinois is 4,745 stations (April 2018). The 2015 estimated population in the State of Illinois is 12,978,800 residents (Illinois Department of Public Health Office of Health Informatics Illinois Center for Health Statistics -2014 Edition). The ratio of stations to population in the State of Illinois is 1 station per every 2,736 residents. To have a surplus of stations in this 30-minute service area the number of stations per population would need to be 1 station per every 1,824 residents. Based upon this methodology there is no surplus of stations in this service area.

3. The Applicants stated the following regarding the impact on other facilities.

“The proposed facility has been sized to meet the needs of the UnityPoint Clinic ESRD patient population living within the target market. The utilization projections do not include patient transfers from any existing facility.”

Summary

Based upon the average occupancy of the four existing facilities (68%) within 30 minutes, it appears that the establishment of the proposed facility will result in the unnecessary duplication of service.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION OF SERVICE/MALDISTRIBUTION OF SERVICE/UNNECESSARY DUPLICATION OF SERVICE (77 ILAC 1110.1430(d) (1), (2) & (3))

C) Criterion 1110.1430(f) - Staffing

To demonstrate compliance with this criterion the Applicants must document that relevant clinical and professional staffing needs for the proposed project were considered and that licensure and Joint Commission staffing requirements can be met.

The Proctor Hemodialysis Center will meet and/or exceed both Medicare and State of Illinois licensing requirements. The Center will be fully accredited by the Joint Commission. Dr. Dan Evans will serve as the Medical Director for the Proctor Hemodialysis Center. Dr. Dan Evans curriculum vitae has been provided. The initial staffing pattern will consist of one manager, one registered nurse with a minimum of 12 months experience in providing nursing care to dialysis patients and a technician who meets all applicable State of Illinois requirements. Once the dialysis center becomes Medicare certified, the clinical staff to maintain a 4 to 1 patient/staff ratio at all times. Upon opening the facility will employ a part-time dietician, part-time master level social work (MSW), part-time equipment technician, and a part-time secretary. These positions will go to full-time as the patient volume increases. At full census, Proctor will employ 1 manager; 5 registered nurse FTEs; and 10 dialysis technician FTEs. The Proctor Hemodialysis Center will maintain an open medical staff. [See Application for Permit pages 78-83]

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION STAFFING (77 ILAC 1110.1430(f))

D) Criterion 1110.1430(g) - Support Services

To demonstrate compliance with this criterion the Applicants must submit a certification from an authorized representative that attests to each of the following:

- 1) Participation in a dialysis data system;
- 2) Availability of support services consisting of clinical laboratory service, blood bank, nutrition, rehabilitation, psychiatric and social services; and
- 3) Provision of training for self-care dialysis, self-care instruction, home and home-assisted dialysis, and home training provided at the proposed facility, or the existence of a signed, written agreement for provision of these services with another facility.

The proposed facility will participate in a dialysis data system, will make support services available to patients, and will provide training for self-care dialysis, self-care instruction, home and home-assisted dialysis, and home training. [See Application for Permit pages 84-85]

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION SUPPORT SERVICES (77 ILAC 1110.1430(g))

E) Criterion 1110.1430(h) - Minimum Number of Stations

To demonstrate compliance with this criterion the Applicants must document that the minimum number of in-center hemodialysis stations for an End Stage Renal Disease (ESRD) facility is:

- 1) Four dialysis stations for facilities outside an MSA;
- 2) Eight dialysis stations for a facility within an MSA.

The proposed 14-station facility will be located in the Peoria Metropolitan Statistical Area, ("MSA"). The Applicants have met the requirements of this criterion.

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

F) Criterion 1110.1430(i) - Continuity of Care

To demonstrate compliance with this criterion the Applicants document that a signed, written affiliation agreement or arrangement is in effect for the provision of inpatient care and other hospital services. Documentation shall consist of copies of all such agreements.

The Applicants have stated that all patients of Proctor Hemodialysis Center are registered patients of Proctor Community Hospital and therefore no transfer agreement is necessary.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION CONTINUITY OF CARE (77 ILAC 1110.1430(i))

G) Criterion 1110.1430(k) - Assurances

To demonstrate compliance with this criterion the representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that:

- 1) 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
- 2) 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 necessary attestation has been provided at page 89 of the Application for Permit.

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

IX. Financial Viability

Purpose of the Act: *This Act shall establish a procedure (1) which requires a person establishing, constructing or modifying a health care facility, as herein defined, to have the qualifications, background, character and financial resources to adequately provide a proper service for the community; (2) that promotes the orderly and economic development of health care facilities in the State of Illinois that avoids unnecessary duplication of such facilities; and (3) that promotes planning for and development of health care facilities needed for comprehensive health care especially in areas where the health planning process has identified unmet needs.*

A) **Criterion 1120.20 – Availability of Funds**

To demonstrate compliance with this criterion the Applicants must document that the resources are available to fund the project.

The Applicants are funding this project with cash in the amount of \$1,968,000 and an operating lease⁵ with a FMV of \$2,317,823. The Applicants attested that the total estimated project costs and related costs will be funded in total with cash and cash equivalents. A summary of the financial statements of the Iowa Health System and Subsidiaries d/b/a Unity Point Health is provided below. Moody's Investors Services has assigned a bond rating of Aa3 on Unity Point Health's \$46 million fixed rate revenue bonds (IL) and \$168 million of Series 2016E (IA) fixed rate revenue bonds. The Applicants have sufficient resources to fund this project.

TABLE FIVE		
Iowa Health System and Subsidiaries d/b/a Unity Point Health		
December 31,		
Audited		
(in thousands)		
	2016	2015
Cash	\$257,105	\$181,267
Current Assets	\$1,002,530	\$913,631
Total Assets	\$5,241,522	\$5,029,972
Current Liabilities	\$682,406	\$761,897
LTD	\$1,063,306	\$928,395
Patient Service Revenue	\$3,649,082	\$ 3,520,016
Total Net Revenues	\$4,054,797	\$ 3,888,414
Total Operating Expenses	\$4,048,160	\$ 3,820,900
Operating Income	\$6,637	\$ 67,514
Revenue in Excess of Expenses	\$144,711	\$ 58,294

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

⁵ An operating lease is a contract that allows for the use of an asset, but does not convey rights of ownership of the asset. An operating lease represents an off-balance sheet financing of assets, where a leased asset and associated liabilities of future rent payments are not included on the balance sheet of a company.

B) Criterion 1120.130 - Financial Viability

To document compliance with this criterion the Applicants must document that they have a Bond Rating of “A” or better, they meet the State Board’s financial ratio standards for the past three (3) fiscal years or the project will be funded from internal resources.

The Applicants are funding this project with cash in the amount of \$1,968,000 and an operating lease⁶ with a FMV of \$2,317,823. As identified above the Applicants have sufficient internal resources to qualify for the financial waiver⁷.

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

X. Economic Feasibility

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

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

To demonstrate compliance with these criteria the Applicants must document that leasing of the space is reasonable. The State Board considers the leasing of space as debt financing.

The lease is for 15-years for 5,831 GSF of space at a base rent of \$23.00 per GSF with a 50 cent increase each year. Methodist Services, Inc. is the landlord and the tenant is Proctor Community Hospital.

The table below shows the calculation of the FMV of the lease space of 5,831 GSF. To estimate the fair market value of the leased space the Applicants have summed the value of the lease payments over the 15-year period. From the lease information provided it appears the lease is reasonable when compared to previously approved projects. [Application for Permit page 90-119]

⁶ An operating lease is a contract that allows for the use of an asset, but does not convey rights of ownership of the asset. An operating lease represents an off-balance sheet financing of assets, where a leased asset and associated liabilities of future rent payments are not included on the balance sheet of a company.

⁷ The applicant is NOT required to submit financial viability ratios if:

- 1) all project capital expenditures, including capital expended through a lease, are completely funded through internal resources (cash, securities or received pledges);
 - 2) the applicant's current debt financing or projected debt financing is insured or anticipated to be insured by Municipal Bond Insurance Association Inc. (MBIA) or its equivalent;
 - 3) or the applicant provides a third-party surety bond or performance bond letter of credit from an A rated guarantor (insurance company, bank or investing firm) guaranteeing project completion within the approved financial and project criteria.
- HFSRB NOTE: Documentation of internal resources availability shall be available as of the date the application is deemed complete. MBIA Inc is a holding company whose subsidiaries provide financial guarantee insurance for municipal bonds and structured financial projects. MBIA coverage is used to promote credit enhancement as MBIA would pay the debt (both principal and interest) in case of the bond issuer's default.

TABLE SIX			
Calculation of FMV of Leased Space			
#	Date	Cost per GSF	Total
1	10/1/2019-11/30/2020	\$23.00	\$134,113.00
2	10/1/2019-11/30/2021	\$23.50	\$137,028.50
3	10/1/2020-11/30/2022	\$24.00	\$139,944.00
4	10/1/2021-11/30/2023	\$24.50	\$142,859.50
5	10/1/2022-11/30/2024	\$25.00	\$145,775.00
6	10/1/2023-11/30/2025	\$25.50	\$148,690.50
7	10/1/2024-11/30/2026	\$26.00	\$151,606.00
8	10/1/2025-11/30/2027	\$26.50	\$154,521.50
9	10/1/2026-11/30/2028	\$27.00	\$157,437.00
10	10/1/2027-11/30/2029	\$27.50	\$160,352.50
11	10/1/2028-11/30/2030	\$28.00	\$163,268.00
12	10/1/2029-11/30/2031	\$28.50	\$166,183.50
13	10/1/2030-11/30/2032	\$29.00	\$169,099.00
14	10/1/2031-11/30/2033	\$29.50	\$172,014.50
15	10/1/2032-11/30/2034	\$30.00	\$174,930.00
Total			\$2,317,822.50

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERIA REASONABLENESS OF FINANCING ARRANGEMENTS AND TERMS OF DEBT FINANCING (77 ILAC 1120.140(a) & (b))

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

To demonstrate compliance with this criterion the Applicants must document that the project costs are reasonable by the meeting the State Board Standards in Part 1120 Appendix A.

As shown in the table below the Applicants have met all of the State Board Standards published in Part 1120, Appendix A.

TABLE SEVEN
Reasonableness of Project Costs

Uses of Funds	Project Costs		State Board Standard		Difference	Met Standards?
	Total	Unit	Total	Unit		
New Construction Contracts and Contingencies	\$1,235,000	\$212 per GSF	\$1,622,126	\$278.19 per GSF	(\$387,126)	Yes
Contingencies	\$110,000	9.78%	\$112,500	10%	(\$2,500)	Yes
Architectural/Engineering Fees	\$110,000	8.91%	\$125,229	10.17%	(\$15,229)	Yes
Movable or Other Equipment (not in construction contracts)	\$603,000	\$43,071 per station	\$751,562	\$53,683 per Station	(\$148,562)	Yes
Consulting and Other Fees	\$10,000					
Fair Market Value of Leased Space or Equipment	\$2,317,823			No Standard		
Other Costs To Be Capitalized	\$10,000					

1. New Construction and contingency standard is \$254.58 per gsf (2015) and inflated by 3% to the midpoint of construction (2018).
2. Contingencies for new construction for projects in the schematic phase of construction is 10%
3. Architectural and Engineering Fees is found at Centralized Fee Negotiation Professional Services and Fees Handbook [Part 1120 Appendix A]
4. Movable Equipment standard is \$39,945 per station for 2008 inflated by 3% per year to 2018.

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

D) Criterion 1120.140(d) – Projected Operating Costs

To demonstrate compliance with this criterion the Applicants must document that the projected direct annual operating costs for the first full fiscal year at target utilization but no more than two years following project completion. Direct costs mean the fully allocated costs of salaries, benefits and supplies for the service.

The Applicants are projecting \$189.91 operating expense per treatment.

Direct Operating Expenses	
Salaries	\$974,381
Benefits	\$244,595
Supplies	\$736,000
Other (medical director)	\$30,000
Total Direct Expenses:	<u>\$1,984,976</u>
Estimated Treatments	10,452
Cost per Treatment	<u>\$189.91</u>

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PROJECTED OPERATING COSTS (77 ILAC 1120.140(d))

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

To demonstrate compliance with this criterion the Applicants must provide the total projected annual capital costs for the first full fiscal year at target utilization but no more than two years following project completion. Capital costs are defined as depreciation, amortization and interest expense.

The Applicants are projecting capital costs of \$16.95 per treatment.

2021 Capital Expenses	
Facility Depreciation	\$91,000
Equipment Depreciation	\$86,145
Total Capital Costs	\$177,145
Treatments	10,452
Cost per Treatment	\$16.95

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

TABLE EIGHT
Facilities in the HSA II ESRD Planning Area

Facility	Ownership	City	HSA	Stations	Patients	Utilization (1)	Star Rating (2)
Davita Tazewell County	Davita	Pekin	2	8	24	68.75%	1
Renal Care Group - East Peoria	Fresenius	East Peoria	2	24	103	68.75%	3
Renal Care Group - Spring Valley	Fresenius	Spring Valley	2	17	64	63.73%	5
Fresenius Medical Care Spoon River	Fresenius	Canton	2	12	36	44.44%	4
Renal Care Group - Pekin	Fresenius	Pekin	2	10	41	76.67%	4
Renal Care Group - Peoria Downtown	Fresenius	Peoria	2	32	131	70.83%	3
Renal Care Group - Ottawa	Fresenius	Ottawa	2	12	43	54.17%	3
MMB Dialysis, LLC	Fresenius	Macomb	2	8	17	41.67%	4
Renal Care Group - Peoria North	Fresenius	Peoria	2	21	84	61.11%	2
Fresenius Medical Care Streator	Fresenius	Streator	2	8	27	52.08%	5
Fresenius Medical Care Monmouth (Maple City)	Fresenius	Monmouth	2	9	17	31.48%	NA
Fresenius Medical Care Galesburg	Fresenius	Galesburg	2	14	70	90.48%	2
Total Stations, Patients/Average Utilization				175	657	60.35%	
1. Stations, Patients and Utilization as of December 31, 2017							
2. Star Rating taken from CMS ESRD Compare Website See Explanation below							

Star Rating System

Centers for Medicare & Medicaid Services (CMS) Star Ratings

“The star ratings are part of Medicare’s efforts to make data on dialysis centers easier to understand and use. The star ratings show whether your dialysis center provides quality dialysis care - that is, care known to get the best results for most dialysis patients. The rating ranges from 1 to 5 stars. A facility with a 5-star rating has quality of care that is considered 'much above average' compared to other dialysis facilities. A 1- or 2- star rating does not mean that you will receive poor care from a facility. It only indicates that measured outcomes were below average compared to those for other facilities. Star ratings on Dialysis Facility Compare are updated annually to align with the annual updates of the standardized measures.”

CMS assigns a one to five ‘star rating’ in two separate categories: best treatment practices and hospitalizations and deaths. The more stars, the better the rating. Below is a summary of the data within the two categories.

➤ Best Treatment Practices

This is a measure of the facility’s treatment practices in the areas of anemia management; dialysis adequacy, vascular access, and mineral & bone disorder. This category reviews both adult and child dialysis patients.

➤ Hospitalization and Deaths

This measure takes a facility's expected total number of hospital admissions and compares it to the actual total number of hospital admissions among its Medicare dialysis patients. It also takes a facility's expected patient death ratio and compares it to the actual patient death ratio taking into consideration the patient’s age, race, sex, diabetes, years on dialysis, and any co-morbidity.

The Dialysis Facility Compare website currently reports on 9 measures of quality of care for facilities. These measures are used to develop the star rating. Based on the star rating in each of the two categories, CMS then compiles an ‘overall rating’ for the facility. As with the separate categories: the more stars, the better the rating.

SAFETY NET IMPACT STATEMENT

1. The project's material impact, if any, on essential safety net services in the community, to the extent that it is feasible for an applicant to have such knowledge.

ANSWER: The project will have a material impact on the availability of dialysis services. As a non-profit hospital, Proctor provides services to all patients regardless of their ability to pay. The Peoria community will no longer be reliant on a single provider for dialysis treatment.

2. The project's impact on the ability of another provider or health system to cross-subsidize safety net services, if reasonable known to the applicant.

ANSWER: The project should have no impact on Fresenius' ability to subsidize dialysis services should they choose to do so. Fresenius is a multi-billion dollar company with significant assets and revenue at their disposal.

3. How the discontinuation of a facility or service might impact the remaining safety net providers in a given community, if reasonably known by the applicant.

ANSWER: The project does not involve the discontinuation of a facility or service.

3. Any information the applicant believes is directly relevant to safety net services, including information regarding teaching, research, and any other service.

ANSWER: Not Applicable.

Proctor Community Hospital			
CHARITY CARE			
Charity [# of patients]	2014	2015	2016
Inpatient	146	117	138
Outpatient	709	854	1,196
Total	855	971	1,334
Charity [cost in dollars]			
Inpatient	\$146,865	\$58,330	\$81,621
Outpatient	\$244,161	\$140,862	\$287,050
Total	\$391,026	\$199,192	\$368,671
Medicaid [# of patients]	2014	2015	2016
Inpatient	267	193	184
Outpatient	5,471	7,033	8,435
Total	5,738	7,226	8,619
Medicaid [revenue]			
Inpatient	\$2,392,162	\$2,061,530	\$1,996,788
Outpatient	\$1,742,838	\$4,312,871	\$5,293,952
Total	\$4,135,000	\$6,374,401	\$7,290,740

Proctor Community Hospital			
	2014	2015	2016
Net Patient Revenue	\$83,274,075	\$89,191,663	\$100,720,439
Amount of Charity Care	\$2,800,688	\$920,895	\$1,907,133
Cost of Charity Care	\$391,026	\$199,192	\$368,671
% of Cost of Charity Care to Net Patient Revenue	.46%	.22%	.36%
% of Medicaid Revenue to Net Patient Revenue	4.96%	7.14%	7.23%