



STATE OF ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-07	BOARD MEETING: February 27, 2018	PROJECT NO: 17-056	PROJECT COST: Original: \$6,212,841
FACILITY NAME: Fresenius Kidney Care Galesburg		CITY: Galesburg	
TYPE OF PROJECT: Substantive			HSA: II

PROJECT DESCRIPTION: The Applicants (Fresenius Medical Care Holdings, Inc. and Fresenius Medical Care Galesburg, LLC) are proposing to discontinue an existing fourteen (14) station End Stage Renal Dialysis (ESRD) facility, in Galesburg, and establish a fourteen (14) station replacement facility in 10,138 GSF of leased space in Galesburg, Illinois. The cost of the project is \$6,864,690 and the scheduled completion date is December 31, 2019.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Fresenius Medical Care Holdings, Inc. and Fresenius Medical Care Galesburg, LLC d/b/a Fresenius Kidney Care Galesburg) are proposing to discontinue an existing 14-station ESRD facility, located in Galesburg, and establish a 14-station replacement facility in 10,138 GSF of leased space in Galesburg, Illinois. The cost of the project is \$6,864,690, 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 discontinue and 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 provide additional space for a more efficient in-center dialysis clinic, and to expand the home therapies department, while keeping both modalities under one roof. The current and proposed relocation site of the Fresenius Galesburg facility are both on or near the campus of Galesburg Cottage Hospital in HSA-02, in Knox County. This ESRD facility serves 68 in-center hemodialysis and 24 home therapy patients. Seventy two percent (72%) of these patients reside in Galesburg. The Galesburg facility has outgrown its current space. The treatment floor is cramped and has no room for future expansion. The home training department is also in need of an additional training room. Relocating the 14-station Galesburg facility while remaining near the hospital campus will offer patient and staff a more efficient size treatment floor with capability for expansion when necessary to meet the growing need. It will also allow for home therapies services at one location. There will be no interruption in service to the current patients of the Galesburg facility, since the “relocation” of the facility will occur on a Sunday when there are no patient treatments scheduled.”

PUBLIC HEARING/COMMENT:

- A public hearing was offered but was not requested. The project file contains no letters of support and no letters of opposition.

SUMMARY:

- There is a calculated excess of sixteen (16) stations in the HSA-II ESRD Planning Area, per the January 2018 Inventory Update. However, the applicants are not introducing additional stations to the service area, but are relocating 14 existing ESRD stations to an expanded/modernized facility, less than one-half mile away. Fresenius Medical Care Galesburg has operated at or above the State Board standard in each quarter of 2017 with an average operational capacity of 91.6%. It does not appear there will be an unnecessary duplication of service or a mal-distribution of stations in the planning area, due to utilization at the current ESRD facility.

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 1120.310 (c) – Reasonableness of Project Costs	The applicants exceeded the State Board standard for this criterion (\$194.87 per GSF), by \$5.13 or 2.63%. The applicants report a cost of \$200.00 per GSF for the modernization. The applicants report having assembled these data, using modernization costs with CY 2019 being listed the mid-point of construction (\$200.71). Board Staff reviewed and wrote the SBSR using CY 2018 as the mid-point of construction (\$194.87). If CY 2019 was established as the mid-point of construction for this project, the applicants would be compliant with this criterion. The project completion date is December 31, 2019.

STATE BOARD STAFF REPORT
Fresenius Kidney Care Galesburg
PROJECT #17-056

APPLICATION SUMMARY/CHRONOLOGY	
Applicants	Fresenius Medical Care Holdings, Inc. Fresenius Medical Care Galesburg, LLC d/b/a Fresenius Kidney Care Galesburg
Facility Name	Fresenius Kidney Care Galesburg
Location	650-800 North Seminary Street, Galesburg, Illinois
Application Received	October 13, 2017
Application Deemed Complete	October 18, 2017
Review Period Ends	February 15, 2018
Permit Holder	Fresenius Medical Care Galesburg, LLC d/b/a Fresenius Kidney Care Galesburg
Operating Entity	Fresenius Medical Care Galesburg, LLC d/b/a Fresenius Kidney Care Galesburg
Owner of the Site	Illinois Renal Services, LLC
GSF	10,138 GSF
Project Financial Commitment Date	December 31, 2019
Gross Square Footage	10,138 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 Galesburg, LLC d/b/a Fresenius Kidney Care Galesburg) are proposing to discontinue an existing 14 station ESRD facility in Galesburg, and establish a 14-station replacement facility in 10,138 GSF of leased space, one half-mile away from the existing facility, in Galesburg, Illinois. The cost of the project is \$6,864,690, and the completion date is December 31, 2019.

II. Summary of Findings

- A. State Board Staff finds the proposed project is in conformance with the provisions of 77 ILAC 1110 (Part 1110).
- B. State Board Staff finds the proposed project is **not** 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 Galesburg, LLC d/b/a Fresenius Kidney Care Galesburg. **Fresenius Medical Care Holdings, Inc.** 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 Galesburg, LLC is a wholly owned subsidiary of Fresenius Medical Care Holdings, Inc. Fresenius Kidney Care Galesburg will be located at 650-800 North Seminary Street, Galesburg, in close proximity of Galesburg Cottage Hospital, in the HSA-II ESRD planning area. HSA-II includes Bureau, Fulton, Henderson, Knox, LaSalle, Marshall, McDonough, Peoria, Putnam, Stark, Tazewell, Warren, and Woodford counties. The State Board has projected an excess of sixteen (16) ESRD stations by CY 2018. This is a substantive project subject to a Part 1110 and 1120 review. Financial commitment will occur after permit issuance. The current facility is named Fresenius Medical Care Galesburg. It will be renamed Fresenius Kidney Care Galesburg, upon project completion. 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
#14-065	FMC Plainfield North	Relocation	8/31/2017
#15-028	FMC Schaumburg	Establishment	5/31/2018
#15-036	FMC Zion	Establishment	12/31/2018
#15-046	FMC Beverly Ridge	Establishment	10/31/2018
#15-050	FMC Chicago Heights	Establishment	09/30/2018
#15-062	FMC Belleville	Establishment	12/31/2018
#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	12/31/18
#17-034	FMC Naperbrook	Expansion	12/31/18
#17-038	FKC South Elgin	Establishment	12/31/19

IV. Project Costs

The Applicants are funding this project with cash and securities of \$2,609,600 and the fair market value of leased space and equipment of \$4,255,090. The estimated start-up costs and the operating deficit are projected to be \$244,120.

TABLE TWO
Project Costs and Sources of Funds

USE OF FUNDS	Reviewable	Non Reviewable	Total	% of Total
Modernization Contracts	\$1,180,816	\$664,300	\$1,845,116	27.2%
Contingencies	\$116,784	\$65,700	\$182,484	2.9%
Architectural/Engineering Fees	\$126,720	\$71,280	\$198,000	2.4%
Movable or Other Equipment (not in construction contracts)	\$305,000	\$79,000	\$384,000	5.6%
Fair Market Value of Leased Space & Equipment	\$2,797,450	\$1,457,640	\$4,255,090	61.9%
TOTAL USES OF FUNDS	\$4,526,770	\$2,337,920	\$6,864,690	100.00%
SOURCE OF FUNDS	Reviewable	Non Reviewable	Total	
Cash and Securities	\$1,729,320	\$880,280	\$2,609,600	38.1%
Leases (fair market value)	\$2,797,450	\$1,457,640	\$4,255,090	61.9%
TOTAL SOURCES	\$4,526,770	\$2,337,920	\$6,864,690	100.00%

Source: Page 6 of the Application for Permit.

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

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

A) Criterion 1110.230(a) Purpose of the Project

The Applicants stated the following:

“The purpose of this project is to provide additional space for a more efficient in-center dialysis clinic, and to expand the home therapies department while keeping both modalities under one roof. The Galesburg facility has outgrown its current space. Over 7 years ago when it moved into its current site it consisted of 11 stations and 53 patients. It now has 14 stations serving 68 hemodialysis patients along with only one home therapies training room serving 24 patients in approximately 6,100 GSF. The treatment floor is cramped and has no room for future expansion. The home training department is also in need of an additional training room. To provide better quality of care and expand access to these two services in Galesburg it needs to be relocated in order to construct a more efficient size building to house the in-center and home dialysis departments under one roof. The Galesburg facility has outgrown its current space. Over 7 years ago when it moved into its current site it consisted of 11 stations and 53 patients. It now has 14 stations serving 68 hemodialysis patients along with only one home therapies training room serving 24 patients in approximately 6,100 GSF. The treatment floor is cramped and has no room for future expansion. The home training department is also in need of an additional training room. To provide better quality of care and expand access to these two services in Galesburg it needs to be relocated in order to construct a more efficient size building to house the in-center and home dialysis departments under one roof.”

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

The Safety Net Impact Statement and Charity Care Information is attached at the end of this report.

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 need for additional training space for home therapies, and would perpetuate the operation of a 14-station ESRD facility with an inefficient floor that lacks space for expansion, when needed. The applicants identified no project costs 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: \$6,864,690.

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

The Applicants note the only other ESRD facility within a 30-minute radius is FMC Maple City, Monmouth, which is 17 miles away. The applicants consider the Maple City facility to be out of the Galesburg market area, and its utilization would result in access hardships for the patients residing in the Galesburg area. Additionally, the utilization of FMC Maple City would not address the need for additional training space for the home therapies component of FKC Galesburg. The applicants identified no costs with this alternative.

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 relocate the existing 14-station ESRD facility to a modern, more spacious facility in Galesburg. Cost of the chosen alternative: \$6,864,690.

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

A) Criterion 1110.234(a) - Size of Project

The Applicants are proposing the utilization of 10,138 GSF of leased space for this project, with 6,488 of it classified as clinical for 14 stations, resulting in four hundred sixty-three (463) GSF per station. The State Board standard is 450-650 GSF per station. (See Application for Permit page 51)

B) Criterion 1110.234(b) – Projected Utilization

Dr. Partasarathy Srinivasan, M.D., of Renal Care Associates (RNA) of Western Illinois, is the current Medical Director of the Fresenius Galesburg facility, and will be Medical Director of the replacement facility once completed. Dr. Srinivasan, and his fellow practicing nephrologists from RNA, report having 152 pre-ESRD patients receiving treatment from the Galesburg area, and have identified 46 pre-ESRD patients who live in the service area who could ultimately require dialysis in the first two years that the new Galesburg facility is in operation. These 46 patients, combined with the 85 ESRD patients currently receiving treatment at FMC Galesburg, result in 131 patients being served at the replacement facility, resulting in utilization surpassing the 80th percentile. (See Application for Permit pages 55-56).

131 patients x 156 treatment per year = 20,436 treatments
14 stations x 936 treatments per stations per year = 13,104 treatments
20,436 treatments/13,104 treatments = 155% 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 76)

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. Discontinuation

A) Criterion 1110.130 - Discontinuation

To demonstrate compliance with this criterion the applicants must document

1. The categories of service and the number of beds, if any that is to be discontinued.
2. Identify all of the other clinical services that are to be discontinued.
3. Provide the anticipated date of discontinuation for each identified service or for the entire facility.
4. Provide the anticipated use of the physical plant and equipment after the discontinuation occurs.
5. Provide the anticipated disposition and location of all medical records pertaining to the services being discontinued and the length of time the records will be maintained.

The Applicants are proposing the discontinuation of an existing 14-station dialysis facility at 765 North Kellogg Street, Galesburg, Illinois and proposing the establishment of a 14-station replacement facility at 650-800 North Seminary Street, Galesburg, Illinois. The new facility will be approximately 0.3 miles, or 5 (five) minutes away from the existing facility, and remain in close proximity to Galesburg Cottage Hospital.

The Applicants stated the design and size of the existing facility creates operational and logistical inefficiencies. According to the Applicants, Fresenius Medical Care Holdings, Inc. (the applicants), have owned the Galesburg facility for over seven years. In this time, FMC Galesburg has increased its capacity from 11 to 13 stations, and has launched a growing home therapies program. This growth has resulted in a facility that lacks sufficient space to accommodate its current programmatic needs, and any future

expansion. The applicants propose to expand its home therapies through the establishment of an additional training room, and will reconfigure the spatial configurations at the replacement facility to serve a larger patient population, when needed.

The relocation of the Galesburg dialysis facility will not have a negative impact on access, due to its proximity to the discontinued facility (0.3 miles/5 minutes). Both facilities are in Galesburg, and are proximal to Galesburg Cottage Hospital. It is anticipated that all patients and patient records will transfer to the replacement facility upon project completion. From the documentation provided it appears the discontinuation of the facility is warranted.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION DISCONTINUATION (77 ILAC 1110.130)

VII. 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 to access 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 42-48 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-II ESRD Planning Area, where a calculated excess of sixteen (16) ESRD stations exists, per the State Board's January 2017 ESRD Inventory Update. The applicants note the proposed project will relocate 14 ESRD stations from one facility to another, and will not introduce additional stations to the planning area.

- 2) The Applicants note the primary purpose of the project is to provide additional space for a more efficient in-center dialysis clinic, and to expand the home therapies department while keeping both modalities under one roof. The applicants note the primary purpose for FMC/FKC Galesburg is to serve the residents of Knox County and Galesburg, and attest that 97% of its 112 Pre-ESRD patients reside within HSA-II. Table Four illustrates the referral origins of the current patient population, and the pre-ESRD patients expected to refer to the Galesburg facility in the first year after project completion.

TABLE THREE					
Patient Referral Base by Zip Code & Service Area					
HSA	County	City	Zip Code	Pre-ESRD HSA-II	Current Patient Base
2	Knox	Galesburg	61401	34	49
2	Knox	Abingdon	61410	2	5
2	Knox	Alexis	61412	0	1
2	Knox	Altona	61414	1	0
2	Knox	Dahinda	61428	1	0
2	Knox	East Galesburg	61430	0	1
10	Mercer	Keithsburg	61442	0	2
2	Knox	Knoxville	61448	3	5
2	Knox	Rio	61472	1	0
10	Mercer	Viola	61486	0	1
2	Knox	Wataga	61488	0	2
2	Knox	Williamsfield	61489	1	2
10	Henry	Woodhull	61490	1	0
Total				44	68
Percentage				39.3%	60.7%

- 3) Dr. Parthasarathy Srinivasan, M.D., from Renal Care Associates in Western Illinois, reports having treated approximately one hundred fifty two (152) patients in various stages of chronic kidney disease (Pre-ESRD) in the Galesburg/HSA-II/HSA-X market areas. Of these patients, there are approximately forty six (46) patients expected to begin dialysis at the relocated/modernized facility in the first two (2) years of operation. Pages 58-59 of the application contains zip code origins of historical patient referrals from the Galesburg/HSA-II/HSA-X market areas. In addition, the applicants identified 68 existing ESRD patients being treated at the Galesburg facility, who will be expected to transfer to the replacement facility upon project completion.
- 4) The proposed Galesburg facility will be located in HSA-II, where an excess of sixteen (16) ESRD stations currently exists. The Applicants note the project will essentially relocate 14 existing ESRD stations to a more spacious/modernized facility, and will not result in additional stations being introduced to the service area.

The proposed is essentially a modernization/expansion/relocation project, and will not result in additional stations contributing to the current station overage (16 stations), in HSA-II. A positive finding results.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT 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/Mal-distribution/ 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 Galesburg is 1 station per 3,374 residents according to the 2010 census. The State ratio is 1 station per 2,818 residents (based on US Census estimates for 2015 and the September 2017 State Board Station Inventory).

The Applicants state:

“The relocation of the Galesburg facility will have no impact on the station inventory or the station to population ratio. Therefore, this facility will not create maldistribution but will address the need for ample and efficient space in the Galesburg facility for current operations, future growth, and home therapies expansion.”

The applicants identified only one other ESRD facility operating within 45 minutes of Galesburg. Fresenius Kidney Care Maple City, Monmouth, is a 9-station ESRD facility that is currently not meeting the State standard for operational capacity (See Table Four). However, the applicants note their current facility has operated in excess of the State standard for the last four reporting quarters of 2017, with an average operational capacity of 91.6%. The applicants reiterate that the project is essentially a discontinuation/relocation project for the existing 14-station ESRD facility, resulting in FKC Galesburg achieving the capability of operating an expanded home-care program, and meet the need for future expansion when needed. A positive 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?
FKC Maple City	Monmouth	23	9	N/A	31.4%	No
Information from 3 rd Quarter ESRD patient information for 2017						

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION OF SERVICE/MALDISTRIBUTION/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(j) – Relocation of Facilities**
- I) Criterion 1110.1430(k) – Assurances**

The proposed facility will be certified by Medicare if approved therefore appropriate staffing is required for certification. Dr. Parthasarathy Srinivasan M.D., is the current medical director for FMC Galesburg and will continue serving in the capacity as Medical Director for Fresenius Kidney Care, Galesburg, upon project completion. The staffing matrix will continue to include the following staff:

- Clinic Manager/Registered Nurse (RN) (1)
- Full-Time Registered Nurse RN (5)
- Part-Time Registered Nurse (RN) (1)
- Full-Time Licensed Practical Nurse (LPN) (2)
- Full-Time Patient Care Technicians (5)
- Part-Time Registered Dietician (1)
- Part-Time Licensed Master Level Social Worker (1)
- Part-Time Equipment Technician (1)
- Full-Time Secretary (1)

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 Galesburg Cottage Hospital, Galesburg: blood bank services, rehabilitation services and psychiatric services. The Applicants are proposing fourteen (14) stations and the minimum number of stations in an MSA is eight (8) stations. Continuity of care will be provided at Galesburg Cottage Hospital, Galesburg as stipulated in the agreement provided in the application for permit. Additionally, the applicants report an operational capacity of 81% during the latest quarter (September 2017), and an average operational capacity of 91.6% for the last four quarters (Calendar Year 2017). The applicants note the relocation of FKC Galesburg will result in greater access to home therapies training and the ability to

expand its dialysis services, when needed. Lastly, 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 63-76)

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), (j) 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 \$2,609,600 and the fair market value of leased space totaling \$4,225,090. 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 FIVE FMC Holdings Inc. Audited Financial Statements (Dollars in Thousands 000) December 31st			
	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 10,138 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 \$18.50 per SF, which shall escalate on an annual basis by three percent (3%) 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 85)

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

Only Clinical Costs are reviewed in this criterion.

Modernization and Contingencies Costs are \$1,297,600 or \$200.00 per GSF for 6,488 GSF of clinical space. This appears **high** when compared to the State Board Standard of \$194.87 per GSF, with 2018 listed as mid-point of construction.

Contingencies – These costs total \$116,784, and are 9.8% of the modernization costs identified for this project. This is in compliance with the State standard of 10%-15%.

Architectural Fees are \$126,720 and are 9.7% of modernization and contingencies. This appears reasonable when compared to the State Board Standard of 6.65% to 9.80%.

Movable or Other Equipment – These costs are \$305,000 or \$21,785 per station (14 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 \$2,797,450. The State Board does not have a standard for these costs.

The applicants are in excess of the State standard for Modernization and Contingency Costs by \$5.13 per GSF. A negative finding results.

D) Criterion 1120.140(d) - Direct Operating Costs

The Applicants are estimating \$211.00 per treatment in direct operating costs. This appears reasonable when compared to previously approved projects of this type.

Estimated Personnel Expense:	\$1,266,144
Estimated Medical Supplies:	\$402,864
Estimated Other Supplies (Exc. Dep/Amort):	\$1,366,860
Total	\$3,035,868
Estimated Annual Treatments:	14,388
Cost Per Treatment:	\$211.00

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:	\$160,000
Interest	\$0
Capital Costs:	\$160,000
Treatments:	14,388
Capital Cost per Treatment	\$11.12

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, DIRECT OPERATING COSTS, TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS, AND NOT IN CONFORMANCE WITH REASONABLENESS OF PROJECT COSTS (77 ILAC 1120.120, 130, 140(a), (b), (c), (d) and (e))

Safety Net Impact Statement

The relocation of Fresenius Medical Care Galesburg will not have any impact on safety net services in the Galesburg area of Knox County. Outpatient dialysis services are not typically considered "safety net" services, to the best of our knowledge. However, we do provide care for patients in the community who are economically challenged and/or who are undocumented aliens, who do not qualify for Medicare/Medicaid pursuant to an Indigent Waiver policy. We assist patients who do not have insurance in enrolling when possible in Medicaid for ESRD or insurance on the Healthcare Marketplace. Also our social services department assists patients who have issues regarding transportation and/or who are wheel chair bound or have other disabilities which require assistance with respect to dialysis services and transport to and from the unit.

This particular application will not have an impact on any other safety net provider in the area, as no hospital within the area provides dialysis services on an outpatient basis.

Fresenius Kidney 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 Kidney Care provides care to patients who do not qualify for any type of coverage for dialysis services. These patients are considered "self-pay" patients. They are billed for services rendered, and after three statement reminders the charges are written off as bad debt. Collection actions are not initiated unless the applicants are aware that the patient has substantial financial resources available and/or the patient has received reimbursement from an insurer for services we have rendered, and has not submitted the payment for same to the applicants. Fresenius notes that as a for profit entity, it does pay sales, real estate and income taxes. It also does provide community benefit by supporting various medical education activities and associations, such as the Renal Network, National Kidney Foundation and American Kidney Fund.

The table below shows the amount of "self-pay" care and Medicaid services provided for the 3 fiscal years prior to submission of the application for all Illinois Fresenius Kidney Care facilities.

Safety Net Information per PA 96-0031			
CHARITY CARE			
	2014	2015	2016
Charity (# of patients)	251	195	233
Charity (cost in dollars)	\$5,211,664	\$3,204,986	\$3,269,127
MEDICAID			
	2014	2015	2016
Medicaid (# of patients)	750	396	320
Medicaid (revenue)	\$22,027,882	\$7,310,484	\$4,383,383

Note:

- 1) Charity (self-pay) and Medicaid patient numbers continue to decrease as Fresenius Financial Coordinators assist patients in signing up for health insurance in the Healthcare Marketplace. This provides the patient with insurance coverage not only for dialysis but for other needed healthcare services. Patients who cannot afford the premiums have them paid by the American Kidney Fund.
- 2) Medicaid reported numbers are also impacted by the large number of patients who switched from Medicaid to a Medicaid Risk insurance (managed care plan) which pays similar to Medicaid. These patients are reported under commercial insurance however, in 2016 of our commercial patients we had 1,230 Medicaid Risk patients with Revenues of \$22,664,352

Charity Care Information

The applicant(s) do not provide charity care at any of their facilities per the Board's definition of charity care because self-pay patients are billed and their accounts are written off as bad debt. Fresenius takes Medicaid patients without limitations or exception. The applicant(s) are for profit corporations and do not receive the benefits of not for profit entities, such as sales tax and/or real estate exemptions, or charitable donations. The applicants are not required, by any State or Federal law, including the Illinois Healthcare Facilities Planning Act, to provide charity care. The applicant(s) are prohibited by Federal law from advising patients that they will not be invoiced for care, as this type of representation could be an inducement for patients to seek care prior to qualifying for Medicaid, Medicare or other available benefits. Self-pay patients are invoiced and then the accounts written off as bad debt.

Uncompensated care occurs when a patient is not eligible for any type of insurance coverage (whether private or governmental) and receives treatment at our facilities. It is rare in Illinois for patients to have no coverage as patients who are not Medicare eligible are Medicaid eligible or are able to purchase insurance on the Healthcare Marketplace with premiums paid for by The American Kidney Fund. This represents a small number of patients, as Medicare covers all dialysis services as long as an individual is entitled to receive Medicare benefits (i.e. has worked and paid into the social security system as a result) regardless of age. In addition, in Illinois Medicaid covers patients who are undocumented for ESRD only. Also, the American Kidney Fund funds health insurance premiums for patients who meet the AKF's financial parameters and who suffer from end stage renal disease (see uncompensated care attachment). The applicants work with patients to procure coverage for them as possible whether it be Medicaid, Medicare and/or coverage on the Healthcare Marketplace funded by AKF. The applicants donate to the AKF to support its initiatives as do most dialysis providers.

If a patient has no available insurance coverage, they are billed for services rendered, and after three statement reminders the charges are written off as bad debt. Collection actions are not initiated unless the applicants are aware that the patient has substantial financial resources available and/or the patient has received reimbursement from an insurer for services we have rendered, and has not submitted the payment for same to the applicants

Nearly all dialysis patients in Illinois will qualify for some type of coverage and Fresenius works aggressively with the patient to obtain insurance coverage for each patient.

Uncompensated Care For All Fresenius Facilities in Illinois

CHARITY CARE			
	2014	2015	2016
Net Patient Revenue	\$411,981,839	\$438,247,352	\$449,611,441
Amount of Charity Care (charges)	\$5,211,664	\$3,204,986	\$3,269,127
Cost of Charity Care	\$5,211,664	\$3,204,986	\$3,269,127

Note:

- 1) Charity (self-pay) and Medicaid patient numbers continue to decrease as Fresenius Financial Coordinators assist patients in signing up for health insurance in the Healthcare Marketplace. This provides the patient with insurance coverage not only for dialysis but for other needed healthcare services. Patients who cannot afford the premiums have them paid by the American Kidney Fund.
- 2) Medicaid reported numbers are also impacted by the large number of patients who switched from Medicaid to a Medicaid Risk insurance (managed care plan) which pays similar to Medicaid. These patients are reported under commercial insurance however, in 2016 of our commercial patients we had 1,230 Medicaid Risk patients with Revenues of \$22,664,352

Fresenius Medical Care North America - Community Care

Fresenius Medical Care North America (FMCNA) assists all of our patients in securing and maintaining insurance coverage when possible.

American Kidney Fund

FMCNA works with the American Kidney Fund (AKF) to help patients with insurance premiums at no cost to the patient.

Applicants must be dialyzed in the US or its territories and referred to AKF by a renal professional and/or nephrologist. The Health Insurance Premium Program is a "last resort" program. It is restricted to patients who have no means of paying health insurance premiums and who would forego coverage without the benefit of HIPP. Alternative programs that pay for primary or secondary health coverage, and for which the patient is eligible, such as Medicaid, state renal programs, etc. must be utilized. Applicants must demonstrate to the AKF that they cannot afford health coverage and related expenses (deductible etc.).

Our team of Financial Coordinators and Social Workers assist patients in purchasing insurance on the Healthcare Marketplace and then connects patients who cannot afford to pay their insurance premiums, with AKF, which provides financial assistance to the patients for this purpose. The benefit of working with the AKF is that the insurance coverage which AKF facilitates applies to all of the patient's insurance needs, not just coverage for dialysis services.

Indigent Waiver Program

FMCNA has established an indigent waiver program to assist patients who are unable to obtain insurance coverage or who lack the financial resources to pay for medical services.

In order to qualify for an indigent waiver, a patient must satisfy eligibility criteria for both annual income and net worth.

Annual Income: A patient (including immediate family members who reside with, or are legally responsible for, the patient) may not have an annual income in excess of two (2) times the Federal Poverty Standard in effect at the time. Patients whose annual income is greater than two (2) times the Federal Poverty Standard may qualify for a partial indigent waiver based upon a sliding scale schedule approved by the Office of Business Practices and Corporate Compliance.

Net Worth: A patient (including immediate family members who reside with, or are legally responsible for, the patient) may not have a net worth in excess of \$75,000 (or such other amount as may be established by the Office of Business Practices and Corporate Compliance based on changes in the Consumer Price Index).

The Company recognizes the financial burdens associated with ESRD and wishes to ensure that patients are not denied access to medically necessary care for financial reasons. At the same time, the Company also recognizes the limitations imposed by federal law on offering "free" or "discounted" medical items or services to Medicare and other government supported patients for the purpose of inducing such patients to receive ESRD-related items and services from FMCNA. An indigent waiver excuses a patient's obligation to pay for items and services furnished by FMCNA. Patients may have dual coverage of AKF assistance and an Indigent Waiver if their financial status qualifies them for both programs.

IL Medicaid and Undocumented patients

FMCNA has a bi-lingual Regional Insurance Coordinator who works directly with Illinois Medicaid to assist patients with Medicaid applications. An immigrant who is unable to produce proper documentation will not be eligible for Medicaid unless there is a medical emergency. ESRD is considered a medical emergency.

The Regional Insurance Coordinator will petition Medicaid if patients are denied and assist undocumented patients through the application process to get them Illinois Medicaid coverage. This role is actively involved with the Medicaid offices and attends appeals to help patients secure and maintain their Medicaid coverage for all of their healthcare needs, including transportation to their appointments.

FMCNA Collection policy

FMCNA's collection policy is designed to comply with federal law while not penalizing patients who are unable to pay for services.

FMCNA does not use a collection agency for patient collections unless the patient receives direct insurance payment and does not forward the payment to FMCNA.

Medicare and Medicaid Eligibility

Medicare: Patients are eligible for Medicare when they meet the following criteria: age 65 or older, under age 65 with certain disabilities, and people of all ages with End-Stage Renal Disease (permanent kidney failure requiring dialysis or a kidney transplant).

There are three insurance programs offered by Medicare, Part A for hospital coverage, Part B for medical coverage and Part D for pharmacy coverage. Most people don't have to pay a monthly premium, for Part A. This is because they or a spouse paid Medicare taxes while working. If a beneficiary doesn't get premium-free Part A, they may be able to buy it if they (or their spouse) aren't entitled to Social Security, because they didn't work or didn't pay enough Medicare taxes while working, are age 65 or older, or are disabled but no longer get free Part A because they returned to work. Part B and Part D both have monthly premiums. Patients must have Part B coverage for dialysis services.

Medicare does allow members to enroll in Health Plans for supplemental coverage. Supplemental coverage (secondary) is any policy that pays balances after the primary pays reducing any out of pocket expenses incurred by the member.

Medicare will pay 80% of what is allowed by a set fee schedule. The patient would be responsible for the remaining 20% not paid by Medicare. The supplemental (secondary) policy covers the cost of co-pays, deductibles and the remaining 20% of charges.

Medicaid: Low-income Illinois residents who can't afford health insurance may be eligible for Medicaid. In addition to meeting federal guidelines, individuals must also meet the state criteria to qualify for Medicaid coverage in Illinois.

Self-Pay

A self-pay patient would not have any type of insurance coverage (un-insured). They may be un-insured because they do not meet the eligibility requirements for Medicare or Medicaid and can not afford a commercial insurance policy.

In addition, a patient balance becomes self-pay after their primary insurance pays, but the patient does not have a supplemental insurance policy to cover the remaining balance. The AKF assistance referenced earlier may or may not be available to these patients, dependent on whether or not they meet AKF eligibility requirements.

17-056 Fresenius Kidney Care Galesburg - Galesburg

