



STATE OF ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: I-05	BOARD MEETING: June 5, 2018	PROJECT NO: 17-060	PROJECT COST: Original: \$5,863,604
FACILITY NAME: Fresenius Kidney Care Waukegan Park		CITY: Waukegan	
TYPE OF PROJECT: Substantive			HSA: VIII

PROJECT DESCRIPTION: The Applicants (Fresenius Medical Care Holdings, Inc. and Fresenius Medical Care Lake County, LLC d/b/a Fresenius Kidney Care Waukegan Park) are proposing to establish a twelve (12) station ESRD facility in 7,600 GSF of leased space in Waukegan, Illinois. The cost of the project is \$5,863,604, and the scheduled completion date is December 31, 2019.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Fresenius Medical Care Holdings, Inc. and Fresenius Medical Care Lake County, LLC d/b/a Fresenius Kidney Care Waukegan Park) are proposing the establishment of a twelve (12) station ESRD facility in 7,600 GSF of leased space in Waukegan, Illinois. The cost of the project is \$5,863,604, and the scheduled completion date is December 31, 2019.
- This project received an Intent to Deny at the April 17, 2018 State Board Meeting. The Applicants did not provide additional information to address the findings in the State Board Staff Report.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The project is before the State Board because the project proposes to establish a health care facility as defined at 20 ILCS 3960/3
- 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 Applicants state:
“The proposed 12-station Fresenius Kidney Care Waukegan Park ESRD facility, to be located in a Federally Designated Medically Underserved Area/Population (MUA/P), of HSA-08 in Lake County, will address the unique access issues that hinder healthcare for the disadvantaged patients residing in Waukegan. Specifically a significant number of patients with income below the poverty level, that because of high area clinic utilization, do not have reasonable access to life saving dialysis services. The two dialysis providers located in Waukegan are operating at an average 97.17% utilization Waukegan residents are 17% African American and 55% Hispanic. These minority populations are more likely to experience diabetes and hypertension leading to kidney failure. In addition, 22% of Waukegan residents live below the federal poverty level. The goal of Fresenius Kidney Care is to provide access to a medically underserved area of Lake County by establishing the Waukegan Park facility in Waukegan to directly address access issues where it is needed most.”

PUBLIC HEARING/COMMENT:

- A public hearing was offered but was not requested. The project file contains no letters of opposition. **The Applicants submitted a number of** letters of support for the proposed project. These letters were from residents of the community, other health care providers, members of the medical community, community officials and business/industry representatives. Some of these support letters are individually composed and some are of a form letter variety. All of the letters urged the State Board to approve the proposed project.
- The Lake County Board Chairman stated “Much of the available treatment capacity is located in the far western portions of the northern Lake/eastern McHenry HSA, putting it out of reach for patients in the Waukegan-North Chicago area who face these challenges:
 1. Lack of access to vehicles/mobility, making them dependent on public transit and paratransit
 2. Lack access to a grocery store (“food deserts”)
 3. Suffer from chronic illnesses like hypertension and diabetes
 4. Less likely to receive regular wellness and health exams

The Waukegan Park dialysis center would provide life extending care to people who are living near the epicenter of the most startling health disparity we face in Lake County. People living in North Chicago have an average life expectancy that is 10 years less than someone living in a neighboring community. Combating chronic illness and comorbidities that cut a lifespan by ten years requires us to take an “all in, all of the above” approach to increase access to care for those in need. That includes approving the certificate of need for the Waukegan Park dialysis center.”

SUMMARY:

- There is a calculated excess of twenty four (24) stations in the HSA-VIII ESRD Planning Area, per the April 2018 Inventory Update. This excess of stations is based upon an estimated increase in the population in this planning area of approximately 9.92% and an approximate increase of 33% in the number of ESRD patients in this ESRD Planning Area for the period 2015 to 2020.
- Based upon the physician referral letter there appears to be a sufficient number of pre-ESRD patients (76 patients) that would utilize the proposed facility with approximately 85% (61 patients) of these patients residing in the City of Waukegan in the 60085 zip code. The two nearest facilities to the proposed facility are located in the 60085 zip code and are operating at over 90% utilization (DaVita Waukegan 98.61% and FKC Waukegan Harbor (90.48%).
- The Waukegan area is designated as being Medically Underserved, and its residents encounter access limitations. The Applicants’ state *“The physicians supporting this project admit and treat patients at most of the area facilities already, however prefer to maintain access to dialysis services for Waukegan residents in Waukegan to avoid creating unnecessary transportations problems and loss of continuity of care for their patients. There is no monetary cost to sending patients to other facilities, the only cost is to the patient and the healthcare system with increased hospitalizations due to missed treatments when services are not readily accessible.”*
- There are 10 facilities within 30 minutes of the proposed facility with one facility in ramp-up. The remaining nine facilities are operating at approximately 72% utilization. There is not a surplus of stations in the 30-minute service area based upon the State Board’s methodology.

CONCLUSIONS:

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

State Board Standards Not Met	
Criteria	Reasons for Non-Compliance
Criterion 1110.1430(c)(1) – Planning Area Need	There is a calculated <u>excess of twenty four (24) stations</u> in the HSA-VIII ESRD Planning Area, per the April 2018 Inventory Update. This excess of stations is based upon an estimated increase in the population in this planning area of approximately 9.92% and an increase of 33% in the number of ESRD patients in this ESRD Planning Area for the period 2015 to 2020.
Criterion 1110.1430(d)(1), (2), (3) – Unnecessary Duplication/Maldistribution of Service/Impact on Other Providers	There are 10 facilities within 30 minutes of the proposed facility with one facility in ramp-up. The remaining nine facilities are operating at approximately 72% utilization.

SUPPLEMENTAL
STATE BOARD STAFF REPORT
Fresenius Kidney Care Waukegan Park
PROJECT #17-060

APPLICATION SUMMARY/CHRONOLOGY	
Applicants	Fresenius Medical Care Holdings, Inc. Fresenius Medical Care Lake County, LLC d/b/a Fresenius Kidney Care Waukegan Park
Facility Name	Fresenius Kidney Care Waukegan Park
Location	2602 Belvidere Road, Waukegan, Illinois
Application Received	October 30, 2017
Application Deemed Complete	October 31, 2017
Review Period Ends	February 28, 2018
Permit Holder	Fresenius Medical Care Lake County, LLC d/b/a Fresenius Kidney Care Waukegan Park
Operating Entity	Fresenius Medical Care Lake County, LLC d/b/a Fresenius Kidney Care Waukegan Park
Owner of the Site	Health Property Services
Project Financial Commitment Date	December 31, 2019
Gross Square Footage	7,600 GSF
Project Completion Date	December 31, 2019
Expedited Review	No
Can Applicants Request a Deferral?	No
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 Lake County, LLC d/b/a Fresenius Kidney Care Waukegan Park) are proposing the establishment of a twelve (12) station ESRD facility in 7,600 GSF of leased space in Waukegan, Illinois. The cost of the project is \$5,863,604, and the completion date is December 31, 2019.

II. Summary of Findings

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

III. General Information

The Applicants are Fresenius Medical Care Holdings, Inc and Fresenius Medical Care Lake County, LLC d/b/a Fresenius Kidney Care Waukegan Park. **Fresenius Medical Care Holdings**, operating as Fresenius Medical Care North America or FMCNA, operates a network of some 2,100 dialysis clinics located throughout the continent. One of the largest providers of kidney dialysis services, FMCNA offers outpatient and in-home hemodialysis treatments for chronic kidney disease. The company's operating units also market and sell

dialysis machines and related equipment and provide renal research, laboratory, and patient support services. FMCNA oversees the North American operations of dialysis giant Fresenius Medical Care AG & Co. Fresenius Medical Care Lake County, LLC is a wholly owned subsidiary of Fresenius Medical Care Holdings, Inc.

This is a substantive project subject to an 1110 and 1120 review. Financial commitment will occur after permit issuance.

Table One outlines the current Fresenius projects approved by the State Board and their completion dates.

TABLE ONE			
Current Fresenius Projects and Status			
Project Number	Name	Project Type	Completion Date
#15-028	FMC Schaumburg	Establishment	5/31/2018
#15-036	FMC Zion	Establishment	12/31/2018
#15-046	FMC Beverly Ridge	Establishment	10/30/2018
#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/Exp. Establishment	12/31/2018
#16-034	FKC Woodridge	Establishment	3/31/2019
#16-035	FMC Evergreen Park	Relocation/Establishment	5/31/2018
#16-042	FKC Paris Community	Establishment	09/30/2018
#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	12/31/2018
#17-024	FKC Springfield East	Establishment	3/31/2019
#17-025	FMC Crestwood	Relocation/Establishment	9/30/2019
#17-027	FMC Sandwich	Expansion	12/31/2018
#17-033	FMC Palatine	Expansion	12/31/2018
#17-034	FMC Naperbrook	Expansion	12/31/2018

IV. Health Service Area

Fresenius Kidney Care Waukegan Park will be located at 2602 Belvidere Road, Waukegan, Illinois in the HSA-VIII ESRD planning area. HSA-VIII includes Kane, Lake, and McHenry counties. The State Board has **projected an excess of twenty-four (24) ESRD stations by CY 2020**. This projected excess is based upon an estimated increase in the population in this planning area of approximately 9.92% and an approximate increase of 33% in the number of ESRD patients in this ESRD Planning Area for the period 2015 to 2020.

TABLE TWO	
Need Methodology HSA VIII ESRD Planning Area	
Planning Area Population – 2015 (Est)	1,540,100
In Station ESRD patients -2015	1,541
Area Use Rate 2015 ⁽¹⁾	.910
Planning Area Population – 2020 (Est.)	1,692,900
Projected Patients – 2020 ⁽²⁾	1,541
Adjustment	1.33
Patients Adjusted	2,050
Projected Treatments – 2020 ⁽³⁾	319,727
Existing Stations	451
Stations Needed-2018	427
Number of Stations in Excess	24

V. Project Costs

The Applicants are funding this project with cash and securities in the amount of \$2,038,000 and the fair market value of leased space and equipment of \$3,825,604. The estimated start-up costs and the operating deficit are projected to be \$879,262.

TABLE THREE
Project Costs and Sources of Funds

USE OF FUNDS	Reviewable	Non Reviewable	Total	% of Total
Modernization Contracts	\$1,077,440	\$305,760	\$1,383,200	23.6%
Contingencies	\$106,560	\$30,240	\$136,800	2.4%
Architectural/Engineering Fees	\$117,000	\$33,000	\$150,000	2.5%
Movable or Other Equipment (not in construction contracts)	\$292,000	\$76,000	\$368,000	6.4%
Fair Market Value of Leased Space & Equipment	\$3,017,952	\$807,652	\$3,825,604	65.2%
TOTAL USES OF FUNDS	\$4,610,952	\$1,252,652	\$5,863,604	100.00%
SOURCE OF FUNDS	Reviewable	Non Reviewable	Total	% of Total
Cash and Securities	\$1,593,000	\$445,000	\$2,038,000	34.8%
Leases (fair market value)	\$3,017,952	\$807,652	\$3,825,604	65.2%
TOTAL SOURCES	\$4,610,952	\$1,252,652	\$5,863,604	100.00%

Source: Page 6 of the Application for Permit.

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

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

A) Criterion 1110.230(a) Purpose of the Project

“The proposed 12-station Fresenius Kidney Care Waukegan Park ESRD facility, to be located in a Federally Designated Medically Underserved Area/Population (MUA/P), of HSA-08 in Lake County, will address the unique access issues that hinder healthcare for the disadvantaged patients residing in Waukegan. Specifically a significant number of patients with income below the poverty level, that because of high area clinic utilization, do not have reasonable access to life saving dialysis services. The two dialysis providers located in Waukegan are operating at an average 97.17% utilization. Waukegan residents are 17% African American and 55% Hispanic. These minority populations are more likely to experience diabetes and hypertension leading to kidney failure. In addition, 22% of Waukegan residents live below the federal poverty level. The goal of Fresenius Kidney Care is to provide access to a medically underserved area of Lake County by establishing the Waukegan Park facility in Waukegan to directly address access issues where it is needed most.”

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

The Applicants stated the following:

"The proposed Fresenius Kidney Care Waukegan Park dialysis facility will not have any impact on safety net services in the Waukegan area of Lake County. Fresenius Medical Care is a for-profit, publicly traded company and is not required to provide charity care, nor does it do so according to the Board's definition". "However, Fresenius Medical Care provides care to all patients regardless of their ability to pay." "There are patients treated by Fresenius who either do not qualify for or will not seek any type of coverage for dialysis services." "These patients are considered self-pay patients." "These patients are invoiced as all patients are invoiced, however payment is not expected and Fresenius does not initiate any collections activity on these accounts." "These unpaid invoices are written off as bad debt." "Fresenius notes that as a for-profit entity, it does pay sales, real estate, and income taxes." "It also provides community benefit by supporting various medical education activities and associations, such as the Renal, National Kidney Foundation and American Kidney Fund." (Application, p. 114)

The Applicants were asked to provide an update to concerns expressed at the April 17, 2018 State Board Meeting regarding their contract status with the following State of Illinois Managed Care Providers: *[Applicants response in Italics]*

For Option A – Statewide

- Blue Cross Blue Shield of Illinois Yes, contracted with both the Medicaid and dual eligible
- Harmony Health Plan Limited direct contract (about 3 locations) but the plan is very responsive to single patient Letters of Agreement for both Medicaid and dual eligible
- IlliniCare Health Plan Yes, only contracted with the Medicaid product, no contract for dual eligible
- Meridian Health Yes, contracted with both the Medicaid and dual eligible
- Molina Healthcare of IL No contract

For Option B – Cook County Only

- CountyCare Health Plan Yes, contracted with Medicaid (only product offered)
- NextLevel Health Yes, contracted with Medicaid

For DCFS Youth

- IlliniCare Health Plan Yes, contracted

TABLE FOUR ⁽¹⁾ SAFETY NET INFORMATION Fresenius Medical Care Facilities in Illinois			
	2014	2015	2016
Net Revenue	\$411,981,839	\$438,247,352	\$449,611,441
CHARITY			
Charity (# of self-pay patients)	251	195	233
Charity (self-pay) Cost	\$5,211,664	\$2,983,427	\$3,269,127
% of Charity Care to Net Rev.	1.27%	0.68%	.072%
MEDICAID			
Medicaid (Patients)	750	396	320
Medicaid (Revenue)	\$22,027,882	\$7,310,484	\$4,383,383
% of Medicaid to Net Revenue	5.35%	1.67%	.097%
1. <i>Source: Pages 114-115 of the Application for Permit.</i> 2. <i>Charity Care is defined by the State Board as care provided by a health care facility for which the provider does not expect to receive payment from the patient or a third party payer. [20 ILCS 3960/3].</i>			

Note to Table Three as provided by the Applicants:

- 1) Charity (self-pay) patient numbers decreased however, treatments were higher per patient (application, p. 114).
- 2) Charity (self-pay) patient numbers continue to decrease as Fresenius Financial Coordinators assist patients in signing up for health insurance in the Healthcare Marketplace. Patients who cannot afford the premiums have them paid by the American Kidney Fund.
- 3) Medicaid number of patients is decreasing as Fresenius Financial Coordinators assist patients in signing up for health insurance in the Healthcare Marketplace. Patients who cannot afford the premiums have them paid by the American Kidney Fund.

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

To demonstrate compliance with this criterion the Applicants must document all alternatives to the proposed project that were considered.

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 over-utilization of existing ESRD clinics in Waukegan, and the ensuing lack of access. Furthermore, the FKC Zuion facility tht will be opening in 2018 is over 10 miles away and serves a separate medically underserved area and population. The identified patients for this application will bring that facility beyond 80% utilization within the next two years. The Applicants rejected this alternative, and there were no costs identified with this alternative.

Pursue a Joint Venture or Similar Arrangement

The Applicants note this application was filed as a joint venture. Project costs identified with this alternative: \$5,863,604.

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

The Applicants note the two clinics serving the Waukegan market are operating at a combined utilization rate of 97%, which is only seven patients away from cutting off all access to dialysis services in this area. The Applicants further note that while facilities within a 30-minute travel radius may be underutilized, much of the Waukegan patient base relies on public transportation, making trips to outlying facilities burdensome and expensive. The physicians do not want their patient base to experience access issues or incur additional travel costs, so this alternative was rejected. There were no project costs identified.

After considering each of the three above mentioned alternatives, the Applicants concluded that the optimal alternative for providing services to its patient base would be to establish a 12-station facility in Waukegan. Cost of the chosen alternative: \$5,863,604.

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

A) Criterion 1110.234(a) - Size of Project

The Applicants are proposing the construction of 7,600 GSF of leased space, 5,920 of it classified as clinical for 12 stations or four hundred ninety four (494) GSF per station. The State Board standard is 450-650 GSF per station. (See Application for Permit page 50)

B) Criterion 1110.234(b) – Projected Utilization

The Applicants have identified 61 pre-ESRD patients who live in the service area who could ultimately require dialysis in the first two years that the Waukegan Park facility is in operation, resulting in utilization surpassing the 80th percentile. (See Application for Permit page 55).

61 patients x 156 treatment per year = 9,516 treatments
12 stations x 936 treatments per stations per year = 11,232 treatments
9,516 treatments/11,232 treatments = 84.7% 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 102)

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))

VIII. In-Center Hemo-dialysis Projects

A) Criterion 1110.1430(b)(1) & (3) - Background of Applicants

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 or a certified listing of all adverse action taken; and authorization to the State Board and Agency access to information in order to verify any documentation or information submitted in response to the requirements of the application for permit.

The Applicants provided sufficient background information, to include a list of facilities and the necessary attestations as required by the State Board at *pages 39-45 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 APPLICANTS (77 ILAC 1110.1430(b)(1) & (3))

B) Criterion 1110.1430 (c)(1), (2), (3) & (5) - Planning Area Need
The Applicants must document the following:

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

To demonstrate compliance with this criterion the Applicants must document that the proposed number of stations do not exceed the calculated need for stations.

The proposed facility will be located in the HSA-VIII ESRD Planning Area. **There is calculated excess of 24 ESRD stations** in this planning area, per the State Board's April 2018 ESRD Inventory Update.

2) Service to Planning Area Residents

To demonstrate compliance with this criterion the Applicants must document that proposed dialysis facility will provide service to the proposed ESRD Planning Area.

The Applicants note the primary purpose of the project is to increase access to dialysis services for the residents of Waukegan (Lake County), Kane County, HSA-VIII, and address over-utilization at the neighboring ESRD facilities (FKC Waukegan Harbor and DaVita Waukegan). The Applicants note the service area's designation as a Federally Designated Medically Underserved Area/Population, and cite access issues for the patient base with the most need (new patients), due to the earlier mentioned over-utilization at the two nearby facilities. The referral population is broken down in Table Four by service area and zip code (see below). It does appear the proposed facility will serve the residents of the ESRD Planning Area.

TABLE FIVE				
Patient Referral Base by Zip Code & Service Area				
Zip Code	County	City	Stage 4	Stage 5
60064	Lake County	North Chicago	12	0
60085	Lake County	Waukegan	49	15
Total			61	15

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

To demonstrate compliance with this criterion the Applicants must document the demand for the project by submitting physician referral letters.

Dr. Nino Alapishvili, M.D., and her associate Nephrologists from Nephrology Associates of Northern Illinois and Indiana, reports having treated approximately 349 patients in various stages of chronic kidney disease (Pre-ESRD) in the North Chicago/Waukegan market area. Of these patients, there are approximately 61 patients expected to begin dialysis at the proposed Waukegan Park facility in the first two years of operation. Pages 57-61 of the application contains zip code origins of historical patient referrals from the service area.

5) Service Accessibility

To demonstrate compliance with this criterion the Applicants must document that at least one of the following factors exists in the planning area:

1. The absence of the proposed service within the planning area;
2. 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;
3. Restrictive admission policies of existing providers;
4. 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;¹²

There are 28 ESRD facilities within the HSA VIII ESRD Planning Area. There does not appear to be access limitation due to payor status of patients or restrictive admission policies of existing providers. The proposed facility is in a medically underserved area which indicates a geographic area with a lack of access to primary care physicians.

Summary

The State Board is estimating an excess of 24 stations in HSA VIII ESRD Planning Area by 2020. Based upon this calculated excess of stations the Applicants have not met the requirements of this criterion.

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

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

- 1) The Applicants shall document that the project will not result in an unnecessary duplication.
- 2) The Applicants shall document that the project will not result in maldistribution of services.
- 3) The Applicants 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.

¹ Medically Underserved Areas (MUAs) and Medically Underserved Populations (MUPs) identify geographic areas and populations with a lack of access to primary care services. MUPs are specific sub-groups of people living in a defined geographic area with a shortage of primary care health services. These groups may face economic, cultural, or linguistic barriers to health care. Examples include, but are not limited to, those who are: homeless; low-income; Medicaid-eligible; Native American; or migrant farm workers. Source: Health Resources and Services Administration

² Primary Care A basic level of care usually given by doctors who work with general and family medicine, internal medicine (internists), pregnant women (obstetricians), and children (pediatricians). A nurse practitioner (NP), a State licensed registered nurse with special training, can also provide this basic level of health care. Source: CMS Glossary

There are 10 ESRD facilities within 30-minutes of the proposed facility. One of the facilities is not operational and the remaining nine facilities are operating at approximately 72%. Table Four shows that there are underutilized facilities in the service area.

The Waukegan area is designated as being Medically Underserved, and its residents encounter access limitations. Board staff notes there are four (4) facilities within the closest proximity of the proposed facility, having an average utilization of 84%. The Applicants' state *"The physicians supporting this project admit and treat patients at most of the area facilities already, however prefer to maintain access to dialysis services for Waukegan residents in Waukegan to avoid creating unnecessary transportation problems and loss of continuity of care for their patients. There is no monetary cost to sending patients to other facilities, the only cost is to the patient and the healthcare system with increased hospitalizations due to missed treatments when services are not readily accessible."*

The ratio of ESRD stations to population in the zip codes within a 30-minute radius of FKC Waukegan Park is 1 station per 4,953 residents according to the U.S. Census Bureau 2015 American Community Survey census, The State ratio is 1 station per 2,736 residents (based on State Board projections for 2015 of 12,978,800 Illinois residents and April 2018 State Board station inventory of 4,745). Based upon this methodology there is no surplus of stations in this 30-minute service area. [Application for Permit page 63]

TABLE SIX						
Facilities within thirty (30) minutes of the proposed facility and utilization						
Facility	City	Time	Stations	Medicare Star Rating	Utilization	Met Standard?
DaVita Waukegan	Waukegan	5	24	3	98.61%	Yes
FKC Waukegan Harbor	Waukegan	6	21	3	90.48%	Yes
FKC Gurnee^	Gurnee	7	24	5	70.14%	No
FKC Lake Bluff	Lake Bluff	13	16	4	76.04%	No
DaVita Lake County	Vernon Hills	24	16	3	68.75%	No
FKC Highland Park	Highland Park	24	20	4	40.83%	No
FKC Round Lake	Round Lake	25	16	4	82.29%	Yes
FKC Mundelein	Mundelein	25	14	5	76.19%	No
FKC Deerfield	Deerfield	29	12	4	36.11%	No
Total Stations/Average Utilization					71.05%	
FKC Zion*	Zion	25	12	NA	0%	NA
Total Stations/Average Utilization			175		63.94%	
^ Facility added 8 stations, June 2017 *Facility in Ramp-up, complete 12/31/18. Information from First Quarter ESRD patient information for 2018 NA – Not enough data to calculate a score						

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

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

The proposed facility will be certified by Medicare if approved therefore appropriate staffing is required for certification. Dr Jawad Munir, M.D, will be the Medical Director for Fresenius Kidney Care, Waukegan Park. 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 Advocate Condell Medical Center, Libertyville: blood bank services, rehabilitation services and psychiatric services. The Applicants are proposing 12 stations and the minimum number of stations in an MSA is eight stations. Continuity of care will be provided at Advocate Condell Medical Center, Libertyville as stipulated in the agreement provided in the application for permit. Additionally, the appropriate assurances have been provided by the Applicants asserting the proposed facility will be at the target occupancy of eighty percent (80%) two years after project completion and that the proposed facility will meet the adequacy outcomes stipulated by the State Board. (See Application for Permit Pages 90-102)

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

IX. 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 \$2,038,000 and the fair market value of leased space totaling \$3,825,604. A review of the 2014/2015/2016 audited financial statements indicates there is sufficient cash to fund the project. Because the project will be funded with cash no viability ratios need to be provided. Table Seven below outlines Fresenius Medical Care's Credit Rating.

TABLE SEVEN 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 7,600 GSF rentable contiguous square feet with an initial lease term of fifteen (15) years with three (3) five (5) year renewal options. The annual base rental rate shall be \$28.00 per SF, which shall escalate on an annual basis by two percent (2%) per year, beginning at the beginning of year three.

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 Applicants to buy the property and build a structure itself to house a dialysis clinic. (See Application for Permit page 111)

- C) **Criterion 1120.140(c) – Reasonableness of Project Costs**
- C)
- C) Only Clinical Costs are reviewed in this criterion.

Modernization and Contingencies Costs are \$1,148,480 or \$194.00 per GSF for 5,920 GSF of clinical space. This appears reasonable when compared to the State Board Standard of \$194.87 per GSF, with 2018 listed as mid-point of construction.

Contingencies – These costs total \$106,560, 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 \$117,000 and are 9.8% of modernization and contingencies. This appears reasonable when compared to the State Board Standard of 6.90% to 10.36%.

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

Fair Market Value of Leased Space and Equipment – These costs are \$3,017,952. The State Board does not have a standard for these costs.

D) Criterion 1120.140(d) - Direct Operating Costs

The Applicants are estimating \$1,265.61 per treatment in direct operating costs. This appears reasonable when compared to previously approved projects of this type.

Estimated Personnel Expense:	\$9,248,256
Estimated Medical Supplies:	\$162,653
Estimated Other Supplies (Exc. Dep/Amort):	\$1,086,566
Total	\$10,497,476
Estimated Annual Treatments:	8,294
Cost Per Treatment:	\$1,265.61

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

The Applicants are estimating \$25.32 in capital costs. This appears reasonable when compared to previously approved projects of this type.

Depreciation/Amortization:	\$210,000
Interest	\$0
Capital Costs:	\$210,000
Treatments:	8,294
Capital Cost per Treatment	\$25.32

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

17-060 FKC Waukegan Park - Waukegan

