STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: I-03	BOARD MEETING: October 30, 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) 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) propose 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 was deemed complete (October 31, 2017) before the new distance requirements (77 ILAC 1100.510(d)) became effective (March 7, 2018). Therefore, this Application is being reviewed with a Geographic Service Area (GSA) of 30 minutes, adjusted based on the location of the project.
- 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. This project was deferred from the June and July 2018 State Board Meetings.

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 Applicantss 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 one was not requested. The project file contains letters of support that include a letter from the Chairman of the Lake County Board and 14 form letters signed by patients that currently dialyse at FKC Waukegan Harbor and FKC Gurnee urging the State Board to approve Project #17-060 in order for these patients to dialyse at a more convenient time for them and their family. According to these letters all of the daytime slots are full and these patients have to dialyse during the nighttime hours.

SUMMARY:

- There is a calculated excess of 43-stations in the HSA-VIII ESRD Planning Area, per September

2018 Inventory Update. According to the Applicants, there appears to be a need for twelve (12) stations, based on high utilization at existing facilities, and a need for ongoing access in a area designated as being medically underserved. However, there is an excess of 43-stations in the planning area and six (6) facilities within thirty (30) minutes of the proposed facility, reporting substandard utilization data for the last quarter (December 2017). It does appear there will be an unnecessary duplication of service or a mal-distribution of stations in the planning area, due to underutilized ESRD facilities in the service area. The proposed facility will have a potential negative effect on existing facilities in the service area.

CONCLUSIONS:

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

State Board Standards Not Met	
Criteria	**Reasons for Non-Compliance**
Criterion 1110.1430(c)(1) – Planning Area Need	There is a **calculated excess of 43-stations in the HSA-VIII ESRD Planning Area.** By rule the number of stations being proposed is in conformance with the projected station deficit as reflected in the latest updates to the Inventory.
Criterion 1110.1430(d)(1), (2), (3) – Unnecessary Duplication/Maldistribution of Service/Impact on Other Providers	Of the ten (10) facilities identified within the service area, 40%, are operating above the State Board Standard of 80%, which suggests unnecessary duplication of service, maldistribution of service, and the potential for a negative impact on other providers.

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

APPLICATION SUMMARY/CHRONOLOGY	
Applicantss	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 Car Holdings Inc. and 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	October 30, 2019
Gross Square Footage	7,600 GSF
Project Completion Date	December 31, 2019
Expedited Review	No
Can Applicantss 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) propose 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 Applicantss 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 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.

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 43 ESRD stations by CY 2020**. The State Board has projected an increase in the population in this planning area of approximately 2% compounded annually and approximately 6.6% increase in the number of ESRD patients compounded annually in this ESRD Planning Area for the period 2015 to 2020.

TABLE ONE

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	470
Stations Needed-2018	427
Number of Stations in Excess	**43**

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 TWO

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**	
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; 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)

TABLE THREE [1]
SAFETY NET INFORMATION
Fresenius Medical Care Facilities in Illinois

	2014	**2015**	**2016**
Net Revenue	**$411,981,839**	**$438,247,352**	**$449,611,441**
CHARITY			
Charity (# of self-pay patients)	251	195	233
Charity (self-pay) Cost	$5,211,664	$2,983,427	$3,269,127
% of Charity Care to Net Rev.	1.27%	0.68%	.072%
MEDICAID			
Medicaid (Patients)	750	396	320
Medicaid (Revenue)	$22,027,882	$7,310,484	$4,383,383
% of Medicaid to Net Revenue	5.35%	1.67%	.097%

1. *Source: Pages 114-115 of the Application for Permit.*
2. 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].

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

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. 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 propose 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) to (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 list of any 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) to (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 43 ESRD stations** in this planning area, per the State Board's September 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 FOUR
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 Accessbility

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]**

While the service area is designated a Medically Underserved Area and there are facilities in close proximity operating in excess of the State standard, there is an excess of 43-stations in HSA-VIII, and it appears that the existing facilities can accommodate the workload of the proposed project.

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

C) Criterion 1110.1430(d)(1), (2) and (3) - Unnecessary Duplication/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.

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 2,678 residents (based on State Board projections for 2015 of 12,978,800 Illinois residents and September 2018 State Board station inventory of 4,847).

[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 Glosary

Based upon this methodology there is no surplus of stations in this 30-minute service area. [Application for Permit page 63] Therefore, there is no maldistribution.

Table Four shows that there are underutilized facilities in the service area. The Applicants note 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 approximately eighty-four percent (84%). Although the Applicants' referral letter from Dr. Nino Alapishvili, M.D. provides sufficient referral patients to minimalize impact on other providers, there are still four underutilized facilities in the immediate service area susceptible to negative impact, and negative finding results for this criterion.

TABLE FIVE
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	86.51%	Yes
FKC Gurnee^	Gurnee	7	24	5	77.08%	No
FKC Lake Bluff	Lake Bluff	13	16	4	82.29%	Yes
DaVita Lake County	Vernon Hills	24	16	3	63.54%	Yes
FKC Highland Park	Highland Park	24	20	4	45.00%	No
FKC Round Lake	Round Lake	25	16	4	86.46%	Yes
FKC Mundelein	Mundelein	25	14	5	82.14%	Yes
FKC Deerfield	Deerfield	29	12	4	38.89%	No
Total Stations/Average Utilization			**163**		**73.39%**	
FKC Zion*	Zion	25	12	NA	1.39%	No
Total Stations/Average Utilization			**175**		**66.19%**	

^ Facility added 8 stations, June 2017
*Facility in Ramp-up, complete 12/31/18.
Information from June 2018
NA – Not enough data to calculate a score

STATE BOARD STAFF FINDS THE PROPOSED PROJECT <u>IS NOT</u> 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 propose 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 Credit Rating.

TABLE SIX FMC Holdings Inc. Audited Financial Statements (Dollars in Thousands 000) December 31st				
	2014	**2015**	**2016**	**2017**
Cash & Investments	$195,280	$249,300	$357,899	$569,818
Current Assets	$4,027,091	$4,823,714	$5,208,339	$4,519,571
Total Assets	$18,489,619	$19,332,539	$20,135,661	$19,822,127
Current Liabilities	$2,058,123	$2,586,607	$2,799,192	$2,900,783
Long Term Debt	$2,669,500	$2,170,018	$2,085,331	$1,755,960
Total Liabilities	$9,029,351	$9,188,251	$9,602,364	$9,279,633
Total Revenues	$10,373,232	$11,691,408	$12,806,949	$13,919,204
Expenses	$9,186,489	$10,419,012	$11,185,474	$12,003,776
Income Before Tax	$1,186,743	$1,272,396	$1,621,175	$1,915,428
Income Tax	$399,108	$389,050	$490,932	$407,606
Net Income	$787,635	$883,346	$1,130,243	$1,507,822
Source: 2014/2015/2016/2017 Audited Financial Statements				

IX. ECONOMIC FEASIBLITY

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 attested that entering into a lease (borrowing) is less costly than liquidating 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**

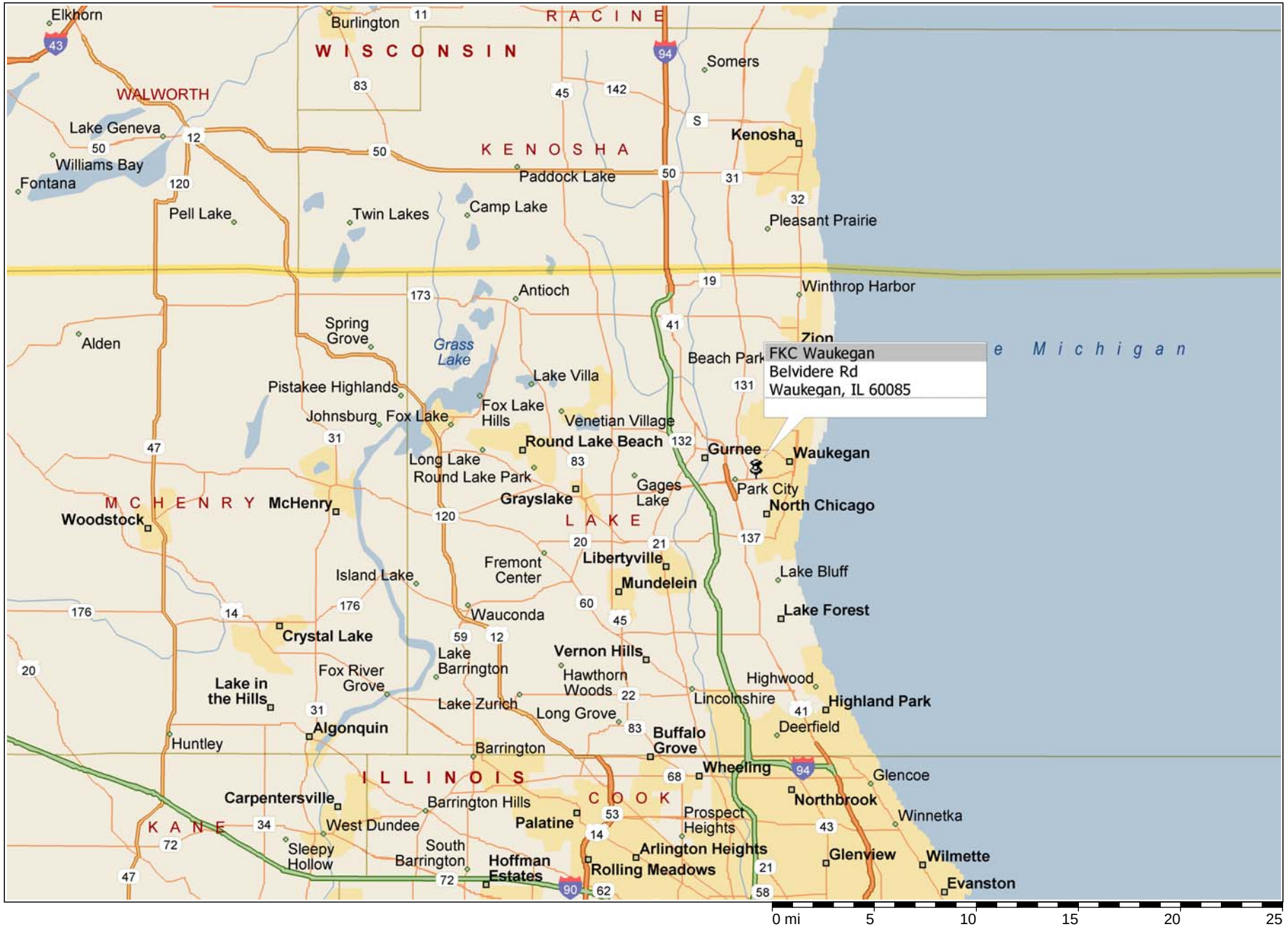
E) Criterion 1120.140(e) - Total Effect of the Project on Capital Costs

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



Transcript of Full Meeting

Date: April 17, 2018
Case: State of Illinois Health Facilities and Services Review Board

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ILLINOIS DEPARTMENT OF PUBLIC HEALTH

HEALTH FACILITIES AND SERVICES REVIEW BOARD

OPEN SESSION - MEETING

Bolingbrook, Illinois 60490

Tuesday, April 17, 2018

9:06 a.m.

BOARD MEMBERS PRESENT:

RICHARD SEWELL, Acting Chairman

SENATOR DEANNA DEMUZIO

BARBARA HEMME

JOHN MC GLASSON, SR.

RON MC NEIL

MARIANNE ETERNO MURPHY

Job No. 176530A

Pages: 1 - 235

Reported by: Melanie L. Humphrey-Sonntag,

CSR, RDR, CRR, CRC, FAPR

EX OFFICIO MEMBERS PRESENT:

BILL DART, IDPH

ARVIND K. GOYAL, IHFS

ALSO PRESENT:

JEANNIE MITCHELL, General Counsel

COURTNEY AVERY, Administrator

MICHAEL CONSTANTINO, IDPH Staff

ANN GUILD, Compliance Manager

GEORGE ROATE, IDPH Staff

C O N T E N T S

C O N T E N T S C O N T I N U E D

C O N T E N T S C O N T I N U E D

CHAIRMAN SEWELL: Next project is Project H-04, Fresenius Kidney Care, Waukegan Park.

May I have a motion to approve Project 17-060, Fresenius Kidney Care, Waukegan Park, to establish a 12-station ESRD facility in Waukegan.

MEMBER MURPHY: Motion.

CHAIRMAN SEWELL: Is there a second?

MEMBER MC NEIL: Second.

CHAIRMAN SEWELL: All right.

THE COURT REPORTER: Would you raise your right hands, please.

(Three witnesses sworn.)

THE COURT REPORTER: Thank you. And please print your names and leave any documents.

CHAIRMAN SEWELL: All right. Mr. Constantino.

MR. CONSTANTINO: Thank you, sir.

The Applicants propose to establish a 12-station ESRD facility in Waukegan, Illinois. The cost of the project is approximately $5.9 million, and the expected completion date is December 31st, 2019.

No opposition letters were received; no public hearing was requested. We did have findings related to this project.

Thank you, sir.

CHAIRMAN SEWELL: All right.

Could you identify yourselves and make your presentation?

MS. MULDOON: Good morning. My name is Coleen Muldoon. I'm the regional vice president for Fresenius.

Overseeing this project with me today are Lori Wright, the CON specialist for Fresenius, and our counsel, Clare Connor.

We are pleased that this project met all but two of your criteria. Even though there was no calculated need for stations in HSA 8, which encompasses three counties, we respectfully submit that the ratio of stations to population within 30 minutes of the proposed Waukegan Park facility does not reflect the need in that location.

There are -- there is 1 station for every 4,953 residents in Waukegan versus the State ratio of 1 station for every 2,760 residents. There are clearly far fewer stations per capita in Waukegan,

which is a large community and medically underserved area.

Further supporting a need for access in Waukegan is a 22 percent poverty rate and that 21 percent of the residents have no insurance coverage. Studies show that poverty and lack of proper health care together increases the risk of kidney disease.

55 percent of the residents are Hispanic, who are 1 1/2 times more likely to have kidney disease; 17 percent are African-American, who are 3 to 4 times more likely to have kidney disease. As a result, the prevalence of ESRD in Waukegan is 35 percent higher than in Lake County or the state.

Of the two zip codes in Waukegan, the zip code we hope to establish our facility in has 221 residents who require dialysis. This is five times as high as the number of ESRD patients in the remainder of Waukegan.

Accordingly, 49 of our identified 61 pre-ESRD patients live in the immediate zip code where the Waukegan Park facility will be. Another 12 come from the adjacent North Chicago,

which is also medically underserved.

The patients are not able or not -- or should not have to travel outside of Waukegan for dialysis services. 25 percent of the patients we treat at our Waukegan Harbor facility, which is at 94 percent utilization, take public transportation to get to treatment. These patients do not have insurance coverage for transport services. To accommodate the patients, our proposed facility would be located on a bus line that will stop right in front of this facility.

If you look at this Table 6, our Waukegan Park facility is located -- is at capacity now with 126 patients. The next closest facility to Waukegan is our Gurnee facility. That just added 8 stations in July of 2017, creating access for 48 patients. With over 50 -- over 50 patient transfers and new ESRD referrals, this facility is already at 75 percent utilization with 108 patients as of today. There are -- only seven more patients will bring this facility to 80 percent utilization. Gurnee is not an option for patients identified for our Waukegan Park project. The next closest clinics are between

24 and 30 minutes away and are outside the Waukegan health care market.

In addition, the proposed Waukegan clinic will participate in our CMS ESCO program, and its patients will benefit from these coordinated services, which has proven to increase quality of life, lowering health care cost.

Finally, Fresenius Kidney Care does participate in the IlliniCare managed care Medicaid program, which is especially important given Waukegan's underserved designation.

Thank you. And we'd be happy to answer any questions that you may have.

CHAIRMAN SEWELL: Questions from Board members?

(No response.)

CHAIRMAN SEWELL: This ratio of stations to population that you cited, which is so much higher than the State ratio, why doesn't that result in higher utilization of the facilities that already exist?

MS. MULDOON: As I mentioned, our Waukegan -- our other Waukegan Harbor facility is at 94 percent. Our Waukegan Gurnee -- not

Waukegan -- our Gurnee facility, which we added 8 stations to -- just added 8 stations in July of 2017 -- is now sitting at 75 percent utilization with 108 patients.

So with 8 additional stations, we're already to 75 percent utilization, which allows for only seven more patients before we're sitting at 80 percent utilization.

MS. WRIGHT: Also, because this is a medically underserved area, there's a higher percentage of minority residents there that are more likely to have kidney disease leading to end stage renal disease. And so you're seeing higher rates of prevalence of ESRD right in Waukegan, so that is the reason that the clinics here are so full.

MS. CONNOR: Right. Right.

That population ratio is not for the health service area, you know, the 30-minute radius. It's for Waukegan proper.

CHAIRMAN SEWELL: I see.

MS. CONNOR: And that's why Coleen spoke to the fact that 46 of the 61 patients who will go to this clinic reside right in the same zip code

where the clinic will be located. This is really somewhat unique to Waukegan.

And the other facility in Waukegan, which is a DaVita facility, is also at approximately 90 percent utilization. It's just that very heavy prevalence of ESRD in that community, unfortunately.

CHAIRMAN SEWELL: Questions?

Yes, Doctor.

MEMBER GOYAL: Thank you, Mr. Chairman.

I have two questions: One is, could you relate to me what your Medicare star rating for your facilities in that area is?

MS. CONNOR: It is three, as is the other clinic in Waukegan. We're both --

MEMBER GOYAL: Three out of five?

MS. CONNOR: Yes.

MEMBER GOYAL: All right. Thank you.

And, secondly, could you walk us through what happens when a patient comes to you with a diagnosis of end stage renal disease? How do you sort out who would get hemodialysis -- which, obviously, would pay your business plan -- peritoneal dialysis, home dialysis, and, number three, a referral for listing for transplant

programs?

MS. MULDOON: If a patient comes to us, usually it's been decided by that point whether they're going to go in-center or on peritoneal dialysis or home dialysis, but we do have an education program where we have our kidney care advocates who will meet with the patients if that opportunity, you know, is provided by a physician recommending that.

They will meet with the patient; they will educate the patient on the dialysis options. We encourage home dialysis to those patients who will qualify, so we work very closely with the nephrologist in the education of those patients so they can make the decision that's best for them on what they choose. We still have more patients going in-center than we do to home, but we are seeing that increase with further education and just providing them that better access.

So we have two home programs in that market and one in Gurnee, which has just recently been certified, that will cover that, and we have another unit that's close in another area. But Gurnee covers that Waukegan market.

MS. CONNOR: And, in fact, Doctor, one thing that you indicated -- which was it was good for our business plan -- just to make it clear -- and I'm not sure if you meant this -- but it's actually -- I think mostly -- more cost-effective for Fresenius to have patients in its home programs as opposed to in-center. But, unfortunately, many patients cannot do home therapy; they do not want to do home therapy; they don't qualify for medical reasons.

So just to be clear on that.

MEMBER GOYAL: Yeah. I think my question was based on two stats, which I will say for the Board more than for you, but you probably have it.

The National Institute for Diabetes, Digestive, and Kidney Dialysis in 2'13 -- that data became available recently -- a five-year survival rate for dialysis -- they did not separate it between hemodialysis and peritoneal -- was 35.8 percent, five-year survival rate. For transplant that was 85.5 percent for five-year survival rate.

And then the other split stat that I want to put on the table is a US Renal data system --

this is a 2'11 analysis of Medicare claims -- and they're saying that cost of dialysis per year is $87,945 versus cost of transplant annualized -- again, the first-year cost is higher, but then, on an annual basis, that cost will be $32,922.

So do whatever you want with that data, but it concerns me that not more people are being listed for transplants.

CHAIRMAN SEWELL: Ms. Murphy.

MEMBER MURPHY: On page 13 of the staff report --

THE COURT REPORTER: Use your mic, please.

MEMBER MURPHY: I'm sorry.

On page 13 the staff report talks about underutilization and unnecessary duplication, and it actually calls out that there are six underutilized facilities in the service area.

But when looking at them and considering your comments today, would I be correct in assuming that, because of the unique demographics of your population -- the poverty, the medically underserved nature -- that transportation to some of these outlying facilities in your service area would just not be practical?

So even though they're there and they're underutilized, it's not something that ordinarily your patients would go to? Like they're not going to go to a center in Deerfield from Waukegan?

Is that a correct assumption?

MS. MULDOON: Correct. It would be very difficult for them to get there.

MEMBER MURPHY: Okay. Thank you.

MS. WRIGHT: Also, as mentioned in her opening statement, 25 percent of our current Waukegan Harbor clinic patients utilize public transportation for their treatments.

MEMBER MURPHY: Which, in the northern suburbs, is notoriously nonexistent.

MS. MULDOON: Yeah. But the ideal on this facility is where we've put it. The bus stop is right in front of the new facility, so that will be very convenient for the patients.

MEMBER MURPHY: Thank you.

CHAIRMAN SEWELL: Other questions?

(No response.)

CHAIRMAN SEWELL: Ready for the vote.

MR. ROATE: Thank you, Chairman.

Motion made by Ms. Murphy; seconded by

Mr. McNeil.

Senator Demuzio.

MEMBER DEMUZIO: I'm going to be voting no, due to the staff report.

MR. ROATE: Thank you.

Ms. Hemme.

MEMBER HEMME: I'm voting yes, due to the transportation issue for the people in Waukegan.

MR. ROATE: Thank you.

Mr. McGlasson.

MEMBER MC GLASSON: I am voting yes, based on the testimony.

MR. ROATE: Thank you.

Mr. McNeil.

MEMBER MC NEIL: Yes, based on the testimony.

MR. ROATE: Thank you.

Ms. Murphy.

MEMBER MURPHY: Yes, based on today's testimony.

MR. ROATE: Thank you.

Chairman Sewell.

CHAIRMAN SEWELL: I'm voting no, based on the State agency report.

MR. ROATE: Thank you.

That's 4 votes in the affirmative, 2 in the negative.

MS. MITCHELL: You have been issued an intent to deny. You will get an intent-to-deny letter in the mail -- do I sound as nasally as I think I do?

(Laughter.)

MS. MITCHELL: You will get an intent-to-deny letter in the mail giving you further instructions as to what to do.

MS. WRIGHT: Thank you.

MS. CONNOR: Thank you.

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