



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-06	BOARD MEETING: January 15, 2019	PROJECT NO: 18-045	PROJECT COST:
FACILITY NAME: Fresenius Medical Care West Belmont		CITY: Chicago	Original: \$1,189,356
TYPE OF PROJECT: Non-Substantive			HSA: VI

PROJECT DESCRIPTION: The Applicants (Fresenius Medical Care Chicagoland, LLC d/b/a Fresenius Medical Care West Belmont, and Fresenius Medical Care Holdings, Inc.) propose to add 4-stations to its existing 17-station facility located at 4943 West Belmont, Chicago, Illinois. The cost of the project is \$1,189,356. The expected completion date is March 31, 2020.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Fresenius Medical Care Chicagoland, LLC d/b/a Fresenius Medical Care West Belmont, Fresenius Medical Care Holdings, Inc.) propose to add 4-stations to its existing 17-station facility located at 4943 West Belmont, Chicago, Illinois. The cost of the project is \$1,189,356. The expected completion date is March 31, 2020.
- The Applicants were approved by the State Board in November of 2008 for the establishment of a 10-station facility at a cost of \$2,017,035 Permit #08-053.
- In December of 2010 the Applicants were approved to add 3-stations to its existing 10-station facility at a cost of \$61,075 Permit # 10-062.
- In January of 2012 the State Board approved a change of ownership for this facility as Permit #11-090.
- In September of 2012 the Applicants were approved to add 4-stations to its existing 13-station facility at a cost of \$845,588 (Permit #12-043).

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The project is before the State Board because the project proposes a substantial change in scope of a health care facility as defined at 77 ILAC 1130.140.
- One of the objectives of the Health Facilities Planning Act is *“to assess the financial burden to patients caused by unnecessary health care construction and modification. Evidence-based assessments, projections and decisions will be applied regarding **capacity, quality, value and equity** in the delivery of health care services in Illinois. Cost containment and support for safety net services must continue to be central tenets of the Certificate of Need process.”* [20 ILCS 3960/2]

PURPOSE OF THE PROJECT:

- The purpose of the project is to reduce the high-utilization of the existing 17-station facility.

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:

- To add stations to an existing facility the State Board does not consider the need or excess of the stations in the ESRD Planning Area or the number of existing ESRD facilities and their utilization.
- The State Board requires a facility that is proposing to add stations to be at target utilization or above for the past 24-months and have a sufficient number of pre-ESRD patients that reside in the ESRD Planning Area that will require dialysis within 12-24 months after the additional stations are added. The existing facility has averaged 80% utilization over the past 24-months and is currently operating at 86.27%. The Applicants have identified 38 pre-ESRD patients that will need dialysis within 12-18 months. According to the Applicants *“Over the years, , despite station additions, the West Belmont facility continues to operate at high utilization rates due to the ever-increasing incidence of End Stage Renal Disease, especially in underserved areas. The facility has room for 4 more stations that can provide access for an additional 24 patients. Adding these stations will quickly meet the immediate need here.”*
- The Applicants have addressed a total 18 criteria and have successfully addressed them all.

STATE BOARD STAFF REPORT
Project #18-045
Fresenius Medical Care West Belmont

APPLICATION/CHRONOLOGY/SUMMARY	
Applicants(s)	Fresenius Medical Care Chicagoland, LLC d/b/a Fresenius Medical Care West Belmont, Fresenius Medical Care Holdings, Inc.
Facility Name	Fresenius Medical Care West Belmont
Location	4943 West Belmont, Chicago, Illinois
Permit Holder	Fresenius Medical Care Chicagoland, LLC d/b/a Fresenius Medical Care West Belmont, Fresenius Medical Care Holdings, Inc.
Operating Entity	Fresenius Medical Care Chicagoland, LLC d/b/a Fresenius Medical Care West Belmont
Owner of Site	4935 West Belmont, Inc.
Description	Addition of 4-ESRD Stations
Total GSF	4,402
Application Received	November 8, 2018
Application Deemed Complete	November 9, 2018
Review Period Ends	January 8, 2019
Financial Commitment Date	January 15, 2020
Project Completion Date	March 31, 2020
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	Yes
Expedited Review?	No

I. Project Description

The Applicants (Fresenius Medical Care Chicagoland, LLC d/b/a Fresenius Medical Care West Belmont, Fresenius Medical Care Holdings, Inc.) propose to add 4-stations to its existing 17-station facility located at 4943 West Belmont, Chicago, Illinois. The cost of the project is \$1,189,356. The expected completion date is March 31, 2020.

II. Summary of Findings

- A. State Board Staff finds the proposed project appears to be in conformance with the provisions of Part 1110.
- B. State Board Staff finds the proposed project appears to be in conformance with the provisions of Part 1120.

III. General Information

The Applicants are Fresenius Medical Care Holdings, Inc. and Fresenius Medical Care Chicagoland, LLC d/b/a Fresenius Medical Care West Belmont. **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. Bio-Medical Applications of Illinois, Inc. has a 60% membership interest in Fresenius Medical Care Chicagoland, LLC. AIN Ventures, LLC has a 40% membership interest in Fresenius Medical Care Chicagoland, LLC.

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

IV. Project Uses and Sources of Funds

The Applicants are funding the project with cash in the amount of \$1,132,056 and the FMV of leased space of \$57,300.

TABLE ONE				
Project Uses and Sources of Funds ⁽¹⁾				
Uses of Funds	Reviewable	Non Reviewable	Total	% of Total
Modernization Contracts	\$237,492	\$475,632	\$713,124	60%
Contingencies	\$23,244	\$47,188	\$70,432	6%
Architectural/Engineering Fees	\$22,250	\$50,250	\$72,500	6%
Movable or Other Equipment (not in construction contracts)	\$46,000	\$230,000	\$276,000	23.2%
Fair Market Value of Leased Space or Equipment	\$57,300	\$0	\$57,300	4.8%
TOTAL USES OF FUNDS	\$386,286	\$803,070	\$1,189,356	100.00%
SOURCE OF FUNDS	Reviewable	Non Reviewable	Total	% of Total
Cash and Securities	\$328,986	\$803,070	\$1,132,056	95.1%
Leases (fair market value)	\$57,300	\$0	\$57,300	4.9%
TOTAL SOURCES OF FUNDS	\$386,286	\$803,070	\$1,189,356	100.00%
1. Itemization of Project Costs can be found at Page 30 of the Application for Permit				

V. Health Planning Area

The proposed facility will be located in the HSA VI ESRD Planning Area. HSA-VI includes the Chicago metropolitan area in Cook County. The State Board has **projected a need for nine (9) 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.

VI. Background of the Applicants

A) Criterion 1110.110 (a)(1)&(3) – Background of the Applicants

An applicant must demonstrate that it is fit, willing and able, and has the qualifications, background and character to adequately provide a proper standard of health care service for the community. To demonstrate compliance with this criterion the Applicants must provide

- A) A listing of all health care facilities currently owned and/or operated by the applicant in Illinois or elsewhere, including licensing, certification and accreditation identification numbers, as applicable;
- B) A listing of all health care facilities currently owned and/or operated in Illinois, by any corporate officers or directors, LLC members, partners, or owners of at least 5% of the proposed health care facility;
- C) Authorization permitting HFSRB and IDPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. Failure to provide the authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.
- D) An attestation that the Applicants have had no *adverse action*¹ taken against any facility they own or operate or a certified listing of any adverse action taken.

1. The Applicants attested that there has been no adverse action taken against any of the facilities owned or operated by Fresenius Medical Care Chicagoland, LLC or Fresenius Medical Care Holdings, Inc. during the three (3) years prior to filing the application. [Application for Permit pages 39-40]
2. The Applicants have authorized the Illinois Health Facilities and Services Review Board and the Illinois Department of Public Health to have access to any documents necessary to verify information submitted in connection to the Applicants' certificate of need to add four ESRD stations. The authorization includes, but is not limited to: official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. [Application for Permit pages 39-40]
3. The site is owned by 4935 West Belmont, Inc. This facility is currently operating; therefore a copy of the lease is not required.
4. This is a modernization project and evidence of compliance with Executive Order #2006-05 and the Illinois State Agency Historic Resources Preservation Act is not required.

¹Adverse action is defined as a disciplinary action taken by IDPH, CMMS, or any other State or federal agency against a person or entity that owns or operates or owns and operates a licensed or Medicare or Medicaid certified healthcare facility in the State of Illinois. These actions include, but are not limited to, all Type "A" and Type "AA" violations." (77 IAC 1130.140)

VII. 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 1110.110 (b) Purpose of the Project

To demonstrate compliance with this criterion the Applicants must document that the project will provide health services that improve the health care or well-being of the market area population to be served.

The purpose of this project is as stated:

“The purpose of this project is to maintain life-sustaining dialysis services in the Federally Designated Medically Underserved Area/Population of the Craigin neighborhood of Chicago in one of the most cost-effective way, by adding 4 ESRD stations in existing space at the CMS 4-star rated Fresenius West Belmont facility. As of September 2018, the facility was operating at 86% utilization with 17 stations. The result of the expansion will be a 21-station ESRD facility. Fresenius West Belmont has been operating at an average 89% utilization rate over the past 12 months and 87% over the past 24 months. High utilization rates restrict access to treatment schedule times for patients new to dialysis causing conflicts with their work or family responsibilities. At high utilization rates, new patients generally are scheduled on the 3rd shift of the day which ends around 8:00pm. There are fewer transportation options for patients going home from treatment at this time of night causing hardship for the patient and family members who must transport them. The goal of Fresenius Medical Care is to keep dialysis access available to this underserved patient population that it has served for well over 20 years.” [Application for Permit page 41]

B) Criterion 1110.110 (c) - Safety Net Impact Statement

To demonstrate compliance with this criterion the Applicants must document that the project will provide health services that improve the health care or well-being of the market area population to be served.

Information regarding the Safety Net Impact Statement was provided as required and can be reviewed at pages 66-69 of the Application for Permit.

TABLE TWO ⁽¹⁾
SAFETY NET INFORMATION
Fresenius Medical Care Facilities in Illinois

	2015	2016	2017
Net Revenue	\$438,247,352	\$449,611,441	\$460,678,799
CHARITY			
Charity (# of self-pay patients)	195	233	280
Charity (self-pay) Cost	\$3,204,986	\$3,269,127	\$4,552,654
% of Charity Care to Net Rev.	0.68%	.072%	.098%
MEDICAID			
Medicaid (Patients)	396	320	328
Medicaid (Revenue)	\$7,310,484	\$4,383,383	\$6,630,014
% of Medicaid to Net Revenue	1.67%	.097%	1.43%

1. Source: Pages 67-69 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]. As a for profit entity Fresenius Medical Care does not provide charity care the numbers reported are for self-pay patients.

Note: Medicaid reported numbers are impacted by a large number of patients who switch from Medicaid to 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.

C) Criterion 1110.110 (d) - Alternatives to the Project

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

The only applicants considered four alternatives:

1) Do Nothing/Maintain Status Quo

The applicants rejected this alternative, as it would do nothing to alleviate the high utilization currently observed at FMC West Belmont. The applicants identified no costs with this alternative.

2) Admit Patients to Other Facilities

The applicants note the physicians supporting the proposed project already admit ESRD patients to several area clinics that are also experiencing high utilization. Associates in Nephrology (AIN) patients are in dire need of additional access to ESRD services at times that are conducive to their support needs. While the applicants note this alternative is already being utilized, it will do nothing to address the projected utilization in the coming years. The applicants rejected this alternative, and supplied no project costs.

3) Establish a Joint Venture

The applicants note that FMC West Belmont is already classified as a joint venture, which is not a determinant of overall project costs, or a determinant to alleviate the high utilization. No project costs were identified with this alternative.

4) Project as Proposed

The applicants deemed this alternative as most acceptable, due to the immediate need to resolve the over-utilization and maintain cost effectiveness. The option of adding four stations to the existing 17-station ESRD facility was seen as most conducive to ongoing ESRD operations at FMC West Belmont, and most cost effective. Cost of this alternative: \$1,189,356.

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

A) Criterion 1110.120 (a) - Size of Project

To demonstrate compliance with this criterion the Applicants must document that the proposed size of the project is in compliance with Part 1110 Appendix B.

The Applicants are proposing to add 1,466 BGSF of clinical space for four additional ESRD stations, resulting in a 21-ESRD station facility, in 3,862 BGSF of clinical space. This equates to approximately 184 BGSF per station. The State Board standard is 450-650 GSF per station or 13,650 BGSF. The Applicants have successfully addressed this criterion. (See Application for Permit page 50)

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION SIZE OF PROJECT (77 ILAC 1110.120 (a))

B) Criterion 1110.120 (b) – Projected Utilization

To demonstrate compliance with this criterion the Applicants must document that the proposed project will be at the target occupancy of 80% within two years after project completion.

The facility had 89 patients dialyzing in 17 stations with an 86% utilization rate as of September 30, 2018. Per the Applicants there are “38 *pre-ESRD patients from the service area identified to be referred to the West Belmont facility in the upcoming 18 months. The facility will be at 85% utilization upon initiating operations of the four additional stations surpassing target utilization.*”

$$\begin{aligned} 89 + 38 &= 127 \text{ patients} \times 156 \text{ treatments per year} = 19,812 \text{ total treatments} \\ 21 \text{ stations} \times 936 \text{ treatments per year} &= 19,656 \text{ total treatments} \\ 19,812 \text{ treatments} \div 19,656 \text{ treatments} &= 99.21\% \end{aligned}$$

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PROJECTED UTILIZATION (77 ILAC 1110.120 (b))

C) Criterion 1110.120 (e) – Assurances

To demonstrate compliance with this criterion the Applicants must document that the proposed facility will be at target occupancy two years after project completion.

The Applicants provided the necessary assurance that they will be at target occupancy within two years after project completion. (See Application for Permit page 59)

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION ASSURANCES (77 ILAC 1110.120(e))

VIII. In-Center Hemo-dialysis Projects

A) **Criterion 1110.230 (b)(2) & (4) - Planning Area Need** **The Applicants must document the following:**

2) **Service to Planning Area Residents**

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

One hundred percent (100 %) of the current patients dialyzing at the facility reside in the HSA VI ESRD Planning Area. The applicants also note that all (100%) of the 38 pre-ESRD patients reside within this Planning Area.

4) **Service Demand – Expansion of In-Center Hemodialysis Service**

To demonstrate compliance with this sub-criterion the Applicants must document that the number of stations to be added for each category of service is necessary to reduce the facility's experienced high utilization and to meet a projected demand for service.

Historical Utilization

Over the past 24-months, the facility has averaged 89 patients and 87.3% utilization for a 17-station facility. Currently the facility is operating at 86.27% utilization with 89 patients.

Projected Referrals

The Applicants provided a referral letter from Dr. Neetha Dhananjaya, M.D. from Associates in Nephrology, S.C., and Medical Director of the Fresenius Medical Care West Belmont dialysis facility. The Applicants stated

“Over the years, despite station additions, the West Belmont facility continues to operate at high utilization rates due to the ever-increasing incidence of End Stage Renal Disease, especially in underserved areas. AIN nephrologists in this region were treating 297 in-center hemodialysis patients at the end of 2015, 322 at the end of 2016, 336 at the end of 2017, and 327 as of March 2018 in the northwest Chicago area. In the most recent 12-month period we referred 91 new ESRD patients for dialysis services to area facilities including Fresenius West Belmont. We currently see over 300 chronic kidney disease (CKD) patients that reside in the zip codes immediately surrounding the West Belmont facility. Of these I expect approximately 38 to be referred to the facility in the first two years the new stations are operating.” [Application for Permit pages 48-53]

Based upon the information provided in the Application for Permit the Applicants have successfully addressed this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PLANNING AREA NEED (77 ILAC 1110.230 (b)(2) and (4))

- B) **Criterion 1110.230 (e) - Staffing**
- C) **Criterion 1110.230(f) - Support Services**

D) Criterion 1110.230 (j) – Assurances

The 17-station facility is certified by Medicare and if approved the 4-station addition will be certified by Medicare. Dr. Neetha Dhananjaya, M.D, is the Medical Director. 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 Swedish Covenant Hospital, blood bank services, rehabilitation services and psychiatric services. 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 58-59)

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERIA STAFFING, SUPPORT SERVICES, ASSURANCES (77 ILAC 1110.230 (e), (f), and (j))

IX. FINANCIAL VIABILITY

A) Criterion 1120.120 – Availability of Funds

B) Criterion 1120.130 – Financial Viability

To demonstrate compliance with these two criteria the Applicants must document if the resources are available to fund the proposed project.

The Applicants are funding this project with cash and securities in the amount of \$1,132,056 and the fair market value of leased space totaling \$57,300. A review of the 2014/2015/2016 audited financial statements indicates there is sufficient cash to fund the project. Leased Space is an operating lease and not a capital lease and is paid over the term of the lease from cash generated by operation of the facility. Because the project will be funded with cash no viability ratios need to be provided because the Applicants have qualified for the financial viability waiver.

**TABLE THREE
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

TABLE THREE
FMC Holdings Inc. Audited Financial Statements
(Dollars in Thousands 000)
December 31st

	2014	2015	2016
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

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERIA AVAILABILITY OF FUNDS FINANCIAL VIABILITY (77 ILAC 1110.140(a) & (b))

X. ECONOMIC FEASIBILITY

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

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

To demonstrate compliance with these criteria the Applicants must attest that a lease is less costly and that the terms of the lease are reasonable.

The applicant is paying for the project with cash on hand, and not borrowing any funds for the project. However, per the Board's rules the entering of a lease is treated as borrowing. As such, we are attesting 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. Further, should the applicant be required to pay off the lease in full, its existing investments and capital retained could be converted to cash or used to retire the outstanding lease obligations within a sixty (60) day period. [Application for Permit pages 63-66]

Based upon the information provided in the Application for Permit; the Applicants have met the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERIA REASONABLENESS OF FINANCING TERMS OF DEBT FINANCING (77 ILAC 1110.140(a) & (b))

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

To demonstrate compliance with this criterion the Applicant must document that the costs are reasonable.

Modernization Costs - are \$237,492 or \$162.00 per GSF. This is in compliance with the State Board Standard of \$200.71 (2019 mid-point). [237,492÷1,466 GSF for modernization = \$162.00 per GSF]

Contingencies – These costs total 23,244, which is 9.7% of the modernization costs. This meets the State Board standard of 10%-15% for modernization using schematics.

Architectural/Engineering Fees – These costs total \$22,250, which is 8.5% of the modernization and contingency costs. This is in compliance with the State standard of 8.8%-13.2%.

Movable Equipment - is \$46, 000 or \$11,500 per station. This is in compliance with the State Board Standard of \$52,293 per station. [\$46, 000 ÷ 4 stations = \$11, 500 per station]

Fair Market Value of Leased Space is \$57,300. The State Board does not have a standard for this criterion.

D) Criterion 1120.140(d) - Direct Operating Costs

To demonstrate compliance with this criterion the Applicants must provide the direct operating cost for the first year when the Applicants reach target occupancy but no more than two years after project completion.

The Applicants are estimating \$257.25 per treatment in direct operating costs. The State Board does not have a standard for these costs.

Estimated Personnel Expense:	\$1,393,092
Estimated Medical Supplies:	\$291,277
Estimated Other Supplies (Exc. Dep/Amort):	\$1,871,883
Total	\$3,556,253
Estimated Annual Treatments:	13,824
Cost Per Treatment:	\$257.25

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

The Applicants are estimating \$12.97 in capital costs. The State Board does not have a standard for these costs.

Depreciation/Amortization:	\$179,351
Interest	\$0
Capital Costs:	\$179,351
Treatments:	13,824
Capital Cost per Treatment	\$12.97

18-045 Fresenius Medical Care West Belmont - Chicago

